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| 26 September 2022 |

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| Reply form for the Consultation Paper on market outages |
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| Date: 26 September 2022 |

Responding to this paper

The European Securities and Markets Authority (ESMA) invites responses to the specific questions listed in the Consultation Paper on market outages published on the ESMA website.

*Instructions*

Please note that, in order to facilitate the analysis of the large number of responses expected, you are requested to use this file to send your response to ESMA so as to allow us to process it properly. Therefore, ESMA will only be able to consider responses which follow the instructions described below:

* use this form and send your responses in Word format (pdf documents will not be considered except for annexes);
* do not remove the tags of type <ESMA\_QUESTION\_OUTA\_0> - i.e. the response to one question has to be framed by the 2 tags corresponding to the question; and
* if you do not have a response to a question, do not delete it and leave the text “TYPE YOUR TEXT HERE” between the tags.

Responses are most helpful:

* if they respond to the question stated;
* indicate the specific question to which the comment relates;
* contain a clear rationale; and
* describe any alternatives ESMA should consider.

**Naming protocol**

In order to facilitate the handling of stakeholders’ responses please save your document using the following format:

ESMA\_CP\_OUTA\_NAMEOFCOMPANY\_NAMEOFDOCUMENT.

e.g. if the respondent were ESMA, the name of the reply form would be:

ESMA\_CP\_OUTA\_ESMA\_REPLYFORM or

ESMA\_CP\_OUTA\_ANNEX1

***Deadline***

Responses must reach us by 16 December 2022.

All contributions should be submitted online at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘Your input - Consultations’.

***Publication of responses***

All contributions received will be published following the end of the consultation period, unless otherwise requested. **Please clearly indicate by ticking the appropriate checkbox in the website submission form if you do not wish your contribution to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.** Note also that a confidential response may be requested from us in accordance with ESMA’s rules on access to documents. We may consult you if we receive such a request. Any decision we make is reviewable by ESMA’s Board of Appeal and the European Ombudsman.

***Data protection***

Information on data protection can be found at [www.esma.europa.eu](http://www.esma.europa.eu) under the headings ‘Legal notice’ and ‘Data protection’.

# General information about respondent

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| Name of the company / organisation | Citadel Securities (Europe) Ltd |
| Activity | Investment Services |
| Are you representing an association? |  |
| Country/Region | Europe |

# Introduction

Please make your introductory comments below, if any:

<ESMA\_COMMENT\_CP\_OUTA\_1>

We appreciate the opportunity to respond to ESMA on its Consultation Paper on Market Outages.

We support ESMA’s efforts to strengthen the resilience of trading venues across Europe, as well as the robustness of their business continuity arrangements. To this end, we also support ESMA’s proposal to develop guidance for trading venues concerning communications and crisis management protocols in the event of an outage.

In addition to our consultation response, please also see our June 2021 white paper “Recommended Best Practices to Enhance Exchange Recovery & Mitigate the Impact of Outages”, which we have attached as Annex 1 and is also available at: <https://www.citadelsecurities.com/wp-content/uploads/sites/2/2021/06/Citadel-Securities-Market-Lens-Exchange-Outage-Best-Practices-June-2021.pdf>.

We believe that the number and frequency of outages at trading venues over recent years has highlighted the need to enhance requirements for trading venues to deploy robust systems and controls that mitigate the likelihood of market-impacting failures and improve operational resiliency. Recent experiences with outages at a single trading venue illustrate the wider disruption they can create. For example, a trading interruption on the main market for a financial instrument may cause trading to effectively halt across multiple related EU markets. A failure of a single trading venue’s technical infrastructure has the potential to impact liquidity, price formation and risk management both on that trading venue and other related trading venues.

Due to the interconnectedness of European capital markets, the importance of the uninterrupted operation of a trading venue cannot be understated. This is even more acutely the case when that trading venue is “the most relevant market in terms of liquidity” for a significant number of the EU’s most liquid financial instruments, which in turn are core constituents of pan-European and sectoral index-based financial instruments (ETPs and index derivatives) and benchmarks. As such, trading venue outages have manifest consequences across European markets, and do not just affect one trading venue’s members locally.

