

August 21, 2026

The Board of the International Organization of Securities Commissions  
C/ Oquendo 12  
28006 Madrid, Spain

*Via IOSCO Consultation Portal: [ML2026-consultation@iosco.org](mailto:ML2026-consultation@iosco.org)*

***Re: IOSCO Consultation Report CR/02/26 - Regulatory Considerations and Good Practices on the Evolution of Market Liquidity During the Trading Day (May 2026)<sup>1</sup>***

Dear IOSCO Secretariat:

The Global Financial Markets Association (GFMA)<sup>2</sup>, together with its regional members the Securities Industry and Financial Markets Association (SIFMA)<sup>3</sup>, the Association for Financial Markets in Europe (AFME)<sup>4</sup>, and the Asia Securities Industry & Financial Markets

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<sup>1</sup> IOSCO, Regulatory Considerations and Good Practices on the Evolution of Market Liquidity During the Trading Day, CR/02/26 (May 2026) (“IOSCO Consultation Report”).

<sup>2</sup> The GFMA represents the common interests of the world’s leading financial and capital market participants, to provide a collective voice on matters that support global capital markets. We advocate on policies to address risks that have no borders, regional market developments that impact global capital markets, and policies that promote efficient cross-border capital flows, benefiting broader global economic growth. The Global Financial Markets Association (“GFMA”) brings together three of the world’s leading financial trade associations to address the increasingly important global regulatory agenda and to promote coordinated advocacy efforts. The Association for Financial Markets in Europe (“AFME”) in London, Brussels and Frankfurt, the Asia Securities Industry & Financial Markets Association (“ASIFMA”) in Hong Kong and Singapore, and the Securities Industry and Financial Markets Association (“SIFMA”) in New York and Washington are, respectively, the European, Asian and North American members of GFMA.

<sup>3</sup> SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry’s nearly one million employees, it advocates for legislation, regulation, and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. SIFMA serves as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. It also provides a forum for industry policy and professional development. With offices in New York and Washington, D.C., SIFMA is the U.S. regional member of the Global Financial Markets Association (GFMA). SIFMA’s Asset Management Group (SIFMA AMG) also support this effort and is signing the letter separately representing the asset management members of SIFMA.

<sup>4</sup> AFME is the voice of Europe’s financial markets, providing expertise across a broad range of regulatory and capital markets issues. We represent the leading global and European banks and other significant capital market players. We advocate for deep and integrated European capital markets which serve the needs of companies and investors, supporting economic growth and benefiting society. We aim to act as a bridge between market participants and policy makers across Europe, drawing on our strong and long-standing relationships, our technical knowledge and fact-based work. With offices in London, Brussels, and Frankfurt, AFME is the European regional member of the Global Financial Markets Association (GFMA).

Association (ASIFMA)<sup>5</sup>, welcomes the opportunity to respond to IOSCO’s Consultation Report CR/02/26 on liquidity dynamics in secondary equity markets. Our members collectively represent broker-dealers, banks, asset managers, and market infrastructure providers active across the U.S., European, and Asia-Pacific equity markets, and bring direct operational experience with closing auction mechanics, market surveillance, volatility control design, and post-trade settlement across these jurisdictions. This submission reflects a consolidated GFMA position built from SIFMA, AFME, and ASIFMA views. It also reflects the position of SIFMA AMG. Where our regional members are aligned, the response reflects a single consolidated position; where market structures or member experience diverge by jurisdiction, we have noted those distinctions. We believe this approach gives IOSCO the clearest picture of where global industry views converge and where jurisdiction-specific market design should continue to inform the development of any Good Practices.

At the outset, GFMA, SIFMA, AFME, and ASIFMA wish to emphasize several broad principles that unite our members across jurisdictions: the importance of diversity in execution mechanisms, the primacy of investor choice in how and when trades are executed, and the recognition that existing regulatory and market-structure frameworks have proven adaptable to changing liquidity dynamics. We urge IOSCO to preserve these principles as it finalizes its Good Practices. Three themes run throughout our response. First, the concentration of trading activity in closing auctions and other end-of-day mechanisms reflects genuine investor demand and efficient market adaptation, including the sustained growth of passive and index-linked investing, rather than a structural deficiency requiring correction. Second, our members’ experience is that operational resilience, not market structure, is the area most deserving of heightened attention as liquidity concentrates around the close and as markets extend trading hours; we urge IOSCO to prioritize its guidance accordingly. Third, given the material differences in market structure across the U.S., Europe, and Asia-Pacific, we urge IOSCO to preserve a principles-based, jurisdiction-adaptable approach, including explicit flexibility for jurisdictions moving toward extended or continuous trading, rather than fixed quantitative thresholds or a single prescriptive model.

