

NEW RULES PROPOSED FOR ELECTRONIC TRADING

In response to growing risks due to the evolution of trading strategies, securities regulators are proposing new rules to deal with various aspects of electronic trading, including high frequency trading, algorithmic trading and direct market access.

In a notice published Friday, the Canadian Securities Administrators propose new rules designed to establish a regulatory framework for electronic trading in Canada. It notes that market events, such as the so-called 'flash crash' on May 6, 2010 demonstrate "that the speed and complexity of trading require a greater focus on controls designed to mitigate the risks of these technological changes." Back in 2007, the CSA published for comment trading rule amendments that aimed to address issues associated with direct market access. However, those amendments were not implemented, and the proposed new rule would expand on those amendments to regulate electronic trading generally.

The CSA says that the proliferation of complicated technology and strategies, including high frequency trading strategies, has increased risks to the market, including: liability risk, credit risk, market integrity risk, sub-delegation risk, technology or systems risks, and the risk of regulatory arbitrage. Because of the increased risks, regulators have determined that a framework is necessary to ensure that marketplace participants and marketplaces are managing those risks.

The proposed rule that will require marketplace participants to establish, and ensure compliance with, appropriate controls, policies and procedures, and to manage the risks associated with various methods of electronic trading. Additionally, the proposed rule enhances the current requirements imposed on marketplaces to ensure they take an active role in managing the risks to fair and orderly trading posed by electronic trading.

"Technological innovations in the Canadian marketplace underscore the importance of ensuring the risks associated with electronic trading are effectively managed and supervised," said **Bill Rice, chair of the CSA and chair and CEO of the Alberta Securities Commission**. "The framework proposed today is an important step in managing these risks and maintaining investor confidence in our markets."

The CSA says that the proposed rule was developed following consultations with marketplaces, marketplace participants and service vendors, and that it is consistent with the International Organization of Securities Commissions' principles for direct electronic access to markets. Comments on the proposed rule are due by July 8.

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