Accordingly, we recommend that trading venues be required to create internal functions and procedures to ensure expeditious action in response to any disruptive incidents. Commensurate with their status as critical market infrastructure, we believe that the obligations applicable to trading venues in relation to business continuity should be enhanced in the interest of creating a more reliable and operationally resilient market ecosystem.

Another means by which the resilience of trading in the EU can be enhanced in the event of a trading venue outage is the establishment of a real-time consolidated tape (CT) for equities. The CT should have full market coverage – aggregating both on-venue and OTC market data in real-time. From the perspective of market resilience and integrity, a CT would lower the reliance that market participants have on the “most relevant market” in terms of liquidity in order to provide a reference price for trading. By aggregating market data in relation to a financial instrument the CT could reliably provide a reference price more reflective of the entire market that would also enable trading to continue uninterrupted in the event of an outage on the “most relevant market”.

<ESMA\_COMMENT\_CP\_OUTA \_1>

1. : Do you agree with the main communication principles identified above?

<ESMA\_QUESTION\_OUTA\_1>

Yes, we agree with the main communication principles proposed by ESMA.

Given the reality that system outages do occur on significant trading venues, we believe that there is a need to significantly improve the notification process and communication around IT incidents and system outages. These protocols should identify the key individuals that are responsible for responding to IT incidents and system outages. Training and competence requirements for these key individuals should be specified within the protocols, and crisis/incident management tools and processes should be subject to periodic stress testing to ensure that trading venues are fully prepared in the event of an IT incident or system outage.

We also believe that trading venues should develop “playbooks” that address various scenarios. The playbooks should be developed in consultation with the market and subsequently shared with the public, so that the market knows what actions a trading venue will take in each scenario.

Trading venues should have clear policies in place that inform market participants how orders and trades that are pending during any interruption will be treated upon the restoration of normal conditions. These policies should specify whether and, if so, under what conditions, pending orders and trades may be cancelled or maintained. These policies should be readily available to stakeholders (e.g. participants, regulators and service providers), maintained and periodically updated to take account of practical experience and industry best practices.

Finally, as part of post-outage communications, trading venues should conduct and disclose a detailed root cause analysis and articulate necessary recurrence mitigation follow-ups in a timely fashion. We think that trading venues should also complete post-mortems on any outages and publish the results in a timely fashion that is available to all market participants (not just to regulators).

<ESMA\_QUESTION\_OUTA\_1>

1. : To promote harmonisation, should the guidance include a template on what trading venues’ communication notices should include?

<ESMA\_QUESTION\_OUTA\_2>

Yes, we agree it would be helpful. With respect to communication during an outage, we believe that the guidance should include that a trading venue should communicate any incident affecting the availability of its market to the public by way of a formal notice and status updates on its website as soon as possible so as to (i) inform stakeholders and market participants more broadly that there has been an incident; (ii) provide sufficient information for stakeholders to be able to understand the nature of the problem; and (iii) provide an estimated timeframe for the resumption of normal operation of the trading venue.

<ESMA\_QUESTION\_OUTA\_2>

1. : Do you agree that trading venues should have a maximum of one-hour to provide clarity on the status of the orders during an outage? If not, what would be an appropriate timeframe in your view and why?

<ESMA\_QUESTION\_OUTA\_3>

We broadly agree, though trading venues should send an initial announcement as soon as possible (especially with respect to the status of the orders, one hour is far too long). Further, we believe that it is critical that communication during an outage should be expeditious and continuous. This should involve the provision of updates to stakeholders every 30 minutes, at a minimum, during market hours, and every 60 minutes, at a minimum, outside of market hours. These updates should include information on the status of orders. Incident management response and external communications procedures must be fully documented, tested, and effectively deployed. Trading venues should also provide an application or functionality on their website that enables the status of the market to be monitored by stakeholders. This functionality should accurately and reliably reflect the nature of any incident and be easily accessible to stakeholders.

