European Exchanges will remain open

Brussels, 17th March 2020

The FESE membership, comprising of Exchanges across Europe, are not immune from the effects triggered by the rapid spread of Covid-19 and its impact on the economic environment. Whilst this situation is not without its challenges for exchanges, it is crucial that the markets remain open.

Regulated stock markets fulfil a social and economic function that must prevail in times of uncertainty. Exchanges play a key role in providing price formation, transparency and liquidity. Preventing them from fulfilling this role would have a huge impact not just on the economy but society too.

These functions have been put to the test in the past for example during the financial crisis - when other sources of liquidity dried – exchange markets successfully continued to operate. This situation is no different, exchanges should continue to be operational to maintain trust.

FESE Members' guiding principles remain transparency and objectivity, especially in these times of uncertainty.

European Exchanges will and should continue to remain open at all times to ensure safety, integrity and fairness in a secure and transparent manner.

1 – Technically and operationally: Markets continue to function in an orderly and transparent manner despite the extreme trading conditions triggered by the Covid-19 crisis. The controls and circuit-breakers in place work normally and with the necessary flexibility to meet market demand. Contingency plans have been activated and will ensure everything is working as it was designed, including in the context of "working from home" protocols.

2 – Orderly functioning of financial markets: The constant news flow results in a continuous revision of investors' valuations of securities and is generating the need to rebalance portfolios dynamically. It is expected that the current crisis will continue to generate both negative news flow, for example to lock-down decisions, and positive news flow, for example to the impact of significant government support plans. Investors need to adapt to the changing economic circumstances and the controls in place at trading venues are even more important in such volatile market conditions with circuit-breakers allowing investors to absorb new information. More generally, the pricing of risk needs to remain transparent, accessible and reliable across asset classes to allow investors to value portfolios and make informed investment and hedging decisions under these volatile conditions.

3 – Contractually: The closure of markets would trigger all kinds of procyclical contractual clauses in a very wide range of financing and even operational contracts These potential and open-ended consequences could generate an unpredictable number of defaults. Derivatives contracts in particular are seen as reliable with observable reference prices allowing for an orderly expiry and settlement process. These instruments are often used as proxies or hedging tools for many related OTC markets, for example credit markets. A closure of the lit markets would likely have a material impact on the functioning of a broad array of OTC markets given the removal of key hedging tools that would render broader risk management extremely challenging.

4 – Regulatory and litigation consequences as well as effects on smaller investors: A closure of markets would trigger the massive expansion of all sorts of off-market bilateral arrangements outside of transparent trading venues and without the protections prevalent on trading venues. All investors would be impacted by such a situation, but small investors would be worst hit by a move to such opaque arrangements concluded between professional investors as they would only be able to adjust their positions at the re-opening of the reference trading venues.

Closing the markets would not change the underlying cause of the market volatility, it would remove transparency of investor sentiment and reduce investors access to their money; all of which would compound current market anxiety and result in a negative decline in investor outcomes.

In addition, at a time of heightened volatility and anxiety with contingency protocols activated it would also not be wise to change operations such as a change of trading hours. This is a topic that requires careful consideration and given various consultations it would be premature to speculate about any changes.

FESE Members remain attentive to global and European developments and will work towards maintaining a safe, transparent and fair market space in Europe at all times.

FESE Avenue de Cortenbergh, 116, 1000 Brussels — info@fese.eu — +32 2 551 01 80

Information for the Editor:

The Federation of European Securities Exchanges (FESE) represents 36 exchanges in equities, bonds, derivatives and commodities through 18 Full Members from 30 countries, as well as 1 Affiliate Member and 1 Observer Member.

At the end of January 2020, FESE members had 8,625 companies listed on their markets, of which 14% are foreign companies contributing towards European integration and providing broad and liquid access to Europe's capital markets. Many of our members also organise specialised markets that allow small and medium sized companies across Europe to access capital markets; 1,087 companies were listed in these specialised markets/segments in equity, increasing choice for investors and issuers. Through their RM and MTF operations, FESE members are keen to support the European Commission's objective of creating a Capital Markets Union.

FESE is registered in the European Union Transparency Register with number 71488206456-23.

For further information:
FESE Secretariat
Tracey Roberts
Senior Communications Officer
Tel: +32 2 551 01 87
Email: roberts@fese.eu