

Financial Services Authority Transaction Reporting Forum

January/February 2011

Agenda



➤ Trade Repositories

Rob Barnes and Ben Cohn-Urbach (OTC Derivatives and Post Trade Policy)

➤ Market Surveillance

Peter Mason (TMU)

➤ MiFID Review

Ana Fernandes (TMU)

➤ Transaction Reporting Clarifications

Anne-Marie Segbedzi (TMU)

➤ Further Questions

Trade Repositories

Rob Barnes and Ben Cohn-Urbach

**OTC Derivatives and Post Trade Policy
Markets Division**

G20 Pittsburgh Summit: Leaders' Statement - September 25 2009



“All standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest.

OTC derivative contracts should be reported to trade repositories.

Non-centrally cleared contracts should be subject to higher capital requirements.”

What is a Trade Repository



- **A mechanism that receives trade information from a number of different sources, and makes it available to regulators and the wider public.**
- **The original CDS repository was created as a result of a drive to achieve operational efficiencies in the post trade environment (trade confirmation).**
- **Trade repositories also review the incoming data to ensure it is accurate, and process it to make it more useful for regulators and the wider public for systemic risk analysis.**
- **3 existing trade repositories:**
 - Trade Information Warehouse (Credit derivatives)
 - TriOptima (Interest Rate derivatives)
 - DTCC Derivatives Repository (Equity derivatives)
- **G14 Dealers have voluntarily committed to ensure non-cleared transactions are reported to data repositories.**
- **We expect additional trade repositories to be set up covering FX derivatives and Commodity derivatives**

What information is currently in Trade Repositories?



- **Credit repository**
 - Trade level information
- **Interest rate and equity derivatives repositories**
 - Position level information

What are Trade Repositories being used for, and what could they be used for?



- **Currently only the Credit repository has sufficient market wide data for full systemic risk analysis purposes – it was used in 2008 to assess the exposure financial institutions had to Lehmans.**
- **FSA sees key purpose of trade repositories being threefold:**
 1. To detect build-ups of systemic risk in the financial systems, through concentrations of risk or linkages between institutions;
 2. To quickly determine and manage counterparty exposures in the event of a collapse of a financial institution; and
 3. To increase aggregate transparency to the market with a view to greater market understanding and confidence.
- **Trade repositories will be open to all relevant regulators (to the extent the information is relevant for their regulatory purposes), while a subset of information will be made public.**

What are trade repositories not?



- **We do not currently envisage using trade repositories to determine compliance with ongoing regulatory requirements.**
- **We also do not envisage trade repositories as the primary mechanism to detect or investigate market abuse.**
- **Our view is that trade repositories will not replace transaction reports to regulators although to avoid duplicate reporting requirements we are open to the concept of trade repositories serving as ARMs if they can meet the relevant requirements.**

EU Regulation on derivatives, CCPs and TRs (EMIR)



- **EMIR will likely require the reporting of all derivatives transactions to a trade repository (or to the relevant authority if a trade repository does not exist for the instrument).**
- **Trade repositories will be allowed to act as ARMs, but only if they meet MiFID requirements for ARMs.**
- **EMIR is expected to be finalised in Q3 2011 and trades will need to be reported to TRs from end 2012.**
- **Relevant provisions exist in the US under the Dodd-Frank legislation**



Transaction Reporting Forum
Market Surveillance
January/February 2011

Complete and accurate transaction reports are essential to the FSA's strategic priority to maintain confidence in the financial markets as they enable the FSA to fully ***investigate cases of potential market abuse***. Accordingly, we expect firms to submit complete and accurate transactions reports in accordance with SUP 17

What is the link between the two?

