

A city skyline at sunset, with a dark blue overlay containing text. The text is arranged in four horizontal bars. The first three bars are dark blue with white text, and the fourth bar is dark blue with green text. The background shows a city skyline with various skyscrapers, including the Gherkin and the Shard, under a hazy, golden sky.

THE

INVESTMENT

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INVESTMENT MATTERS

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## **Simplifying Surveillance**

Reducing complexity by tying policy to process

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- Overview of recent FCA Observations on market abuse surveillance

## 2. Simplifying Surveillance

- Breaking it down into effective policies

## 3. Case study: Tying policy to process

- Ensuring confidence and coverage in your approach

## 4. Benefits of a holistic approach

- Combining policy and process with a holistic approach to surveillance

## 5. Summary

- What have we covered today

## 6. Q&A

- Questions from the audience

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**CURRENT CHALLENGES**

**OVERVIEW OF RECENT FCA OBSERVATIONS ON MARKET ABUSE SURVEILLANCE, WITH A FOCUS ON MARKET WATCH 56**

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# OVERVIEW FCA MARKET WATCH 56

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- **Calibration of Surveillance Systems**
- **Assessing the risk of Market Abuse**
- **Fixed Income Surveillance**

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# OVERVIEW OF MARKET WATCH 57 & 58

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## Overview

- Compliance is a “state of mind”
- Most effective where participants demonstrate that their risk assessments are calibrated to market & asset classes
- Demonstrate that their approach is responsive – to regulations, market, your business
- Reiterated need to be confident in solution
- MAR is not exhaustive, be vigilant for new forms of abuse

## Issues

- Surveillance of all orders & transactions including FI & commodities
- After 2 years, the FCA expects full compliance with quote surveillance

## Soundings

- Firms should consider whether a declined wall-cross, may still be a cross

## Insider Lists

- Mandated template, available in a complete & timely fashion. (2 days & 5 for full chronology)
- Demonstrates robust systems & controls
- All fields should be populated

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# CALIBRATION OF SURVEILLANCE SYSTEMS

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## **Over reliance on 'Out of the Box' & 'Industry Standard' Alerts**

## **Usage of 'Average Peer Alert Volumes' as a measure of appropriateness**

- Some benefits, but it can result in undue weight on comparisons and create risks

## **Surveillance must be appropriate and proportionate to...**

- Size
- Scale
- Business activity

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# ASSESSING THE RISK OF MARKET ABUSE

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- **Non-exhaustive list of indicators for monitoring rules**
- **Firm's must consider the broader scope of MAR article 12 (1) (a) & (b)**
- **A 'bottom-up' risk assessment can help identify risks across the business**
- **Benefits in sharing analysis across the business**



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## FIXED INCOME SURVEILLANCE

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- **Avoid being 'over-prescriptive' and look beyond the initial alert**
- **Consider activity around correlated products, e.g., cash v. futures**
- **Ensure appropriate methodologies, e.g., price-driven v. yield**
- **Adopt practical workarounds when data access is a challenge**

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# FIRM RATIONALES

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## Questionable rationales

- **Multiple firms are in the same position**
- **New joiner**

# OVERVIEW FCA MARKET WATCH 56



**Conduct a bottom-up risk assessment.**



**Share the risk assessment across your firm**



**Don't over rely on 'Out of the Box' settings**



**No list is 'exhaustive'**



**Tailor your process & alerting to your specific business need**



**Look across asset classes**



**Use the correct data for the correct asset class**



**Use tactical solutions to monitor if data is not readily available**

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**SIMPLYFYING SURVEILLANCE**

**BREAKING IT DOWN INTO EFFECTIVE POLICIES –  
START WITH A RISK ASSESSMENT**

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# SIMPLIFYING SURVEILLANCE

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**Risk**

**Policy**

**Process**

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# BOTTOM-UP APPROACH TO RISK IDENTIFICATION

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**Risk**

## **Conduct a risk assessment**

- Consider the unique size, scale and scope of your firm
- Identify gaps
- Share analysis across the firm

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# ALIGNING RISK TO POLICY

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# Policy

## **Develop a policy framework and define...**

- Policy purpose
- Policy scope & definition
- Policy communication
- Policy monitoring
- Policy review & remediation

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# CONFIDENCE IN YOUR APPROACH

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## Process

### **Design and implement an accretive surveillance framework**

- Robust
- Reliable
- Repeatable
- Reportable



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## CASE STUDY: TYING POLICY TO PROCESS ENSURING CONFIDENCE & COVERAGE IN YOUR APPROACH

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## USE CASE: ASSET MANAGER

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- **Equities & Fixed Income**
  - **£100 billion in AUM**
  - **200 Front Office**
  - **8 Compliance**
- **8,000 trades per month**
  - **250,000 emails per day, across the firm**
  - **500 alerts per month**
  - **150 cases per month**

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# RISK AREAS

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## **Unmonitored**

External meetings, WhatsApp, Social Media...



