

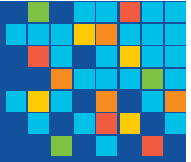


Market Abuse and the complexity of monitoring across asset classes

DKF 2017



Background



ESMA's new Market Abuse Regulation (MAR) took effect on 3rd July 2016, its purpose to enhance market integrity and investor protection

It has updated and strengthened the previous framework (MAD), but has placed greater emphasis on:

- extending instrument coverage
- extending trading venue coverage
- extending the definition of market abuse to include ***attempted*** activities
- extending the requirements to report suspicions to competent authorities in an EU-wide market abuse regime

In particular, ESMA considers that the ***obligation to detect and identify market abuse or attempted market abuse under Article 16(2) of MAR applies broadly, and the use of “persons professionally arranging or executing transactions” therefore includes buy side firms*** – ESMA MAR Q&A publication



Best practice for compliance



- A monitoring system fulfils monitoring obligations under EU 596/2014 Article 2: Financial instruments on:
 - Regulated markets
 - MTFs
 - OTFs
 - Financial instruments not covered above where price or value have an effect on, or depend on, an instrument listed above, including but not limited to CDS and CFD



- Article 12 and 15 applies to Spot commodities, derivatives and benchmark (or behaviour of benchmark) Transactions, orders and behaviour of order (even if the order is not executed)
- Scope of Instrument as defined in Dir. 2014/65/EU, Art. 4.1. Point 15 (Annex I sec. C)



Setup for a monitoring technology



Client-side



Daily batch file



RIMES Technologies Cloud



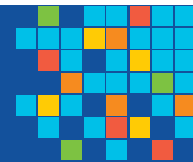
RegFocus Market Surveillance



- Dashboard
- Full alert investigation and resolution workflow
- Full case investigation and resolution workflow
- Detailed graph capability
- Market replay
- User management
- User management
- Threshold parameter management
- MI reporting capabilities
- STOR reporting capabilities



Market Abuse for the Buy-Side in 2017



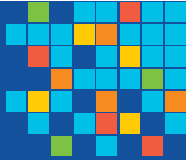
Key messages:

Our overall finding was that firms had put in place some practices and procedures to control the risk of market abuse. However, these are only comprehensive in a small number of firms. In many firms further work is required to ensure these operate effectively and cover all material risks. In particular, **firms need to pay more attention to the possibility of receiving inside information** through all aspects of the investment process and take steps to manage this risk. Firms generally also need to **improve the effectiveness of post-trade surveillance**. Only a minority of firms had appropriate controls for these matters.





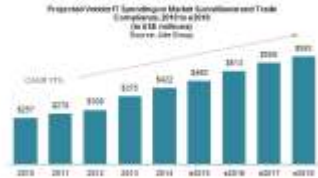
Technology



Trade Surveillance and Compliance Technology: Budget Liberalization in 2016?

Alto Group estimates that trade-surveillance spending will surpass US\$500 million in 2016.

By Danielle Treney
Boston, December 18, 2015 - Few industry participants would deny that unmitigated worldwide regulatory scrutiny has irrevocably altered the compliance function's importance. From sell-side institutions to market centers to buy-side firms, avoiding regulatory violations is now a major business function. While it often less clear is the amount and scope of resources firms are willing to devote to a business area that has little direct contribution to firm profitability, however, budgets for trade surveillance technology are likely to receive surprisingly generous allocations in 2016.



Spending on IT Vendor for Market **Surveillance will be more than \$500M in 2016** - 87% from the Sell Side.....

6.4.2 Surveillance systems
149. In order to detect market abuse and attempted market abuse, **entities will need to have in place a system which is capable of the analysis of every transaction and order, individually and comparatively, and which produces alerts for further analysis**