### **Good Practice #1: Assessment of Intraday Liquidity Dynamics**

#### **Question 1: Do you agree with the observed trends outlined in Chapter 2?**

GFMA agrees with the trends IOSCO identifies. In the U.S., equity markets have concentrated around the close, with roughly 10% of daily volume traded in the last five minutes of the regular session (approximately 17% from 3:30–4:00pm), consistent with NYSE’s own data showing its closing auction at roughly 7.3% of total consolidated ADV in NYSE-listed names,

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<sup>5</sup> ASIFMA is an independent, regional trade association comprising a diverse range of over 100 leading financial institutions from both the buy and sell side, including banks, asset managers, professional services firms and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, competitive and efficient Asian capital markets that are necessary to support the region’s economic growth. With offices in Hong Kong and Singapore, ASIFMA is the Asian regional member of the Global Financial Markets Association (GFMA).

rising to over 10% for S&P 500 constituents.<sup>6</sup> The same directional trend is observed across APAC markets, and the importance of the closing-auction is growing across Europe as well. The primary driver in all three regions is the sustained growth of passive and index-linked investing. Over time there has been a trend away from continuous trading to alternative execution mechanisms including closing auctions. The closing auction has become an increasingly prominent liquidity event, allowing traders to execute at size with lower market impact and reducing adverse selection risks present on trading venues during the continuous trading period. It is also related to the fact that closing auctions are used for portfolio management purposes, notably passive flows management and benchmarking needs. This view is further supported by the absence of similar growth in opening or intra-day auctions, despite limited competing venue activity in those periods. Overall, the increasing role of closing auctions reflects efficient market adaptation to investor demand, supporting effective price formation and execution outcomes. IOSCO's Good Practices should reflect this heterogeneity rather than imply a single directional trend that applies everywhere.

**Question 2: Do you think that there are additional aspects or trends regarding end-of-day auction mechanisms and post-close sessions that have not been captured? If so, please explain.**

The U.S. transition to 23/5 trading is a material structural development that IOSCO's framework should be explicitly adaptable to, and the Report understates the role of MOC/LOC order types and the pre-auction transparency that real-time imbalance data already provides.<sup>7</sup> In Europe, a related workstream is the ongoing ESMA review of the effects of trading in closing auctions on the EU markets. In Asia, the sheer scale of index-driven rebalance activity is an underexamined contributor: roughly 41 calendar days of cyclical index reviews and approximately 155 trading days a year where index families strike reference data or implement changes, exemplified by the MSCI May 2026 quarterly comprehensive review, which saw roughly 2x average and 3x prior-cycle turnover, producing a surge effect that extends well beyond scheduled rebalance days. There are also governance concerns around index-provider decision-making, including the segregation between core index businesses and ESG/ratings units and the potential for non-core ESG-driven changes to create unanticipated benchmark impact, along with real collateral, capital adequacy, and funding pressure for brokers in emerging markets on heavy rebalance days. IOSCO's Good Practices should explicitly recognize both the structural shift toward extended trading and the scale and frequency of index rebalancing as material, underexamined contributors to end-of-day concentration.

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<sup>6</sup> NYSE, Data Insights: Closing Auction: Internalization Effect Throughout Imbalance Period (Nov. 17, 2022), <https://www.nyse.com/data-insights/closing-auction-internalization-effect-throughout-imbalance-period>.

<sup>7</sup> Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Order Approving a Proposed Rule Change To Extend the Exchange's U.S. Equities Trading Hours to 23 Hours a Day, Five Days a Week, Securities Exchange Act Release No. 34-105199 (Apr. 10, 2026), <https://www.sec.gov/files/rules/sro/nasdaq/2026/34-105199.pdf>; Self-Regulatory Organizations; NYSE Arca, Inc.; Order Granting Accelerated Approval of a Proposed Rule Change To Lengthen Current Extended Trading Sessions, Securities Exchange Act Release No. 34-102400 (Feb. 11, 2025), <https://www.sec.gov/files/rules/sro/nysearca/2025/34-102400.pdf>.

