

**Response: IOSCO Consultation – operational resilience
during the COVID-19 pandemic
March 2022**

Background

The World Federation of Exchanges (WFE) is the global trade association for regulated exchanges and clearing houses. We represent over 250 market-infrastructures, spread across the Asia-Pacific region (~37%), EMEA (~43%) and the Americas (~20%). with everything from local entities in emerging markets to groups based in major financial centres. Collectively, member exchanges are home to some 50,000 listed companies, and the market capitalisation of these entities is over \$95 trillion, while the 50 distinct CCP clearing services (both vertically integrated and stand-alone) collectively ensure that traders put up \$1 trillion of resources to back their risk positions.

With extensive experience of developing and enforcing high standards of conduct, WFE members support an orderly, secure, fair and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise financial stability, consumer confidence and economic growth. And we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in an internationally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

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IOSCO Operational resilience of trading venues and market intermediaries during the COVID-19 pandemic

In line with WFE's membership criteria and its members' own objectives, the WFE has long supported the need for market infrastructure to be prepared and resilient in the face of events of various sorts, including those such as COVID-19. For that reason, the WFE operates working groups, consisting of MI experts from across the globe, focused purely on a) enterprise and operational risk and b) cybersecurity. In that context, the WFE welcomes the opportunity to respond to the Consultative Report on Operational resilience of trading venues and market intermediaries during the COVID-19 pandemic.

Responses to questions

Q1: In the context of reviewing operational resilience during the pandemic, is the description of 'operational resilience' and 'critical operations' appropriate for:

(a) trading venues;

(b) market intermediaries?

If not, please explain why and describe your preferred approach?

The WFE believes that the proposed description of 'operational resilience' and 'critical operations' is of use to trading venues. We do however note that venues need to be able to make their own determinations, suited to the services they offer. Moreover, existing MI practices have shown that high standards are already being achieved by trading venues, meaning that no further policy work is necessary or desirable.

We agree with IOSCO's general findings that trading venues proved to be operationally resilient during the pandemic. Regulated exchanges proved they could function as intended through volatility, high volumes and remote working, the latter being something that scaled up as planned.

The paper also suggests, correctly in our view, that the Basel approach to resilience and criticality should not simply be copied and pasted into the IOSCO / markets approach, but rather considered carefully in terms of its suitability for intermediaries and venues. Market Infrastructures (MIs) are generally considered as critical to their clients and willingly set themselves high resilience requirements, as demonstrated in their successful navigation of the COVID-related period.

In light of the pandemic, important though scenario work is, it is equally apparent that incident and crisis management *capability* is key. We expand on this point in our response to Question 4 below.

Q3: Are there other impacts, risks or challenges from remote work or hybrid working that impact operational resilience?

Uniformly, WFE members report that the measures they took in response to the pandemic were a 'scaling up' of existing procedures such as remote working, rather than the creation of new procedures. While it was necessary to pay attention to details such as split-staff rotation and related office cleansing, the plans worked as intended.

We are concerned that there may have been a lack of preparedness in brokers' back-office functions (even in cases where the front-office was well positioned to move to remote working). Where brokers faced heavy retail trading, the challenge was particularly acute. This lack of preparedness manifested itself in a few jurisdictions, exacerbated in some instances by the persistence of paper-based processes and face-to-face contact, in the outer reaches of the ecosystem. This face-to-face interaction was a key driver of the decision of some governments to close markets temporarily. These

challenges were complicated by the fact that, in such jurisdictions, one finds a ‘long tail’ of smaller brokerage houses that were less able to scale-up rapidly, to adapt to less favourable conditions.

Q4: Are there other lessons learned that can be drawn from the experiences of regulated entities during the pandemic in the context of maintaining operational resilience?

It is clear from experience of the pandemic that, while scenario planning is important, successful resilience at trading venues was built on the recognition that incident and crisis management *capability* is key. The same principle should apply in all parts of the ecosystem and, in our view, should remain the approach in relation to trading venues, rather than further guidance, given their success.

Any assumption that every eventuality can be identified in advance could generate a false sense of security, whereas procedures for promptly detecting and effectively reacting to new contingencies will always be valuable. In other words, whilst COVID-19 has been a practical, *specific* example of why good operational resilience is important, it highlights that flexibility in operational resilience measures is important to ensuring the continued functioning of any entity.

On more specific points, we have observed that exchanges, in adhering to robust MI business continuity plans, generally had to designate only a handful of workers as ‘key’ (and therefore not subject to restrictions on coming into the office as and when necessary). What was missing in some jurisdictions was sufficient delegation of authority to the MI to proceed with such designation, and any such obstacle should in our view be removed.

During the pandemic, significant steps included moving from open-outcry to electronic trading. And cyber-resilience measures proved relevant in markets, given the phenomenon of phishing emails that used matters related to COVID-19 as ‘bait’.

The advanced work being undertaken by the WFE’s membership on enterprise and operational risk management was brought out in a study¹ published in early 2020, which outlined the organisational structures and practices being employed – including the dedicated in-house teams focused on developing and delivering operational resilience. Operational resilience naturally extends to the protection of an organisation’s cyber infrastructure; and the type of preparations and existing measures undertaken by the membership have been publicly detailed by the WFE². BCP naturally played a role³ and all of these measures collectively supported effective marketplaces⁴, with fair and orderly markets remaining open to serve their economies.⁵

¹ Benchmarking Paper Organisational Structures for Enterprise and Operational Risk, February 2020

² [The WFE publishes update on industry cyber efforts during the pandemic, May 2020](#)

³ [Business Continuity Planning at Resilient Market Infrastructures, WFE, March 2020](#)

⁴ “A well-functioning exchange is one that facilitates continuous trading in securities and derivatives, and which provides for the transfer of risk and maximises the incorporation of new information in the value of financial instruments. This foundation allows market participants to make informed choices placing their orders; confident that executed trades will then be cleared and settled.” WFE statement on Fair and Orderly Markets, June 2020.

⁵ Circuit breakers also played a part. For details, see [World-exchanges - Circuit breakers taxonomy March 2022](#)