The Scope of Surveillance



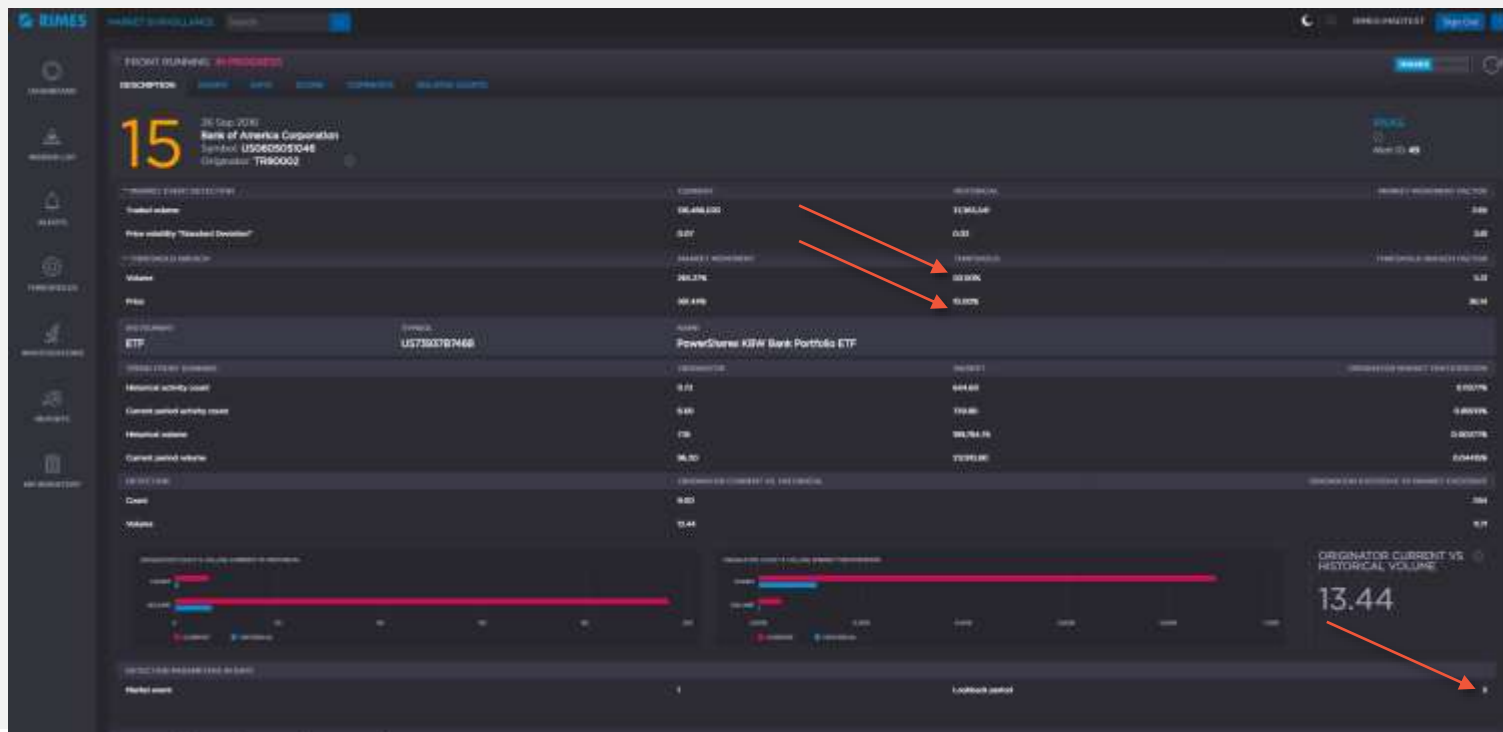
- Firms must have a system able to generate alerts Both on Trades and also Orders
- Must have strong control of insider information
- Surveillance must be on ALL asset classes
- Means model must be developed for specific asset classes (Not tuning an equity one)
- Compliance must have access to reference prices for ALL asset classes
- Sell side is watching buy-side orders with highly sophisticated tools
- Need to have best of the breed system to avoid this massive compliance risk
- System must be calibrated and tuned to detect all alerts
- Need to be implemented **QUICK!!**