## **Inappropriate & disproportionate coverage**

Size, scale and nature of the business



## **Insufficient systems & data**

Lack of data, lack of integration, reliance on 'Out of the Box' / 'Industry Standard' alerts

# POLICY FOR UNMONITORED RISKS

**Policy name:** WhatsApp Policy



**Risk:** Collusion (Communications "Blind Spot")

**Severity Level:** 1


**Objective:** WhatsApp content cannot be monitored. As a result we prohibit the use of WhatsApp by employees in order to mitigate the risk of collusion on an unmonitored platform

**Owner:** Compliance

Action	Description	Scope	Performed by	Frequency	Last performed	Result	Adequacy score
1	Issue users with declaration	Staff need to formally declare if they use What's App personally	Compliance	Quarterly			
2	Communicate Policy	Notify staff that What's app is not a sanctioned application	Compliance	Quarterly			
3	Issue Firm devices	Prohibit the use of What's app by controlling applications staff can use	Compliance	Perpetual			
4	Applications Review	Scan for new chat platforms and incorporate into declaration and draft policy that contends with any new chat platforms.	Compliance	Quarterly			

# TIE POLICY TO PROCESS

- System selection
- Ensure a holistic approach (single point of entry for e-Comms & Trade)
- Look for low levels of communications around a trade



**Policy name:** WhatsApp Policy

**Risk:** Collusion (Comm)

**Severity Level:** 1

**Objective:** WhatsApp content  
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**Owner:** Compliance

Action	Description	Scope
1	Issue users with declaration	Staff need to formally declare if t personally
2	Communicate Policy	Notify staff that What's app is no
3	Issue Firm devices	Prohibit the use of What's app by staff can use
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# POLICY FOR OPERATIONAL RISK

Policy name: Material Non-Public Information



**Risk:** Insider Information

**Severity Level:** 1


**Objective:** Monitoring and detection of behaviours that could amount to insider dealing under Market Abuse Regulation and as identified and defined by the firm, giving specific consideration to the unique size, scale and nature of our business.

**Owner:** Compliance

Action	Description	Scope	Performed by	Frequency	Last performed	Result	Adequacy score
1	Contact with Public Companies	Pre-notification, trading & e-comms monitoring required if trading activity occurs near to engagement					
2	Expert Networks	Pre-approval required and engagement reporting					
3	Search for collusive language	Search communications based on a defined set of terms associated with collusive behaviour.					
4	Contact with IB & Broker Analysts	Periodic screening of associated correspondence as detailed below					

# TIE POLICY TO PROCESS

- Review e-Comms
- Search for collusive language
- Reduce sample by looking at comms that occur closer to trades
- Implement an accretive periodic review process



**Policy name:** Material Non-Pub

**Risk:** Insider Informatic

**Severity Level:** 1

**Objective:** Monitoring and det under Market Abus specific consideratic

**Owner:** Compliance

Action	Description	Scope
1	Contact with Public Companies	Pre-notification, trading & e-com trading activity occurs near to en
2	Expert Networks	Pre-approval required and engag
3	Search for collusive language	Search communications based on terms associated with collusive b
4	Contact with IB & Broker Analysts	Scan for new chat platforms and screening of associated correspo

# POLICY FOR INSUFFICIENT SYSTEMS & DATA

**Policy name:** Monitoring for Insider Dealing



**Risk:** Insider Dealing

**Severity Level:** 1

**Objective:** Monitoring and detection of behaviours that could amount to insider dealing under Market Abuse Regulation and as identified and defined by the firm, giving specific consideration to the unique size, scale and nature of our business.

**Owner:** Compliance

Action	Description	Scope	Order Book Data	Trade Data	Position Data	Profitability Measure	Review Period	Relative to Mrk Data Threshold
1	Equity – Developed Markets	Detect & review open and/or cancelled orders and/or traders that have resulted in an usually high profit 5 days after trade	Yes	Yes	Yes	Price	5 days	Price >= 5%
2	Equity – Emerging Markets	Detect & review open and/or cancelled orders and/or traders that have resulted in an usually high profit 5 days after trade	Yes	Yes	Yes	Price	5 days	Price >= 10%
3	Fixed Income – Developed Markets (Sovereign)	Detect & review open and/or cancelled orders and/or traders that have resulted in an usually high profit 5 days after trade	Yes	Yes	Yes	Price	30 days	Yield >= 20 bps
4	Fixed Income – Developed Markets (Corporate)	Detect & review open and/or cancelled orders and/or traders that have resulted in an usually high profit 5 days after trade	VOICE	Yes	Yes	Price	30 days	Yield >= 50 bps



# TIE POLICY TO PROCESS

- New Technology may take time to implement
- Interim steps and processes can be a suitable tactical solution
- Make sure when considering tactical solutions that the data can be used easily, ideally in a single system and case record

