

Summary of FCA Dear CEO Letter: Trading Venues Supervision Strategy

Overview

The FCA has outlined its strategy for supervising trading venues over the next two years, emphasizing operational resilience, market orderliness, competition, innovation, and support for market reform. The letter highlights key risks, supervisory priorities, and actions expected from trading venues to ensure markets work well and foster growth and integrity.

Supervisory Priorities

1. Operational Resilience

- **Key Risks:** Operational outages, cyber threats, and third-party supplier failures.
- **FCA Expectations:**
 - Minimize risks of market disruption.
 - Address root causes of outages swiftly and implement improvements such as enhanced processes, infrastructure, and contingency plans.
 - For Recognised Investment Exchanges (RIEs): By 31 March 2025, identify important business services, set impact tolerances, and conduct mapping and testing per PS21/3 requirements.
 - Multilateral Trading Facilities (MTFs) and Organised Trading Facilities (OTFs): FCA will be selecting certain MTFs and OTFs to undergo further operational resilience reviews via the FCA's ORQuest self-assessment tool.
- **Actions:** Firms must act at pace to address resilience gaps, particularly vulnerabilities in legacy systems and incident response capabilities.

2. Market Orderliness

- **Key Risks:** Market volatility, rapid risk transmission, and technological changes (e.g., artificial intelligence in trading).
- **FCA Expectations:**
 - Develop effective systems and controls to manage volatility and maintain orderly trading.
 - Enhance oversight of member firms, including robust testing of algorithmic trading systems to prevent disorderly conditions.
- **Actions:** The FCA will test venues' controls and member firm oversight mechanisms as part of its ongoing supervision.

3. Competition, Innovation, and Growth

- **Key Focus:**
 - Support innovative product development and market segmentation.
 - Enable trials of new services like digital securities trading and intermittent trading of private company shares through initiatives like the DSS and PISCES sandboxes.
- **FCA Actions:**
 - Engage with trading venues on innovative proposals, ensuring investor safeguards are in place.
 - Clarify trading venue authorization requirements to maintain a level playing field and facilitate innovation.

4. Market Reform

- **Key Areas:**
 - Primary and secondary market structure reforms through the Wholesale Markets Review.
 - Implementation of bond transparency, consolidated tapes, and commodity derivative regimes.
- **FCA Expectations:**
 - Trading venues must ensure compliance with new regulations and contribute data to consolidated tapes.
 - Actively provide feedback on forward policy agendas, including equity consolidated tapes.

5. Voluntary Carbon Markets (VCMs)

- **Context:** VCMs are growing rapidly but face concerns over the quality of underlying carbon credits.
- **FCA Expectations:**
 - Venue operators must ensure orderly markets for financial products related to VCMs, even if the underlying credits fall outside FCA's regulatory perimeter.

Next Steps

1. **CEO Actions:**
 - Discuss the letter with the Board and agree on necessary actions.

- Address identified risks and align with FCA expectations.
2. **Engagement:**
- Contact the Trading Venues Supervision Team or named supervisor for guidance.
 - Use the FCA's contact channels for urgent strategic issues.

The FCA will continue collaborating with trading venues to improve market outcomes and standards.