AUTORITÉ DES MARCHÉS FINANCIERS

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AMF Enforcement Committee sanctions Virtu Financial Europe and Euronext Paris

On 4 December 2015, the Enforcement Committee handed down a penalty of €5 million to Virtu Financial Europe for market manipulation and ignoring Euronext market rules. It also handed down a penalty in the same amount to Euronext Paris for failing to meet its obligation to operate with neutrality and impartiality, in accordance with market integrity.

Formerly named Madison Tyler Europe, Virtu Financial Europe is a high frequency trading company. At the time of the facts, in 2009, Madison Tyler Europe was proprietary trading on Euronext and four alternative trading platforms. The company's strategy consisted of identifying the best bid or offer price for a security on a platform – usually Euronext – and then placing four passive orders at a slightly different price on four other platforms; as soon as one of the orders was executed, giving rise to a gain equal to the difference in price, it would then cancel the remaining three orders. These operations were carried out within a few milliseconds and the algorithm used by Madison Tyler Europe constantly placed and cancelled orders in the various order books in line with the best bid or offer prices.

After analysing the operation of the algorithm used and the way in which the strategy was implemented, as well as its effects on the market in the 27 CAC 40 securities falling within the scope of the investigation, the Enforcement Committee found that:

- Madison Tyler Europe's activity was characterised by an extremely high volume of messages (placing, amending and cancelling orders) relative to the number of trades actually undertaken by it and by other participants; for example, on Euronext Paris, it accounted for 62.7% of all messages and 2% of trades;

- Madison Tyler Europe's operations were extremely rapid and the life span of its orders was extremely short relative to comparable practices by other operators active in the market at the time; for example, on Euronext Paris, 66% of Madison Tyler Europe's orders lasted less than one second and 25% lasted less than 10 milliseconds;

- the very large volumes of orders cancelled by Madison Tyler Europe before they could be executed, particularly at the best bid or offer prices, distorted the representation of order books for market participants within the meaning of the sixth paragraph of Article 631-2 of the AMF General Regulation, in particular because of the time lag before other participants were notified of those orders, a significant proportion of which no longer existed;

- Madison Tyler Europe's trading practices had allowed it to secure a dominant position on the Euronext Paris, BATS, CHI-X and Turquoise platforms for the 27 securities in question, giving rise to unfair trading conditions for other participants within the meaning of point (a) of Article 631-1 of the AMF General Regulation.

Emphasising that neither Madison Tyler Europe's trading strategy in itself nor its status as a high frequency trader were in question, the Enforcement Committee ruled that its trading practices, involving huge volumes of extremely rapid messages in the order books of the 27 securities gave, or were likely to have given, false or misleading indications as to the supply and demand for those financial instruments, constituting a market manipulation as laid down in Article 631-1 of the AMF General Regulation.

Finally, the Enforcement Committee found that Madison Tyler Europe's trading practices constituted a breach of Article 8105/1 of the Euronext Market Rules, which forbid market members from "engaging in practices which may cause degradation of the service or give rise to a disorderly market", including "submitting […] excessive electronic messages or requests to a Euronext Trading Platform".

As regards Euronext Paris, the Enforcement Committee noted that the market undertaking had granted Madison Tyler Europe exemption from the penalties applicable for exceeding the ratio of the number of orders placed to the number of trades executed in a given security on a given day, at that time set by Euronext at 100 to 1.

The Enforcement Committee ruled that, in granting this exemption to allow Madison Tyler Europe to improve its algorithms "in the absence of any predefined programme and non-

publicly, while it had announced to its members that no Liquidity Provider would be able to trade in the securities in which Madison Tyler Europe was trading, with no compensation, no limit as to duration and, ultimately, for a period of 16 months", Euronext had not operated "with neutrality and impartiality, in accordance with market integrity", and had thus breached the provisions of Article 512-3 of the AMF General Regulation.

It judged that such an exemption, from which only Madison Tyler Europe benefited over the period in question, had enabled the latter to implement a trading strategy which, because of the very large volume of orders placed and cancelled, could give rise to a disorderly market, especially given that other market members were not in a position to understand that the intense activity thus generated in order books was caused by a single participant.

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