

13 December 2024

Dear Chief Executive,

You are receiving this letter because we are setting out our strategy for supervising trading venues over the next two years¹.

This letter details our view of the most important risks relating to trading venues, what we think drives those risks, and the FCA's planned supervisory focus. We expect you and your Board to discuss the contents of this letter, consider how the risks apply to your business and take action to manage them effectively.

Our strategy for trading venues

UK trading venues play a critical role in wholesale financial markets. The markets they operate provide the price formation and liquidity that market participants across the world require to allocate capital and manage risk.

Our strategy focuses on making sure that trading venues, and the markets they operate, are resilient and orderly. It also aims to support innovation and growth, and effective competition in the interests of trading venues' users. Delivering these outcomes is central to our strategic objective to make sure that markets work well. We also recognise the central role of trading venues in the successful design and implementation of the ambitious program of regulatory reform being delivered through the Wholesale Markets Review, among other things.

Operational Resilience

Our highest priority is to drive continuous improvement in the operational resilience of the markets offered by trading venues. We expect all venues to make sure that the risk of market disruption arising from operational outages is minimised. Where outages do occur, we expect venues to manage them well, and ensure that root causes are identified and remediated.

The environment in which trading venues meet these expectations continues to be challenging, particularly given the high, and growing, level of cyber threat. We have also observed the failure of third-party suppliers as a cause of operational issues, underlining the importance of effective arrangements for the control and oversight of outsourced service providers, including those that are part of the same group as the trading venue.

¹ Your firm is included within at least one of the three categories of regulated trading venues – i.e. recognised investment exchanges, multilateral trading facilities or organised trading facilities – <https://www.handbook.fca.org.uk/handbook/glossary/G2439.html>

In the coming period, our supervision will focus on the preparedness of Recognised Investment Exchanges ("RIEs") for the new regulatory framework surrounding operational resilience confirmed by PS21/3. By 31 March 2025, RIEs must have identified their important business services, set impact tolerances for them, and have performed mapping and testing to provide assurance that these can be met. We note the progress made so far and expect RIEs to act on the further feedback we will provide following the latest self-assessments.

We will also be selecting certain multilateral trading facilities (MTFs) and organised trading facilities (OTFs), for a further review of their operational resilience via our operational resilience self-assessment tool (ORQuest).

Generally, we observed significant focus and investment in operational resilience over the last period. However, our strategy recognises that there is more work to do. Where weaknesses in operational resilience are identified, trading venues will be expected to act at pace. For example, by investing in improved processes, better infrastructure or training, building back-up systems, addressing vulnerabilities in legacy systems or improving contingency plans.

Market Orderliness

Over recent years, markets have experienced a range of severe stress events and periods of heightened market volatility. Some of these events have shown how risks can be transmitted across the financial system and the speed with which this can happen. In general, UK venues' trading models have demonstrated a high degree of resilience to stress events, enabling price formation to function effectively during periods of heightened volatility.

These events have, however, brought into sharp focus the need for effective mechanisms to manage market volatility and monitor the activity of market participants, to protect market orderliness. Trading venues' controls also need to adapt to take account of the role of new technology, such as artificial intelligence, in trading activity and the speed at which many market participants now operate².

Through our market engagement and firm-specific work programmes, we will continue to discuss with trading venues how they are developing the systems and controls they have, to maintain an orderly market in response to the evolving technology and risk landscape, with a focus on volatility management. We also expect to carry out testing of how venues carry out risk-sensitive member firm oversight, including the assurance taken that any algorithmic trading which takes place has been appropriately tested to ensure such trading does not contribute to or create disorderly trading conditions.³

Competition, Innovation and Growth

As noted in our recent report on our secondary competitiveness objective, we are committed to maintaining our strong track record of helping firms to launch innovative financial products and services. Our supervisory approach will support the ability of trading venues to develop new and innovative products and services to meet the changing needs of market participants. We have already confirmed that we are open to proposals for new market segments offering professional-only access to exchange traded products backed by certain cryptoassets. In the coming period, we will offer trading venues, among others, the opportunity to trial new services for the trading and settlement of digital securities, and the intermittent trading of private

² For example [BoE report on AI Forum](#) and [IOSCO FR06/21 Use of AI](#) and [OECD AI in finance](#)

³ https://www.handbook.fca.org.uk/techstandards/MIFID-MIFIR/2017/req_del_2017_584_oj/?view=chapter

company shares, via the DSS⁴ and PISCES⁵ sandboxes. We will continue to engage with trading venues on the potential for innovative services or functionalities, where these are supported by appropriate safeguards for investors.

We have also provided greater clarity on when firms may be operating a multilateral system and so require authorisation as a trading venue. Greater clarity about the trading venue perimeter helps maintain a level playing field, which supports effective competition, while also facilitating innovation by offering firms greater certainty about the rules that will apply to them. Firms operating multilateral trading systems must have satisfied themselves that they hold the correct regulatory permissions and we will continue to engage with firms on our perimeter guidance where necessary.

Market Reform

The UK is at an important stage of executing reforms to primary and secondary market structure rules, through its work on listings, public offers and admission to trading, and the Wholesale Markets Review. With this package of regulatory reform, we aim to strengthen the UK's position in global wholesale markets by delivering a better and more cost-effective regulatory framework, while advancing the integrity of UK markets.

We welcome the strong engagement and support that has been provided by trading venues as we have developed our proposals. Key examples are the responses to our consultations on improving the bond and derivative transparency regime, setting up a bond consolidated tape, and establishing a new regime for commodity derivatives.

As we move to the implementation of final requirements, trading venues will have a key part to play in ensuring that the benefits of the new regulations are realised, through their role in both setting market-facing rules and supporting the consolidated tape as data contributors. Trading venues will also continue to be an essential source of feedback on the forward policy agenda, such as our consideration of an equity consolidated tape.

Voluntary Carbon Markets

Trading venues provide, or have the opportunity to provide, a range of markets in sustainability-related products and instruments such as funds and derivatives. Voluntary Carbon Markets (VCMs) have been growing rapidly across the world but there are concerns about the quality and integrity of some of the underlying carbon credits. While underlying voluntary carbon credits do not fall within our regulatory perimeter, venue operators must ensure that an orderly market is maintained for VCM-related financial products and instruments for which they provide a market.

Next steps

As soon as practically possible we expect all CEOs to have discussed this letter with their fellow directors and/or Board and to have agreed actions and any next steps.

If you have any questions about this letter, please contact your named supervisor if your firm has one. If you do not have a named supervisor, please contact us on 0300 500 0597. This is the primary contact for your firm's day-to-day interactions with the FCA. Further details of how we can be reached are available on our website. However, we recognise there may be occasions when your firm faces urgent issues of strategic importance. In such circumstances, please

⁴ <https://www.fca.org.uk/publications/policy-statements/ps24-12-digital-securities-sandbox-joint-policy-statement-final-guidance>

⁵ <https://www.gov.uk/government/consultations/private-intermittent-securities-and-capital-exchange-systems-pisces-consultation>

contact either your named supervisor or the Trading Venues Supervision Team, at MTFSupervision@fca.org.uk

The FCA looks forward to working with you to continue to improve standards and market outcomes.

Yours sincerely

Jon Relleen
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Supervision, Policy and Competition - Markets