Transaction reporting

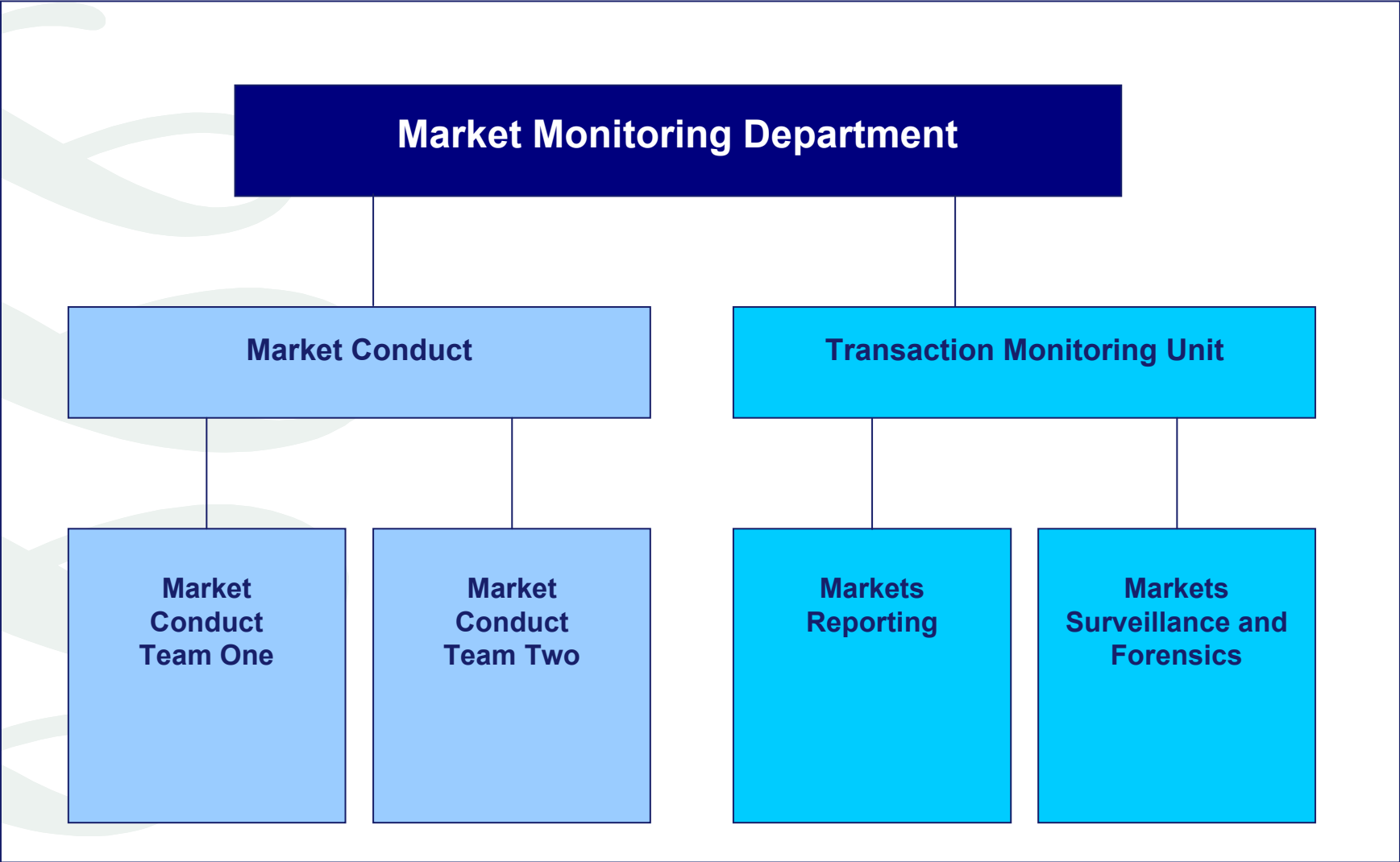


- The cornerstone of our surveillance capability
 - Every touch leaves a trace
 - Basic information about each trade
 - Based on fact not opinion

- Approx 9m transaction reports received each day via
 - Approved Reporting Mechanisms (ARMs)
 - Feeds from RIEs and MTFs
 - ESMA Transaction Reporting Mechanism (TREM)

- Why are they important
 - Monitor for abuse and changes in market risk
 - Firm supervision
 - Other (e.g. other Competent Authorities, Takeover Panel, Bank of England)

Market Monitoring Department



Market Conduct



- **Key responsibilities**

- Investigations into allegations of market abuse
- Supporting Enforcement action for civil and criminal market abuse
- Preventative work: thematic work to strengthen anti market abuse systems and controls
- Liaison with Markets Policy team on the Code of Market Conduct
- Dealing with foreign assistance requests re market abuse cases

Case pipeline



Ways in which market abuse is brought to our attention

- Suspicious Transaction Reports (STRs)
- Notifications from Exchanges and MTFs
- Whistleblowers
- Foreign Assistance
- Other (e.g. Supervision)
- *Our own surveillance*

Criminal and Civil action



- **January 2011**

Christian Littlewood, Angie Littlewood and Helmy Omar Sa'aid plead guilty to 8 counts of insider dealing. Alleged profit of approximately £590,000

- **December 2010**

Former stockbrokers William James Coppin and Perry John Bliss fined £70,000 and £30,000 respectively for using inside information to encourage clients to trade. Both banned from working in financial services