**Question 3: Have you observed positive effects arising from liquidity variation throughout the trading day?**

Yes. The concentration of liquidity in closing auctions has produced meaningful positive effects: improved execution certainty, reduced transaction costs for benchmark-driven investors, tighter price impact, better fill rates for large orders, and a more widely accepted official reference price for valuation and benchmarking. This concentration should be understood as time-based, a short-duration liquidity event reflecting efficient market adaptation to investor demand, rather than a sign of venue fragmentation or failed intraday price formation. A robust closing auction is already a widely accepted reference price used for valuation, benchmarking and index tracking. This is illustrated by markets that have moved away from volume-weighted-average-price methodologies toward auction-based closing mechanisms as the internationally accepted practice for determining a reliable closing price, for example, India's shift in August 2026 to a Closing Auction Session for derivatives-linked stocks, replacing the prior VWAP-based closing-price calculation (other markets include Shanghai and Saudi, both shifting from volume-weighted averages to closing auctions in 2018).

**Question 4: Have you observed any impact on competition arising from liquidity variation throughout the trading day? If so, please provide further information on this.**

Competition between trading venues and execution mechanisms should be judged on execution quality, innovation, and investor choice, not on which part of the day captures the most volume. A range of execution models, including lit continuous trading, closing auctions, periodic auctions, off-exchange execution, can coexist with effective price discovery. In the U.S., off-exchange trading has grown as a share of total volume, but total volumes have grown faster still (YTD ADV of 18.2 billion shares versus 11.0 billion in 2023 and roughly 7.0 billion historically), so the overall pie is expanding rather than shifting wholesale off-exchange. The broad range of execution mechanisms available throughout the trading day allows participants to access liquidity where it is deepest at any given moment, an "intraday liquidity curve" in which lit continuous markets, periodic auctions, and dark venues are each used more or less intensively at different points in the day before flows consolidate into the closing auction. This dynamic, rather than a simple decline in central-limit-order-book share is the more accurate description of how European market structure has evolved. Increased competition among execution venues and mechanisms in Europe has demonstrably reduced trading costs for investors, with bid-ask spreads for European shares narrowing relative to other major jurisdictions over the past twelve months.

Asia offers a distinct data point: historically, extending exchange trading hours to attract incremental liquidity has not meaningfully increased daily value traded, as seen when SGX removed its lunch hour and when KRX extended its session by 30 minutes, with volume simply stretched over a longer window, though Nextrade in South Korea is a notable exception, having captured incremental share and generated genuine volume growth through extended pre/post-market access at lower explicit cost, particularly attractive to retail and out-of-time-zone investors, suggesting some momentum toward 24-hour models. Taken together, competition should be assessed on investor outcomes rather than time-of-day volume distribution, and

extended-hours competition dynamics may depend more on pricing and access design than on hours alone. We caution against assuming that concentration at the close necessarily weakens competition; in some cases, it may simply reflect common demand for a single benchmark event.

**Question 5: Where a closing price cannot be determined in the closing auction, what fallback options exist in your jurisdiction?**

In the U.S., exchange rulebooks define fallback methods including the last reported sale price from the continuous session, the NBBO midpoint, or the previous day's official closing price, and pre-published, standardized outage protocols are strongly supported, including cross-exchange backup arrangements under which one primary listing exchange's closing auction can serve as a fallback if another experiences an outage, for example, NYSE standing in if Nasdaq were unable to conduct its closing auction. These services are complementary to closing auctions and provides additional liquidity and flexibility around the close. This enables further risk transferring at the established closing price. In the EU, we would caution that proposals under discussion (including in the context of MISP) to introduce or promote alternative reference points, such as volume-weighted closing benchmarks could risk fragmenting the closing price and disrupt established market conventions, which rely on a single, widely accepted closing reference. Individual EU trading venues already maintain their own rulebooks and playbooks governing how an alternative closing price is calculated in the event of an outage; the concern for IOSCO's guidance is less an absence of arrangements than the need for greater consistency and clarity in how such arrangements are communicated to participants. Across jurisdictions, IOSCO guidance should encourage transparent, pre-published fallback protocols for closing auctions, leveraging existing best-practices where established. In addition, structured post-incident reviews with industry input following any close disruption that affects benchmark integrity.<sup>8</sup>

