

Financial Conduct Authority



Transaction reporting forum

30 April 2013

Agenda

- Introductions
- European policy update
- Firm visits update
- FCA markets surveillance
- Recent transaction reporting issues
- Q&A

Progress of MiFID II / MiFIR - Transaction Reporting

April 2013

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Introduction

- Where are we in the process?
- What potential changes this review will bring
- Impact of EMIR reporting on transaction reporting

Where are we in the process?

- Commission proposal published in October 2011
- European Parliament (EP) voted text on 26 October 2012
- Council has yet to reach a General Agreement
- Start of trilogue - still uncertain
- ESMA preparatory work on Binding Technical Standards (but nothing will be published before end of trilogue)

Timelines - best estimates

- Council General Agreement: June 2013
- Trilogue (Council + EP + Commission): end September 2013 (3-4 months)
- Publication in the Official Journal: end 2013 at the earliest (3-4 months)
- ESMA Binding Technical Standards + implementation (24/32 months)
- Regulation will apply by Q3 2016 (at the earliest)

Timing for implementation

This Regulation shall apply:

- Commission proposal: **24 months** after the entry into force of this Regulation
- Council text: **32 months** after the entry into force of this Regulation
- European Parliament text: **18 months** after the entry into force of this Regulation
 - *This will be decided at trilogue*

What potential changes this review will bring?

- **Regulation vs Directive**

- No FCA consultation

- **Extension of the scope**

- 1) Financial instruments that are traded on an a trading venue

- 2) Financial instruments where the underlying is traded on a trading venue

What potential changes this review will bring?

- **Extension of the scope (continued)**

- 3) OTC derivatives on indexes and baskets

- 4) Non-securities derivatives: commodities, interest rates and FX

- New product identifiers ?

What potential changes this review will bring?

Order book data

- MiFIR: Trading venues shall keep at the disposal of the CA, for at least 5 years, the relevant data relating to all orders (...)
- MAR: EP text introduces a new article on Cross-market order book surveillance (Article 17 (a))

Final outcome: Uncertain

What potential changes will this review bring?

New potential fields

- Client ID – LEI/ firm level, national or Pan-European level?
- Trader ID and Algo ID

Designation to identify the persons in the investment firm responsible for the investment decision and the execution of the transaction

Designation to identify the computer algorithms within the investment firm responsible for the investment decision and the execution of the transaction

What potential changes will this review bring?

New potential fields

- **Short selling flag**
- **Receipt and transmission of order flag**
- **OTC post-trade identifiers:** a designation identifying the types of transactions in accordance with post trade disclosure measures
- **For commodities derivatives:** a designation to indicate whether the transaction reduces risks

Impact of EMIR reporting on transaction reporting

- Firms should continue transaction reporting to the FCA under MiFID I
- MiFIR wants to avoid double reporting, however this will not be possible until Trade Repositories (TR) become ARMs
- TR will have to be authorised if they want to become ARMs
- ESMA is working on aligning as much as possible reporting under EMIR and MiFIR

Conclusion

- Timelines still very uncertain
- Still some uncertainties on the transaction reporting aspects such as the scope
- The details will only be defined at Level 2 (ESMA BTS)
- Firms should not confuse reporting obligations under EMIR and MiFID I

Questions?

Transaction Monitoring Unit Firm visit programme – an update

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TMU Firm visit programme - a recap...

Why firm visits?

- Supervision of the transaction reporting regime
- Quality of transaction reports needs to be improved

TMU Firm visit programme – a recap...

