

BVI response to the ESMA Consultation Paper on Algorithm Trading (ESMA70-156-4086)

The BVI¹ gladly takes the opportunity to present its views on the ESMA Consultation Paper on Algorithm Trading.

Q1: What is your overall assessment of the MiFID II framework for algorithmic trading, HFT and DEA?

Partial automation in trading by means of algo trading functionalities is nowadays common in asset management. In principle, we consider the existing regulations for algo trading and the criteria for delimiting the regulation of high-frequency trading as appropriate. The use of algo trading is helpful and manageable for asset management, provided that the user is able to adequately assess the underlying functions, roles and technical mechanisms of algo trading routines.

Q35: Do you agree with the need to improve the notification process in case of IT incidents and system outages? Beyond the notification process between NCAs and ESMA, which improvements could be done regarding communication of incidents to the public?

Sufficient information on an outage as well as transparency with regard to the type, degree and expected duration of the restriction on trading would be desirable. Especially in volatile markets, prompt information to financial market participants and the public is necessary in order to mitigate potential spillover effects stemming from the outage and avoid straining market confidence.

Q36: Do you believe any initiative should be put forward to ensure there is more continuity on trading in case of an outage on the main market, e.g. by requiring algo traders to use more than one reference data point?

We would welcome an initiative in this subject. However, the scope of such initiative should not be limited to the effects but emphasize the causes of outages as the starting point when exploring measures to improve continuity of trading. Access to more than one reference data point may not solve the inherent problem of reliable price formation if the primary source of reference prices stemming from the deepest pool of liquidity for certain instruments ceases to function for a considerable period of time.

¹ BVI represents the interests of the German fund industry at national and international level. The association promotes sensible regulation of the fund business as well as fair competition vis-à-vis policy makers and regulators. Asset Managers act as trustees in the sole interest of the investor and are subject to strict regulation. Funds match funding investors and the capital demands of companies and governments, thus fulfilling an important macro-economic function. BVI's 112 members manage assets more than 3.6 trillion euros for retail investors, insurance companies, pension and retirement schemes, banks, churches and foundations. With a share of 27%, Germany represents the largest fund market in the EU. BVI's ID number in the EU Transparency Register is 96816064173-47. For more information, please visit www.bvi.de/en.