<ESMA\_QUESTION\_OUTA\_3>

1. : Do you think the possibility to require trading venues to offer an order book purge should be considered in the guidance? If yes, should ESMA provide further guidance on when the integrity of the orders has been largely compromised?

<ESMA\_QUESTION\_OUTA\_4>

Yes. We are of the view that the trading venues should define clear procedures for order cancellations, rejection of new orders during an outage, as well as the removal of existing orders prior to a market re-open communication.

<ESMA\_QUESTION\_OUTA\_4>

1. : What is your view with regards to the conditions under which a trading venue should reopen trading?

<ESMA\_QUESTION\_OUTA\_5>

We agree with option (b) proposed by ESMA. We are cautious that premature re-opening of the market can compound operational risks for market participants. In addition, and as indicated in our response to Q1 above, the playbooks developed by the trading venues should outline different scenarios in which trading venues will or will not re-open following an outage. They should also establish clear procedures for re-opening.

To this end, trading venues should ensure that all problems have been identified and resolved prior to re-opening. In advance of re-opening, trading venues should communicate clearly to the market at least 30 minutes prior and re-open on a “round” time increment, and also place the market in pre-open state to ensure participants can cancel/amend orders as required. Prior to re-opening, trading venues should also provide a window for market participants to flag any outstanding issues that may be further exacerbated by the market re-opening.

<ESMA\_QUESTION\_OUTA\_5>

1. : What is your view in relation to the closing auction being affected and the procedures that trading venues should have in place to minimise disruption?

<ESMA\_QUESTION\_OUTA\_6>

As indicated in our response to Q5, in order to minimise disruption, trading venues should develop playbooks outlining different scenarios in which they will or will not re-open. This should include defined procedures to determine the market closing price in the event a market cannot re-open. This could be, for example, the last price traded during the day or, if the trading venue was closed the whole day, the closing price from the previous day. In the absence of this certainty, market participants continue to carry uncertain market and operational risk and investors carry uncertain financial risk for fund / ETF valuations where a closing price was not able to be established effectively. <ESMA\_QUESTION\_OUTA\_6>

1. : Do you agree not to mandate trading venues to have an alternative trading venue capable of running the closing auction for them? If not, please explain.

<ESMA\_QUESTION\_OUTA\_7>

We believe that trading venues should ensure that the prices established for the market close are reliable and published as soon as possible even in case of incidents. They should have clear policies in place that indicate how closing and settlement prices will be determined in case of disruption. As such, we do not think that an alternative closing auction is needed outside the event of an outage. Instead, we would support more dialogue within the industry and guidance from ESMA as to which process the industry should follow to get a reliable closing price at the time of an outage..<ESMA\_QUESTION\_OUTA\_7>

1. : Do you agree that trading venues should have a cut off time (30 minutes before the normal schedule) to inform market participants on whether or not they intend to hold a closing auction?

<ESMA\_QUESTION\_OUTA\_8>

We agree. As with pre-opening following an outage, if an auction is taking place, trading venues should communicate clearly to the market at least 30 minutes prior to holding a closing auction.

<ESMA\_QUESTION\_OUTA\_8>

1. : Do you agree that the use of the last traded price is an appropriate solution in those cases that a trading venue cannot run the closing auction? If not, what alternative would you propose?

<ESMA\_QUESTION\_OUTA\_9>

Yes, we agree with this solution. As indicated in our response to Q6 above, trading venues should have defined procedures to determine the market closing price in the event a market cannot re-open. This should include the scenario in which a trading venue cannot run the closing action. This could be, for example, the last price traded during the day or, if the trading venue was closed the whole day, the closing price from the previous day.

We believe that market participants, trading venues and regulators should continue to work together to ensure that there is always an auction generating a closing-price, or another industry agreed source for the closing price that all market participants can access at the time of an outage in a primary market.

The closing price is key for investment and trading purposes including benchmark calculation and derivatives settlement. Ideally this auction should occur via an alternative ‘fail-safe’ channel within the primary venue or another robust, trusted, and credible back-up venue or mechanism. It will also be important for regulators to monitor fail-safe mechanisms, once developed, to ensure that they are producing reliable substitute prices.