**Question 6: Have you observed an increase in the prevalence of mechanisms by which investors are guaranteed execution at the closing price, without routing trades through a trading venue's closing auction? If so, please provide details on this and any impact on: (i) market efficiency; (ii) price discovery; (iii) liquidity; (iv) investor protection; and (v) market resilience.**

Guaranteed-close and trade-at-last services serve a legitimate execution-certainty and risk-transfer function, are complementary to (not competitive with) the primary closing auction, and should not be restricted provided they reference the primary market's official closing price. The mechanism is evolving differently by region: in Asia, Guaranteed Market on Close principal facilitation is gradually being replaced by agency-related closing-cross functionality, particularly in Emerging Asia, as brokers seek to reduce operational risk and financing costs through off-exchange netting, and in several APAC markets (Korea, Taiwan, Indonesia) broker participation is already constrained by jurisdiction-specific collateral and funding rules, for example, Korean brokers must fund 100% of net buy settlement plus an "Acceleration Fund" deposit of roughly 10-35% of gross notional, with potential for additional post-trade margin calls. Close-linked

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<sup>8</sup> Self-Regulatory Organizations; NYSE Texas, Inc., Exhibit 5 (closing-price fallback hierarchy), Securities Exchange Act Release No. 34-103039 (2025), <https://www.sec.gov/files/rules/sro/nysetex/2025/34-103039-ex5.pdf>.



execution mechanisms should not be banned or restricted, though IOSCO should recognize that their form varies by region, principal guarantee in the U.S. versus a shift toward agency crossing in parts of Asia, and that funding/collateral frameworks in some APAC markets already constrain their use.<sup>9</sup>

In the EU and the UK, MTFs and SIs allow investors to obtain executions at the closing price. This type of service is complementary to closing auctions and provides additional liquidity and flexibility around the close. This enables further risk transferring at the established closing price, thereby reinforcing the validity and market acceptance of the closing price as a price-forming benchmark. From an investor perspective, the various mechanisms operating in this space reflect a demand for execution choice, allowing participants to interact with the closing price under different timing and liquidity constraints without undermining the primary market's closing auction. We have not observed any detrimental impact on any of the metrics highlighted in this question.

## **Good Practice #2: Operational Risk and Resilience**

**Question 7: Does increased concentration of equity trading in the end-of-day auction pose additional risks that have not been identified in this Consultation Report? If so, please provide details on these risks and how you mitigate these.**

Concentration heightens the stakes of operational failures during the closing window, and data dissemination infrastructure, SIP and exchange feeds, should be explicitly within scope of IOSCO's operational resilience guidance, alongside stress tests, outage protocols, and close coordination. There is meaningful appetite, including among regulators and venues, to strengthen continuity arrangements specifically for primary venues that serve as systemic benchmark-setting events; where a primary listing venue's closing auction is a critical point of reliance for valuation, index tracking, and CCP margining, a failure is not merely an operational inconvenience but a potential systemic disruption, and resilience guidance should go beyond published fallback pricing to address redundancy, tested recovery procedures, and timely participant communication. Separately, across most APAC markets, closing-auction order entry is only permitted very close to the end of the trading day, unlike the U.S. and Japan, which open the order-entry gate earlier, creating an end-of-day surge in order placement that could be mitigated simply by widening the order-entry window. Operational risk from closing concentration is therefore both a technology/infrastructure issue and a market-design issue, and IOSCO guidance should address both.

**Question 8: Do cybersecurity programs consider increased cyber risk implications related to changes in liquidity profile?**

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<sup>9</sup> Financial Conduct Authority, PS23/4: Improving Equity Secondary Markets (May 3, 2023), <https://www.fca.org.uk/publications/policy-statements/ps23-4-improving-equity-secondary-markets> (introducing the "CLSE" post-trade flag identifying benchmark transactions executed at the market closing price).