- **December 2010**

Parallel investigation between the FSA, the SEC, US Department of Justice and assistance from the FBI resulted in a former Deloitte Tax LLP partner and wife being charged by the SEC with insider trading

Criminal and Civil action



- **November 2010**
Neil Rollins found guilty of 5 counts of insider dealing and four counts of money laundering after he traded on the basis of information obtained as a result of his position at PM Onboard Limited
- **November 2010**
Five individuals, including two former directors and one former senior trader of Blue Index, a specialist CFD brokerage, charged with 17 counts of insider dealing

Transaction Monitoring Unit



▪ Markets Reporting

- Analyse and monitor transaction data for accuracy and completeness
- Support Enforcement action for breaches of SUP17
- Transaction reporting policy and implementation of new rules and guidance
- Leading country at EU level re transaction reporting
- Industry support and education around transaction reporting

Transaction Monitoring Unit



▪ **Markets Surveillance and Forensics**

- Proactive market abuse surveillance
- Analysis of alerts and data to identify changes in market risk
- Liaison with Market Conduct teams re investigations of potential market abuse
- Support other areas of Markets Division and the FSA re market abuse surveillance arrangements within firms, exchanges and MTFs
- Co-operation with industry and academic institutions on the subject of surveillance

The Zen Project



- The Zen project underpins our arrangements for monitoring firm and investor activity in reportable equity, debt and derivative instruments in fragmented markets
- The system is being extended to enable reporting of on-exchange Alternative Instrument Identifier (Aii) derivatives
- *Zen will provide a comprehensive analytical toolset for the interrogation of transaction data and improve our intelligence based detection of market abuse and changes in market risk*

The Zen Project



- The FSA are presently undertaking a final planning exercise and we expect to announce a go-live date in the near term.
- We will provide the industry with **6 months** notice to comply and will make available a suitable test environment to enable firms to undertake end-end testing via their respective Aii accredited ARM.
- Further details may be provided from my colleague Brian Eyles who is leading this activity on behalf of Market Monitoring.

Market Risk



- To forewarn of impending or escalating changes in economic behaviour which could indicate an increase in systemic risk
- **EXAMPLE:** Sovereign Debt turmoil in 2010. Identification of activities and trends that could indicate the emergence of a key market event in its early stages

Market Risk



- identification of high impact firms and classification of groups of institutions
- monitoring for changes in trading behaviour at firm level broken down by asset class
- monitoring of trading behaviour by asset class (all market participants)
- identification of and monitoring the trading behaviour of the main liquidity providers
- flag changes in trading patterns over a rolling look back period

Market Risk data – possible use



- Inform us where to focus our resources for further in-depth surveillance
- Escalate knowledge to senior FSA management, Bank of England or HMT when appropriate
- Brief supervisors of significant changes to a firm's trading activity, improving their ability to monitor the firm's exposures and risks

Transaction reporting fines



- **January 2011**

Spread betting firm City Index fined £490,000 for failing to accurately report 60% of their reportable transactions between November 2007 and September 2009

- **August 2010**

Societe Generale fined £1.575m for failing to report 80% of its reportable transactions across all asset classes

- **April 2010**

Three firms fined for failing to provide accurate and timely transaction reports (Credit Suisse £1.75m, Getco Europe £1.4m and Instinet Europe Limited £1.05m)

Q&A



MiFID REVIEW

Public Consultation Document

- TRANSACTION REPORTING -

January/February 2011

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MiFID Review Public Consultation Transaction Reporting



Main Drivers for proposals:

- **Transaction reporting requirements need to mirror MAD scope (ongoing review)**
- **Need for harmonisation among Member States**
- **Consider other reporting requirements, namely to trade repositories**

EXTENSION OF SCOPE



1. All financial instruments admitted to trading or traded on Multilateral Trading Facilities (MTFs) and on organised trading facilities (OTFs)
2. All financial instruments the value of which correlates with the value of financial instruments admitted to trading or traded on regulated markets, MTFs and OTFs

EXTENSION OF SCOPE (cont.)