Policy name: Material Non-Pub

**Risk:** Insider Dealing

**Severity Level:** 1

**Objective:** Monitoring and det under Market Abus specific considerati

**Owner:** Compliance

Action	Description	Scope
1	Equity – Developed Markets	Detect & review open and/or call traders that have resulted in an after trade
2	Equity – Emerging Markets	Detect & review open and/or call traders that have resulted in an after trade
3	Fixed Income – Developed Markets (Sovereign)	Detect & review open and/or call traders that have resulted in an after trade
4	Fixed Income – Developed Markets (Corporate)	Detect & review open and/or call traders that have resulted in an after trade

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# 4 BENEFITS OF A HOLISTIC APPROACH

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## COMBINING POLICY & PROCESS WITH A HOLISTIC APPROACH TO SURVEILLANCE

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# KEY BENEFITS OF A HOLISTIC SOLUTION

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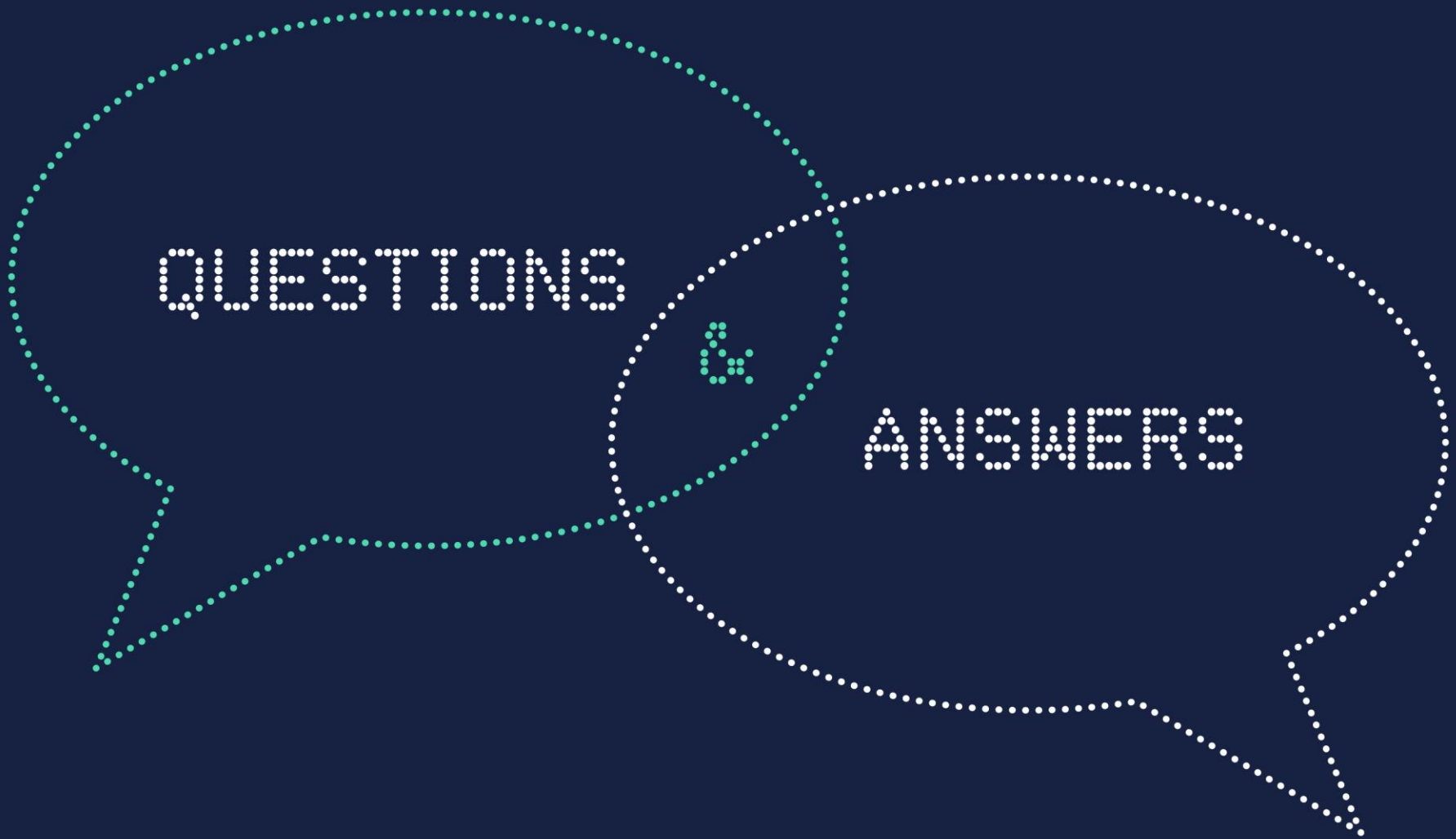
- Efficiency – creating the capacity to do more
- Greater business insights
- Single point of: entry, search & reporting
- Future-proofing

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# 5 SUMMARY

## WHAT HAVE WE COVERED TODAY

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