Concentrated liquidity periods, particularly closing auctions, should be treated as heightened operational and cybersecurity risk moments, with dedicated controls including backup systems, real-time latency monitoring, capacity management, penetration testing of closing-period systems, and pre-defined recovery playbooks. For markets transitioning to extended trading hours, the cybersecurity perimeter expands further, requiring controls and staffing adapted to overnight sessions with thinner liquidity and different threat profiles.<sup>10</sup>

**Question 9: Are there additional measures that mitigate operational risks from peak volumes?**

Pre-published, standardized outage and fallback protocols; cross-industry coordination among exchanges, broker-dealers, CCPs, and data disseminators; and structured post-incident reviews with industry input following any close disruption affecting benchmark integrity are all important. It is important that trading venues maintain robust and transparent protocols governing whether and how a closing auction will run in stressed conditions, and how a closing reference price is determined and communicated in the event of disruption. Timely, consistent and clear communication to market participants is critical given the central role of the closing price for valuation, benchmarking and risk management. Published, standardized outage/fallback protocols and participant communications are critical. IOSCO guidance should also address how business continuity and capacity planning should evolve as markets move toward extended or near-continuous trading hours.

**Good Practice #3: Market Manipulation Monitoring**

**Question 10: What operational challenges arise when integrating liquidity-based parameters into surveillance and compliance systems?**

Three core challenges stand out: threshold calibration, since alert logic tuned for continuous trading can generate excessive false positives or negatives during auction phases and requires phase-specific baseline datasets and models; latency, since effective marking-the-close surveillance requires near-real-time infrastructure beyond typical batch processing; and data normalization, since cross-venue monitoring requires standardized data formats not uniformly available across jurisdictions, a point sharpened in Europe by the absence of a consolidated tape. Any IOSCO guidance implying new time-of-day surveillance calibration requirements should be scoped as principles-based, to avoid unintended regulatory expansion outside formal rulemaking processes.

**Question 11: How can trading venues and regulators leverage technology while maintaining transparency and accountability in surveillance?**

Technology offers meaningful potential for real-time anomaly detection during concentrated liquidity periods, including closing auctions and index rebalancing or derivatives

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<sup>10</sup> Regulation Systems Compliance and Integrity, 17 C.F.R. § 242.1001 (2026), <https://www.ecfr.gov/current/title-17/chapter-II/part-242/subpart-ECFRe106e84e67e2bc9/section-242.1001>.

expiry days, but any related guidance should be accompanied by clear standards for accountability, explainability, and auditability before such tools become embedded regulatory expectations, and should remain consistent with existing regional frameworks rather than introducing a parallel standard.

**Question 12: What protocols could strengthen cooperation between trading venues to detect and prevent cross-market manipulation?**

In the U.S., cross-market surveillance is coordinated through formal arrangements among FINRA, primary listing exchanges, and CFTC-regulated derivatives venues, with FINRA performing consolidated cross-market surveillance under regulatory services agreements. In Europe, the fragmented nature of equity trading across multiple venues creates challenges for surveillance that are best addressed through robust cross-venue cooperation and information-sharing mechanisms. Effective cooperation and information-sharing among European National Competent Authorities (NCAs) can strengthen the ability to identify and respond to cross-border and cross-market manipulation patterns that may not be visible from a single national perspective. Furthermore, ESMA should continue to play a central role in promoting supervisory convergence, facilitating coordination among NCAs, and supporting a more integrated approach to market surveillance. Formal coordination arrangements between equities venues, derivatives venues, and regulators, particularly around closing-auction windows and index/derivatives expiry dates, should be encouraged in jurisdictions that lack an equivalent to the U.S. model.<sup>11</sup>

**Question 13: Are there additional measures to mitigate manipulation risks in increasingly complex microstructural environments?**

Robust auction design features, randomized uncrossing times, order collars, no-cancellation periods, are among the most effective deterrents to marking-the-close behavior, and surveillance frameworks must be adapted as markets extend trading hours, given the materially different liquidity, participant composition, and risk profile of overnight or off-hours sessions. The interaction between lit closing auctions and pre-close dark pool activity referencing an anticipated closing price is a further area warranting continued surveillance attention.