3. Depository receipts related to financial instruments admitted to trading or traded on regulated markets, MTFs and OTFs
4. All commodity derivatives
5. Obligation for trading venues to report transactions of non-authorized members under MiFID
6. Obligation for trading venues to store order data in a manner accessible to supervisors

CONTENT OF REPORTING



1. Definition of transaction (for reporting purposes)
2. Obligation on firms receiving and transmitting orders to transmit the required details of such orders to the receiving firm
3. Introducing a separate trader ID

REPORTING CHANNELS



1. Transaction reporting directly to a EU level reporting mechanism
2. Requirement for third parties reporting on behalf of investment firms to be approved as ARMs
3. Transaction reporting waiver for firms that already reported OTC trades to a trade repository under EMIR
4. Requirement for trade repositories under EMIR to be approved as an ARM under MiFID

Q&A



Transaction reporting clarifications

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Clarifications



- **Venue identification**
- **Incorrect XETRA code**
- **Executing vs Clearing brokers**
- **Outsourcing arrangements***
- **Sample data requests***
- **Use of default time***
- **Inter fund trading***
- **Move from FRN to BICs***

*These areas will also be covered in a subsequent issue of MarketWatch

Venue Identification



- Where the venue is a **regulated market, prescribed market or an MTF**
 - MIC must be used

- Firms are using codes for venues that are **not regulated markets, prescribed markets or an MTF**
 - **Examples are :**
 - **XCOR for ICMA**
 - **BOAT for Markit Boat**
 - **XOTC for OTC bulletin Board**
 - **BLTD for Bloomberg Tradebook LLC**

- Firms may use other ISO 10383 codes for equivalent venues outside the EEA where the venue is appropriate for transaction reporting

Incorrect XETRA code



- XETR is not listed as a MIC for a regulated market or MFT on the ESMA database
- The correct codes for trades executed on XETRA are :
 - **XETA – XETRA (Regulated Market)**
 - **XETC - XETRA INTERNATIONAL (Regulated Market)**
 - **XETB - XETRA (Multilateral Trading Facility)**
 - **XETD - XETRA INTERNATIONAL (Multi lateral Trading Facility)**

Executing vs Clearing brokers

- When a firm executes a transaction on a regulated market
 - On their own account - On behalf of a client
- The reporting firm has a responsibility to report the transaction
- The responsibility does not change as a result of clearing arrangements by a third party
- The reporting firm can make arrangements for the transaction to be reported by a third party (e.g clearing broker)

Submitting firm	Reporting Firm Identification	Trading Date	Trading Time	Buy/Sell Indicator	Trading Capacity	Unit Price	Price Notation	Quantity	Counterparty	Client/customer identification
Clearing broker	Executing firm	20090902	100000	B	A	100	GBP	200	GB234568XXX	DE987654XXX
Clearing broker	Clearing broker	20090902	100000	B	A	100	GBP	200	GB234568XXX	DE987654XXX

Outsourcing arrangements



- A regulated firm may outsource the submission of its transaction reporting to a third party.
- The third party may not have adequate governance arrangements and internal controls
- Firms who outsource have the ultimate obligation of ensuring the accuracy and completeness of their transaction reports (Chapter 8.1.6R of SYSC)

Sample data requests



- Firms should regularly review the integrity of their transaction reports
- A request service is provided to give firms a sample of reports for compliance monitoring purposes such as:
 - Quarterly testing
 - Annual reviews
 - Internal Audits
 - Adhoc validation etc
- High volumes of requests from certain firms
- We reserve the right not to provide sample data to firms we find to be requesting data more frequently than is needed

Use of default time

- The Trading time field should be populated with the time at which the transaction was executed and reported in London local time
- Where the trading time is not made available the default time of 00:01:00 UK time must be used
- Our data analysis shows instances of firms using the default time when an actual trade time may be available
- The default time should be used as a last resort – firms should make every effort to report the actual time that the transaction was executed

Reporting Firm Identification	Trading Date	Trading Time	Buy Sell Indicator	Trading Capacity	Unit Price	Price Notation	Quantity	Counterparty 1	Counterparty 2	Market
GB234568XXX	2009-09-02	10:00:00	B	P	100	GBP	2000	DE987654XXX		XLON

Reporting Firm Identification	Trading Date	Trading Time	Buy Sell Indicator	Trading Capacity	Unit Price	Price Notation	Quantity	Counterparty 1	Counterparty 2	Market
GB234568XXX	2009-09-02	00:01:00	B	P	100	GBP	2000	DE987654XXX		XLON

X

Inter fund trading

- Currently a transaction report is required from a firm providing a service of portfolio management and who undertakes inter fund transactions where no broker is involved
- We have considered the benefits of the reports to our market abuse detection objective and with immediate effect we would not require firms to report these transactions

Move from FRN to BIC



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- FRNs are mapped to BICs for exchange of information among EEA regulators
 - As we move towards harmonisation we intend to remove the option of identifying reporting firms with FRNs
 - All firms will have to transaction report with a BIC in the reporting firm field

Questions



- **Happy to answer any questions**