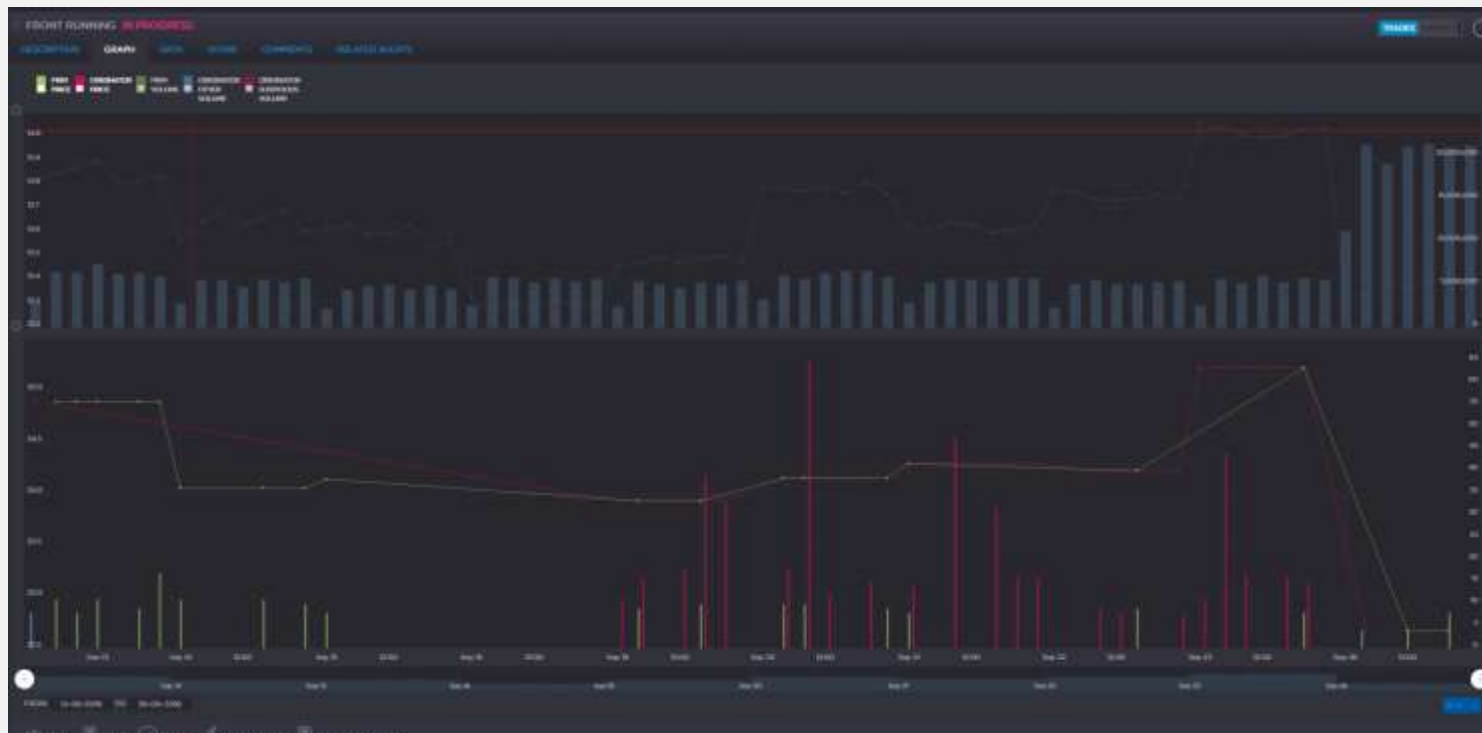


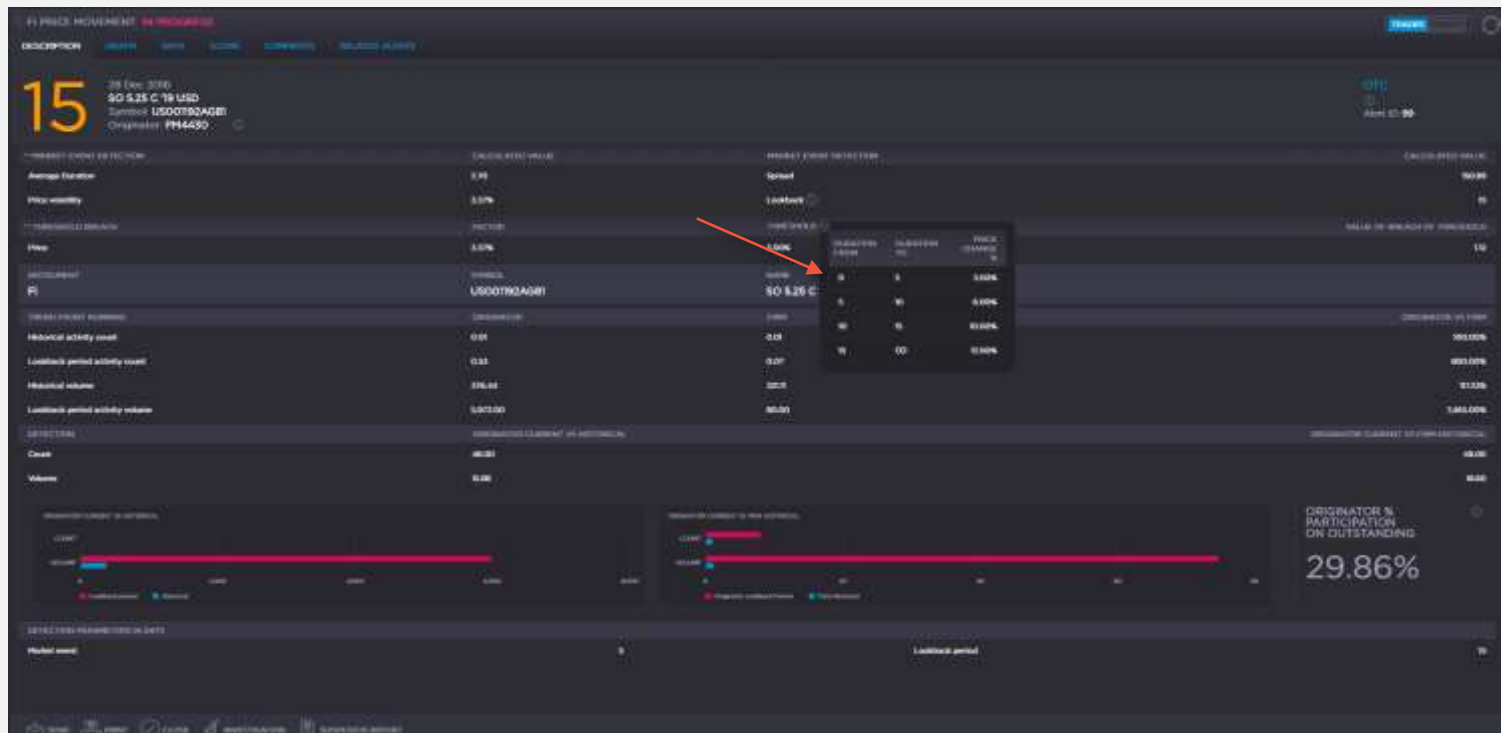
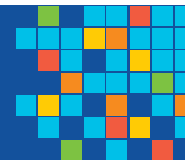
The complexity of monitoring through classes