**Good Practice #4: Volatility Control Mechanisms**

**Question 14: Should changing liquidity dynamics be considered in VCM calibration and review?**

Yes, changing liquidity dynamics, including growing closing-auction concentration, should inform VCM calibration and periodic review, but mechanistic linking of intraday liquidity metrics to automatic VCM activation should be avoided. The U.S. LULD Plan already requires annual SEC review of threshold calibration, with bands tiered by security type and index

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<sup>11</sup> FINRA, How We Operate, <https://www.finra.org/about/how-we-operate> (describing FINRA's Regulatory Services Agreements with securities exchanges covering cross-market surveillance).



membership, a qualitative, governance-based model in which liquidity dynamics inform periodic review rather than serve as automatic triggers, and which should be preserved and extended to account for the emergence of extended trading hours.<sup>12</sup> As trading hours extend and new market segments come online, the current +/-20% LULD bands, while a reasonable starting point for continuous-session trading, may warrant further refinement to reflect the different liquidity and volatility profiles that will emerge in overnight and off-hours sessions.

In addition to refining VCMs to support extended hours trading, there may be opportunities for regional supervisors to further tailor VCMs in existing products while maintaining a principles-based calibration approach. For example, price collars for a government money market ETF and shares in a technology company may both be 10% in the U.S., even though the price volatility between the two securities differs substantially. Consequently, there may also be opportunities to fine tune VCMs more granularly to the inherent dynamics of different groups of securities.

**Question 15: Should other principles or metrics play a role in informing VCM design and recalibration?**

Bid-ask spreads, order book depth, and order imbalance metrics can provide early warning signals that precede price dislocations and are appropriately used as qualitative inputs into VCM calibration reviews, though not as automatic quantitative triggers. VCM design for overnight sessions, reference price selection, collar widths, and inter-session halt propagation, is a critical open question requiring dedicated regulatory attention as markets move toward extended trading hours.

**Question 16: Are VCMs applied differently during auction phases and continuous trading sessions?**

Yes, and this differentiation is appropriate and should be explicitly recognized in IOSCO guidance. In the U.S., LULD price bands apply to continuous trading while closing auctions use auction-specific collar mechanisms calibrated for single-price matching; several EU venues similarly use volatility auction and in the case of outages will delay closing auctions. IOSCO guidance should affirm that auction-specific VCM design is legitimate and avoid creating pressure toward uniform continuous-session logic during auction phases. Collar design should also be tailored by product and security type rather than applied as a flat, uniform percentage band: a fixed band appropriate for a liquid single-name equity can produce anomalous outcomes for products with different volatility profiles, such as short-duration or government-linked ETFs, where a withdrawn quote seconds before the close can trigger an outsized, misleading closing print.

**Question 17: How do you define “stressed market conditions” and how do you deal with VCMs during them?**

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<sup>12</sup> Regulation NMS Plan To Address Extraordinary Market Volatility (Limit Up-Limit Down Plan), Securities Exchange Act Release No. 34-67091 (May 31, 2012), <https://www.luldplan.com/>.

Stressed conditions are generally characterized by unusually large price movements, elevated intraday volatility, proximity to market-wide circuit breaker thresholds, and macroeconomic or geopolitical shocks (in the U.S., LULD and market-wide circuit breakers apply at 7%, 13%, and 20% S&P 500 decline thresholds). Closing-auction behavior under acute volatility warrants specific attention, since simultaneous rebalancing demand can create large order imbalances precisely when liquidity supply is most constrained; March 2020 experience confirmed VCMs function reasonably under stress, but IOSCO guidance should encourage venues to specifically simulate and review stressed-scenario closing-auction performance as part of periodic VCM calibration.<sup>13</sup>

### **Good Practice #5: Regulatory and Supervisory Approaches**

**Question 18: Do you believe that the concentration of trading activity during closing auctions may raise risks for price formation and benchmark integrity, and if so, how could these risks be monitored or addressed?**

The closing auction remains a legitimate, critical price-forming event whose volume concentration reflects genuine investor demand rather than a structural deficiency; the key risks are operational and disclosure-related rather than structural, operational resilience of the auction process, integrity and clarity of fallback pricing when disrupted, and transparency of close-linked execution that references the official close without participating in it. Targeted monitoring on index rebalancing and derivatives expiration days, when manipulation incentive is greatest, is supported, and dark pool trade-at-close mechanisms' reliance on the lit closing price as a reference underscores the systemic importance of auction integrity.