We would encourage ESMA to engage in further industry-led discussions amongst stakeholders, trading venues and regulators with the aim of developing a concrete protocol that would fit more widely into the context of operational resilience. Such an industry-led protocol could be further supported by regulators setting a timeline for its development.

<ESMA\_QUESTION\_OUTA\_9>

1. : Is the lack of a reference price an issue in an outage context? If so, please provide details.

<ESMA\_QUESTION\_OUTA\_10>

Yes, this is problematic.

We believe that recent experience with system outages has further revealed the potential utility of a consolidated tape (CT). It could enhance the resilience of EU markets by ensuring the continued availability of a reference price for financial instruments and, in the event of an outage on the “most relevant market”, trading could continue on other venues, therefore minimising the adverse impact of the interruptions.

Specifically, from the perspective of market resilience and integrity, a EU CT aggregating both on-venue and OTC market data in real-time would lower the reliance that market participants have on the “most relevant market” in terms of price discovery and liquidity in order to provide a reference price for trading. By aggregating market data in relation to a financial instrument the CT could reliably provide a reference price more reflective of the entire market that would also enable trading to continue uninterrupted in the event of an outage on the “most relevant market”. If deemed necessary, we would also support a revision to the definition of the term “most relevant market” to ensure that trading can continue on alternative venues in the event of an outage on the “most relevant market”.

For that reason, the CT has the potential to continue providing a reference price – subject to possible necessary adjustments following an outage on the main market for the affected instruments – that would enable trading to continue on secondary or ancillary venues. Furthermore, order flow may migrate from the main market to secondary or ancillary venues in a manner that would make EU capital markets more resilient. Indirectly, the possibility for order flow to be diverted to secondary or ancillary venues would result in the original main market being competitively penalised for market outages. This would create further commercial incentives for primary trading venues to remain operationally resilient.

<ESMA\_QUESTION\_OUTA\_10>

1. : Do you agree with the proposed approach for non-equity instruments? Do you agree that provisions on par. 37-39 can be exempted for those trading venues that do not provide CLOB?

<ESMA\_QUESTION\_OUTA\_11>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_OUTA\_11>

1. : Is there any particular issue relating to trading of non-equity instruments that should be taken into account in the case of an outage? Where possible please differentiate between bonds and derivatives.

<ESMA\_QUESTION\_OUTA\_12>

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<ESMA\_QUESTION\_OUTA\_12>

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<ESMA\_QUESTION\_OUTA\_0>

1. : Is there a direct link/connection between an outage on an equity primary market and those derivatives that have these instruments as underlyings?

<ESMA\_QUESTION\_OUTA\_13>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_OUTA\_13>

1. : In your view is there any further element ESMA should consider in the proposed guidance?

<ESMA\_QUESTION\_OUTA\_14>

Yes.

We recommend that trading venues be required to create internal functions and procedures to ensure expeditious action in response to any disruptive incidents. Commensurate with their status as critical market infrastructure, we believe that the obligations applicable to trading venues in relation to business continuity should be enhanced in the interest of creating a more reliable and operationally resilient market ecosystem

We also believe that, in addition to the suggested key areas that the proposed ESMA guidance for trading venues would cover, that governance structures should be regularly reviewed. In addition, trading venues should regularly and formally solicit input from internal and external stakeholders on items including trading venues’ issues, strategic development, rules, and outage playbooks and scenario plans. On a more general note, we agree that the proposed development of ESMA guidance for trading venues should mitigate the impact of individual outages. That said, we believe that further market structure reforms that minimise single points of failure and lessen dependencies on any one trading venue will also promote market resiliency and stability. To this end, we believe that ESMA should conduct a complete evaluation of alternative venues (where possible) and backup systems with a particular focus on:

* How participants define and ensure best execution for their clients in the event of an outage;
* What alternatives are available or what backup systems for the primary venue should be used instead, particularly for the closing action;
* What differences exist in the rules and regulations between primary and alternative venues which may restrain competition and innovation; and
* How a CT could support secondary trading venues when the primary venue experiences an outage.

<ESMA\_QUESTION\_OUTA\_14>