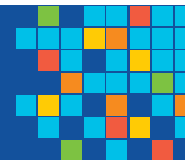


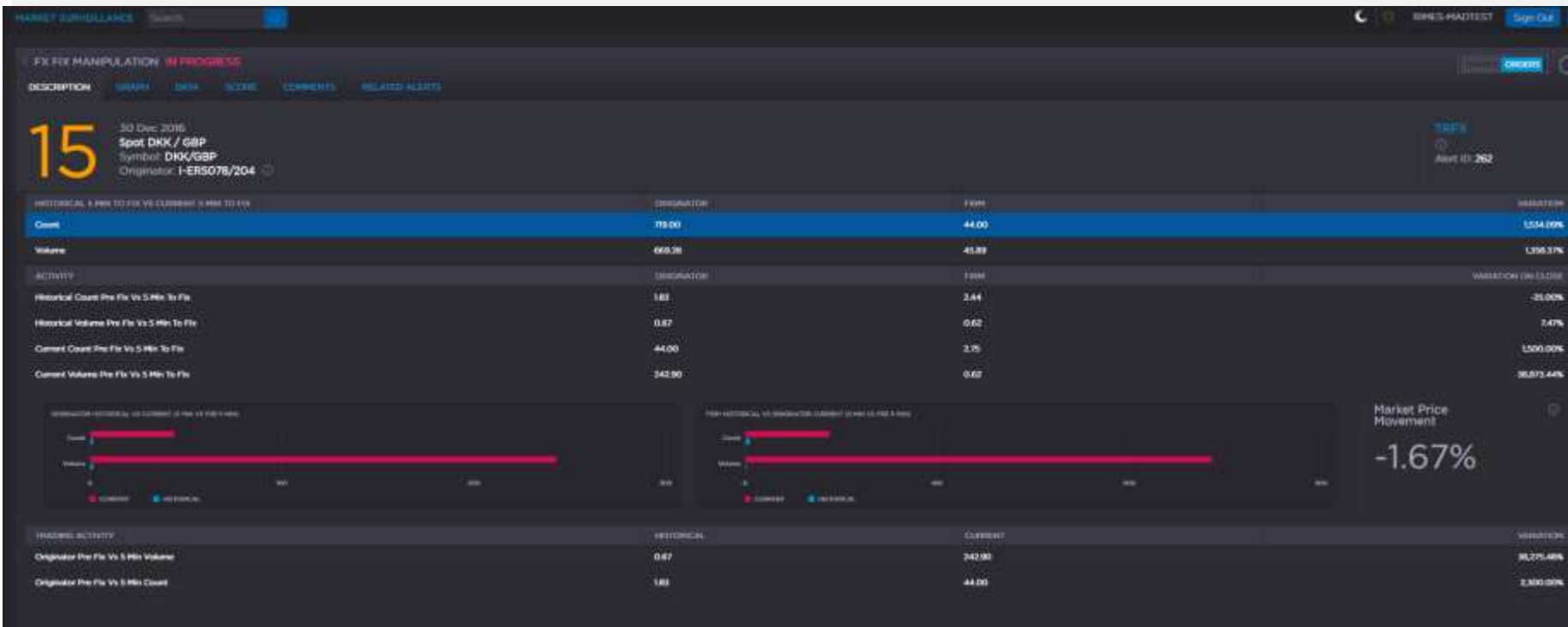
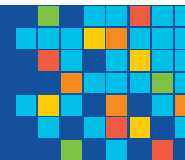
- Using equity models to monitor other asset classes is generating tons of false positive. Example:





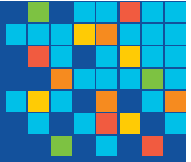








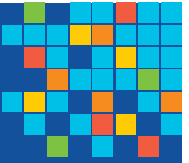
Conclusion



- Models must be developed for specific asset classes
- Data must be provided for reference
- Data must be used for monitoring across instruments from ONE issuers



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