Press release

MEPs vote laws to regulate financial markets and curb high-frequency trading

Committees Committee on Economic and Monetary Affairs
Plenary sessions [15-04-2014 - 18:58]

Comprehensive rules to govern financial markets were adopted by Parliament on Tuesday. These rules are designed to close loopholes in the existing legislation, so as to ensure that financial markets are safer as well as more efficient, investors are better protected, high-frequency trading is regulated and speculative commodity trading is curbed.

The new rules will apply to investment firms, market operators (trading on stock or financial markets) and services providing post-trade transparency information in the EU. They are set out in two pieces of legislation, a directly applicable regulation dealing *inter alia* with transparency and access to trading venues and a directive governing authorisation and organisation of trading venues and investor protection.

Market structure

To capture as many trades as possible, the new rules would require firms to trade on organised venues, including regulated markets (RMs) such as stock exchanges, multilateral trading facilities (MTFs) controlled by approved market operators or larger investment firms and organised trading facilities (OTFs) for non-equities, such as interests in bonds, emission allowances or derivatives.

Protecting investors

The new rules would require firms supplying investment services to design investment products for specified client groups according to their needs, withdraw “toxic” products (i.e. those result in heavy losses for many investors) from trading and ensure that any marketing information is clearly identifiable as such and is not misleading.

These firms would also have to inform clients whether the advice offered is independent and aboutthe risks associated with proposed investment products and strategies.

Curbing high-frequency algorithmic trading

Parliament also introduced the EU’s first rules on “algorithmic” trading that relies on computer programmes to determine the timing, prices or quantities of orders in fractions of a second. Any investment firm engaging in such trading will have to have effective systems and controls in place, such as “circuit breakers” to stop trading process if price volatility gets too high.

To minimize systemic risk, the algorithms used will have to be tested on venues and authorized by regulators. Moreover; records of all placed orders and cancellations of orders would have to be stored and made available to the competent authority upon request.

Commodities

Parliament ensured that for the first time, the authorities would be empowered to limit the size of a net position which a person may hold in commodity derivatives, given their potential impact on food and energy prices. Under the new rules, positions in commodity derivatives (traded on trading venues and over the counter), would be limited, to support orderly pricing and prevent market distorting positions and market abuse. The European

Securities and Markets Authority (ESMA) should determine the methodology for calculating these limits, to be applied by the competent authorities.

Position limits will apply to energy derivatives, such as those related to coal or oil, that are not currently regulated at EU level, with transitional arrangements in place to ease the impact which will be reviewed by January 2018.

In order to avoid penalising those who need to use commodity derivatives to manage non-financial businesses effectively, position limits would not apply to positions that are objectively measurable as reducing the risks directly related to the commercial activity.

On Tuesday, Parliament also voted on rules for Central Securities Depositories (CSDs), the bodies responsible for settling securities trades. With these rules in place, the entire trading process will be regulated, introducing more safety and efficiency at EU level and opening the market for CSDs.

Next steps

The markets in financial Instruments directive and regulation (MIFID and MIFIR) now need to be formally approved by the Council, and will enter into force 20 days after their publication in the EU Official Journal

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