MANAGED FUNDS ASSOCIATION
The Voice of the Global Alternative Investment Industry

WASHINGTON, DC | NEW YORK

5 December 2016

Via Web Submission: www.esma.europa.eu

European Securities and Markets Authority
CS 60747
103 rue de Grenelle
75345 Paris Cedex 07
France

Dear Sir or Madam,

Re: Guidelines on the calibration, publication and reporting of trading halts

Managed Funds Association[1] ("**MFA**") welcomes the opportunity to provide comments to the European Securities and Markets Authority ("**ESMA**") in response to its consultation paper on guidelines on the calibration, publication and reporting of trading halts dated 06 October 2016 (the "**Consultation Paper**").

MFA believes that trading halts can be effective risk control tools for trading venues to minimize market disruptions during times of market stress, to help restore confidence in the markets, and to limit harm to market participants. Trading halts, however, should be used only in appropriately serious circumstances and only as long as necessary, as they may impact and interfere with the price discovery process. We believe that other mechanisms, such as price collars or even selective order cancellation may in certain circumstances be more effective and appropriate for maintaining an orderly market.

In general, MFA supports ESMA's approach in the Consultation Paper and its recognition that it is important to leverage on trading venues' expertise and knowledge of the financial instruments traded on their venue. We agree it is important for the final guidelines on the calibration, publication and reporting of trading halts ("**Guidelines**") to avoid recommending specific and quantitative parameters, while being sufficiently precise to ensure a certain degree of harmonization and provide useful guiding principles to European venues. The guidelines should provide enough flexibility, however, to allow for market evolution and other changes in trading.

[1] Managed Funds Association represents the global alternative investment industry and its investors by advocating for sound industry practices and public policies that foster efficient, transparent and fair capital markets. MFA, based in Washington, D.C., is an advocacy, education and communications organization established to enable hedge fund and managed futures firms in the alternative investment industry to participate in public policy discourse, share best practices, learn from peers and communicate the industry's contributions to the global economy. MFA members help pension plans, university endowments, charitable organizations, qualified individuals and other institutional investors to diversify their investments, manage risk and generate attractive returns. MFA has cultivated a global membership and actively engages with regulators and policy makers in Asia, Europe, the Americas, Australia and many other regions where MFA members are market participants.

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Our experience in the U.S. has been that as markets continue to evolve with developments in regulation and technology, it is and has been important for regulators from time-to-time to reevaluate the trading regulations and mechanisms in place to assess whether they can be improved upon to enhance on market quality. For example, on September 23, 2016, MFA submitted a letter to the U.S. Securities and Exchange Commission, recommending certain amendments to fine-tune the national market system price collars and market wide circuit breakers to enhance market quality.[2] Accordingly, for the Guidelines to be useful as markets continue to evolve, we find it beneficial for them to provide trading venues with some flexibility.

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Q1. Would you consider these factors discussed above to be useful? Could you identify any additional element to be factored in?

We agree and support that trading venues should calibrate volatility parameters according to pre-defined, statistically supported methodology, including: the nature of the financial instrument; the liquidity profile and the quotation level of the financial instrument; the volatility profile of the financial instrument; the order imbalance; trading venue mode and rules; external references; duration of the halts; and newly issued instruments.

In relation to the criterion "nature of the financial instrument", we note that ESMA has proposed setting classes of financial instruments at the same level of granularity as classes set for the purposes of the transparency regime.[3] Although these classes are fairly granular, we support authorizing trading venues to set their own, potentially narrower, classes where appropriate. It is important not only that trading venues are able to adapt trading halt parameters to the features of specific instruments, but also that the scope of trading halts is limited to those specific instruments which are affected by volatility. The ability for trading venues to exercise discretion in cases where trading halts are applied to trading in the same or related instruments on other venues is also important; if there is an expectation that a trading halt on one venue will necessarily result in trading halts being applied on other venues (even in different financial instruments), it could result in volatility on those other venues as market participants attempt to advance their trades in time, in order to avoid the effects of a potential trading halt.

Q2. Do you consider that the Guidelines regarding calibration of volatility parameters should also apply to mechanisms to reject erroneous orders (i.e. order price / volume collars) and that ESMA should propose Guidelines on this issue at its own initiative?

We believe many of the proposed guidelines in the Consultation Paper are applicable for consideration with respect to the implementation of risk controls to reject erroneous orders. The

[2] *See* letter to the Honorable Mary Jo White, Chair, U.S. Securities and Exchange Commission, from Stuart J. Kaswell, Executive Vice President & Managing Director, MFA, dated September 23, 2016, regarding Recommendations on Issues of Market Quality, available at: https://www.managedfunds.org/wp-content/uploads/2016/09/MFA-Letter-re-Mkt-Quality-Issues.pdf.

[3] i.e. "asset classes as defined in Annex II on RTS 2".

"duration of the halts" guideline, however, would not be applicable with respect to erroneous orders. To the extent that ESMA proposes guidelines on the calibration of volatility parameters, we think it is important for these parameters to be fairly broad. Trading venue volatility parameters should work in tandem with an intermediary's pre-trade risk controls, which the intermediary sets for individual clients.

Q3. Is there any other aspect which should be considered in these Guidelines so as to prevent market-wide volatility events given the current structure of European markets?

We do not have additional suggestions at this time.

Q4. Do you consider that the proposed order and trade feed reporting standard for trading status will contribute to facilitate a correct identification of trading halts across Europe? Do you foresee any drawback on it?

To support and foster orderly trading, it is important that trading venues provide markets with accurate and timely information on the trading profile observed in their markets, and in particular on volatility events leading to trading halts. Market uncertainty, especially during periods of market stress, contribute to greater market volatility. Accordingly, we believe it is imperative that trading venues should communicate the trading status of instruments under a trading halt through the inclusion of a specific code in the instrument data feed and that data vendors should re-disseminate the information generated by trading venues in the same format.

It is equally important that trading venues make clear to market participants the venue's trading rules and procedures regarding trading halts beforehand, so that market participants can anticipate trading halts during periods of extreme market volatility. We agree in particular with ESMA's statement at paragraph 45 of the Consultation Paper that market participants may be accessing data through data vendors rather than directly from trading venues, and that it will therefore be imperative for those data vendors to disseminate the same information on trading halts as the trading venues themselves.

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MFA thanks ESMA for the opportunity to provide comments on the Consultation Paper. If ESMA staff has questions or would like to discuss our responses in greater detail, please do not hesitate to contact Jennifer Han, Associate General Counsel, or the undersigned at (202) 730-2600.

Respectfully submitted,
/s/ Stuart J. Kaswell

Stuart J. Kaswell
Executive Vice President, Managing Director &
General Counsel