



*European Association of Co-operative Banks  
Groupement Européen des Banques Coopératives  
Europäische Vereinigung der Genossenschaftsbanken*



## **EACB position on ESMA's Guidelines on systems and controls in a highly automated trading environment for trading platforms, investment firms and competent authorities**

Ref.: ESMA/2011/224

03 October 2011

The **European Association of Co-operative Banks** (EACB) is the voice of the co-operative banks in Europe. It represents, promotes and defends the common interests of its 28 member institutions and of co-operative banks in general. Co-operative banks form decentralised networks which are subject to banking as well as co-operative legislation. Democracy, transparency and proximity are the three key characteristics of the co-operative banks' business model. With 4.200 locally operating banks and 63.000 outlets co-operative banks are widely represented throughout the enlarged European Union, playing a major role in the financial and economic system. They have a long tradition in serving 160 million customers, mainly consumers, retailers and communities. The co-operative banks in Europe represent 50 million members and 750.000 employees and have a total average market share of about 20%.

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## General Remarks

The members of the European Association of Co-operative Banks (EACB) would like to thank ESMA for the opportunity to briefly comment on its *Guidelines on systems and controls in a highly automated trading environment for trading platforms, investment firms and competent authorities* of July 2011 (Ref.: ESMA/2011/224).

First off, we believe that it is of the utmost importance to make our markets more resilient and stable. We support ESMA's general view that the integrity of the market should not be jeopardised by high-frequency trading (HFT) and algorithmic-based trading. We would nevertheless like to provide you with our observations on some of the issues put forward.

As high-frequency trading does not feature prominently in the core business of co-operative bank, we will refrain from commenting on whether the guidelines actually proposed by ESMA would benefit the current situation. We do have to comment, however, on the scope of the proposal which would have an immediate impact on our members.

Indeed, we consider the scope of Guideline 2 (p. 16ff) is too broadly formulated, as it does not only apply to investment firms active in high-frequency trading business, but to all investment firms engaged in "electronic trading systems" which would also include simple electronic order routing systems used by co-operative banks to relay retail client's order to the market.

The current proposal would have a disproportionate impact on small investment firms and we would consider it imperative to distinguish between different types of investment businesses, as some of the obligations required under Paragraph 2 (p. 17f), such as real-time monitoring of trading, are far too onerous to be implemented by small investment firms not involved in HFT. We believe the introduction of a proportionality criterion to be necessary, as not doing so would expose many of our members to huge additional organisational requirements and burdens – while being unable to trigger price movements or to cause any disorder to the market with regards to their trading activity.

In conclusion, we would ask ESMA to refine its current approach, as explained above, in order assure that investment firms, which are not active in the high-frequency trading markets, are not unduly affected by the newly proposed measures.



## Contact

The EACB trusts that its comments will be taken into consideration. Should there be any need for further information any questions on this paper, please contact:

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