A related market-structure dimension is that the risk is less about the auction mechanism itself than about the potential for demand/supply imbalance to persist into the close, producing measurable price volatility (close-print deviation from the last pre-auction print). This effect is driven less by indexation in the abstract than by the concentrated impact of large-name index inclusions and late-stage IPO entries outpacing available liquidity supply, against a backdrop of overall market growth rather than index concentration alone available liquidity supply: Tesla's S&P 500 inclusion is a useful illustration, where hedge fund single-stock VaR thresholds struggled to meet index-driven demand, and a similar dynamic is visible in Australia, where superannuation funds' regulatory benchmark-tracking obligations extend index-driven demand well beyond the index management community. These risks are best addressed through continued monitoring of imbalance persistence and auction integrity, rather than structural intervention in a well-functioning price-forming mechanism.<sup>14</sup>

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<sup>13</sup> U.S. Sec. & Exch. Comm'n, Investor.gov, Stock Market Circuit Breakers, <https://www.investor.gov/introduction-investing/investing-basics/glossary/stock-market-circuit-breakers>.

<sup>14</sup> Sarah Ponczek & Lu Wang, Hungry Index Funds Cram Tesla Into the S&P 500 at a Record High, Bloomberg (Dec. 18, 2020), <https://www.bloomberg.com/news/articles/2020-12-18/tesla-closing-auction-saw-69-million-shares-trade-at-695>.

**Question 19: Do you agree that growing concentration of trading activity in closing auctions may increase liquidity or settlement risks for CCPs and participants, and that these risks warrant closer monitoring?**

There is no current evidence that growing closing-auction concentration has materially increased CCP liquidity or settlement risk: in the U.S., T+1 settlement has reduced the open exposure window, and in Europe the growth of closing auctions has coincided with a reduction in settlement fails. That said, this area does warrant continued monitoring as markets extend trading hours and settlement-obligation distribution shifts in ways current CCP frameworks may not have fully anticipated. Framed more directly as a forward-looking concern, as asset prices rise, indexed AUM grows, and electronification concentrates liquidity further at the close, exchanges, regulators, and clearing houses should proactively reassess the adequacy of existing collateral, pre-funding, and capital adequacy thresholds rather than wait for evidence of realized stress. Both perspectives point the same direction: no current evidence of material CCP impact, but broad agreement that thresholds and monitoring frameworks should be reviewed proactively as concentration and indexed AUM continue to grow.

It is worth distinguishing between two related but separate concerns: the systemic soundness of CCPs themselves, which is properly addressed through robust prudential frameworks and supervision, and the separate question of whether CCPs' existing funding, collateral, and risk-management practices, while prudentially sound, have the unintended effect of constraining market participants' access to liquidity around large rebalance events. Our observations below speak primarily to this second, more operational concern. Consistent with our discussion of price formation above, this dynamic is best understood as the concentrated effect of large-name index inclusions and late-stage IPO entries, against a backdrop of overall market growth, rather than indexation as such.

The mechanisms by which CCPs' existing operating models feed through into impacting market participant access to liquidity vary by region and the specifics of the CCP and underlying market. For example, in the U.S., NSCC's Supplemental Liquidity Deposit (SLD) mechanism can at times be a source of friction impacting investors' access to liquidity. When there is a deficit, members are called late in the day to post additional margin against settlement risk around large rebalance transactions, leading to expensive liquidity & funding drags for executing brokers. When rebalances fall on a Friday, firms called for an SLD balance can span three days of funding exposure over a weekend. This is beginning to constrain access to securities liquidity specifically around large rebalance and late-stage IPO events, a dynamic expected to intensify as index-linked issue sizes grow. Similar "plumbing" pressure has been observed in APAC, such as the pre-funding and margin frictions discussed earlier in Question 6 of this response with respect to Korea. Europe's more muted experience to date may reflect its multi-CCP structure.

**Question 20: Have you observed other risks from changing liquidity patterns or alternative trading protocols?**

The U.S. overnight session operates with materially different risk characteristics, thinner order books, wider spreads, fewer market makers, limit-order-only markets, and wider (+/-20%)

price collars, such that every risk IOSCO identifies elsewhere in the consultation (manipulation in thin markets, VCM adequacy, operational resilience) applies with equal or greater force overnight; IOSCO should account for extended-hours dynamics now and consider dedicated follow-on guidance. Alternative trading protocols, close-linked execution services and periodic auction models, are emerging alongside closing-auction growth across regions and generally support execution choice and innovation; they should not be assumed to reduce liquidity quality.

**Question 21: Do you agree with the supervisory and regulatory approaches identified?**

The risk-based, data-driven supervisory approaches described in Chapter 4, combining proactive supervision, market surveillance, operational resilience requirements, and cross-border coordination, are broadly appropriate and should be maintained. Flexibility must be preserved for jurisdictions and venues whose market structures differ materially, since approaches effective for a single primary listing market may not transfer directly to a multi-venue structure.

**Question 22: How does your supervisory framework incorporate intraday liquidity analytics into risk-based engagement with trading venues?**

In the U.S., the SEC’s Division of Trading and Markets monitors intraday market quality metrics, volume distribution, bid-ask spreads, volatility patterns, and FINRA surveillance includes intraday monitoring calibrated around market open and close; in Europe, supervisory engagement is recommended across all venues. Turnover distribution, closing-auction concentration trends, bid-ask spreads, and order-book resilience under stress should be core inputs to supervisory prioritization rather than automatic triggers, and greater regulatory transparency about supervisory analytics frameworks, without compromising their effectiveness, would help market participants calibrate their own monitoring.

**Additional Good Practices Proposed by SIFMA and AFME**

**Question 23: Do you agree with the Good Practices suggested by IOSCO?**

Yes, in principle, across all five proposed Good Practices, and IOSCO should be commended for a balanced, evidence-based framework. The principles-based “may consider” language should be preserved throughout: hard quantitative standards or fixed thresholds would be inappropriate at the international guidance level given the wide variation in market structures. IOSCO should guard against the Good Practices becoming a rationale for structural intervention in otherwise well-functioning markets, since closing-auction growth reflects rational, investor-led dynamics rather than a deficiency requiring redistribution of liquidity across the day, and the Good Practices must be explicitly adaptable to markets moving toward extended or continuous trading hours, since the current draft implicitly assumes a defined trading session with a meaningful “close.” Market-specific observations from Asia, on auction gate-timing design and index-rebalance dynamics, further support jurisdiction-adaptable, principles-based guidance rather than a single prescriptive model.

**Question 24: Are there any other Good Practices that could be considered?**

IOSCO should consider: (i) asking regulators and venues in markets transitioning to extended trading hours to assess how existing frameworks for liquidity monitoring, VCM calibration, operational resilience, and manipulation surveillance apply to overnight or off-hours sessions, and to develop protocols suited to those sessions' materially different risk profile; (ii) encouraging structured, publicly available post-incident reviews with industry input following any market outage or operational disruption affecting the close; (iii) fostering cross-border regulatory dialogue before any jurisdiction intervenes in closing-auction design or guaranteed-close mechanisms, to avoid adverse spillovers into otherwise well-functioning markets elsewhere; (iv) encouraging venues to publish fallback protocols so market participants can anticipate and prepare for disruption scenarios. Observations on auction order-entry window design and on the need for proactive, forward-looking review of collateral/margin thresholds as indexed AUM grows would support adding auction order-entry window design and periodic collateral-framework review to this list; and (v) recognizing that jurisdiction-specific market-structure and execution-quality monitoring frameworks already developed by certain national regulators may serve as a useful model or source of inspiration for other regulators considering similar initiatives.

## Conclusion

GFMA, SIFMA, SIFMA AMG, AFME, and ASIFMA appreciate IOSCO's consultation and the opportunity to provide a consolidated GFMA perspective on the evolution of market liquidity during the trading day. Our members' collective experience across the U.S., European, and Asia-Pacific markets confirms that the trends IOSCO identifies are genuine, that they are largely well-managed by existing regulatory and market-structure frameworks, and that any resulting Good Practices should remain principles-based and explicitly adaptable to jurisdictions at different stages of market structure evolution, including those transitioning toward extended or continuous trading hours, while continuing to support the market structures and execution frameworks that promote innovation, competition, and investor choice. We stand ready to engage further with IOSCO on these issues and welcome the opportunity to participate in any follow-on technical consultations.

Sincerely,



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