Objectives

- Improve data quality
- Education of firm
- Education of TMU
- MiFID obligations
- Increase our surveillance capabilities

TMU Firm visit programme –positive findings

- Good engagement by firms at the visits
- Good monitoring of submissions; rejections and post submission reviews
- Training plans in place, although room for improvement
- Timeliness of reporting
- Adequate governance procedures

TMU Firm visit programme –negative findings on systems and controls

- Insufficient priority given to static data
- Sample data requests being made but inadequate reconciliation and reviews
- Change management procedures fell short of FCA expectations
- Management information of variable quality
- Documentation not up to date or missing essential detail

TMU Firm visit programme –negative findings on systems and controls

- Training procedures not sufficiently tailored to the firm's business
- Lack of understanding of our guidance
- Where errors have been identified by firms they have often been fixed but not raised with FCA and not back reported

TMU Firm visit programme – common transaction reporting errors

- Inconsistent use of client identification codes
- Failure to refresh static data
- Incomplete static data
- Pricing errors
- Errors introduced by system changes and not picked up by firms
- Over reporting-internal transactions (eg test accounts)

TMU Firm visit programme - outcomes

- Material remediation for most firms, including
 - IT fixes
 - correction/improvement to procedures and documentation
 - back reporting
- Tailored recommendations provided to firms to help them meet their transaction reporting obligations

TMU firm visit programme - recommendations

- Conduct regular and thorough end-to-end reconciliations and reviews
- Conduct regular static data reviews
- Strengthen regression testing and post change reconciliations
- Embed a post-mortem process into change management procedures
- Expand scope of management information
- Tighten up sign-off procedures

TMU firm visit programme – the road ahead

- Continuing and evolving
- Objectives and general approach remain unchanged
 - looking at a firm's systems and controls for transaction reporting and how they are applied in practice
 - looking for any errors or discrepancies in the firm's transaction reports

TMU Firm visit programme – the road ahead

- ❖ NEW - Request transaction reporting documentation before the visit
- ❖ NEW - Visit may last up to a day
- ❖ New - Demonstrations of transaction reporting controls

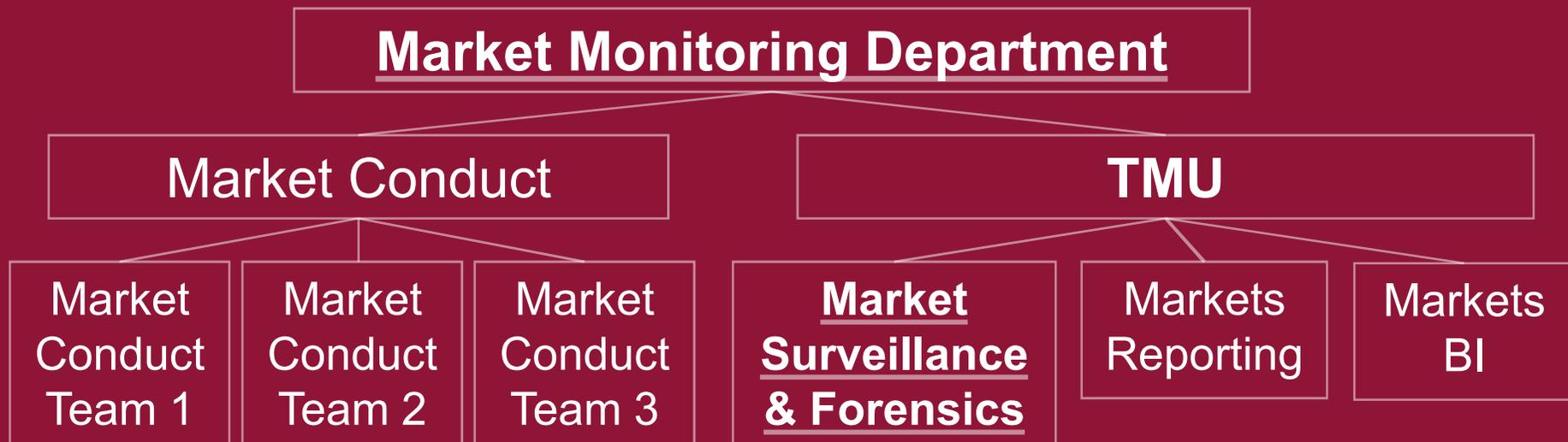
Questions?

The importance of accurate transaction reporting

Ida Griffith

April 2013

Who are we?



Market integrity

Market abuse surveillance

- Information abuse – eg insider dealing
- Market manipulation

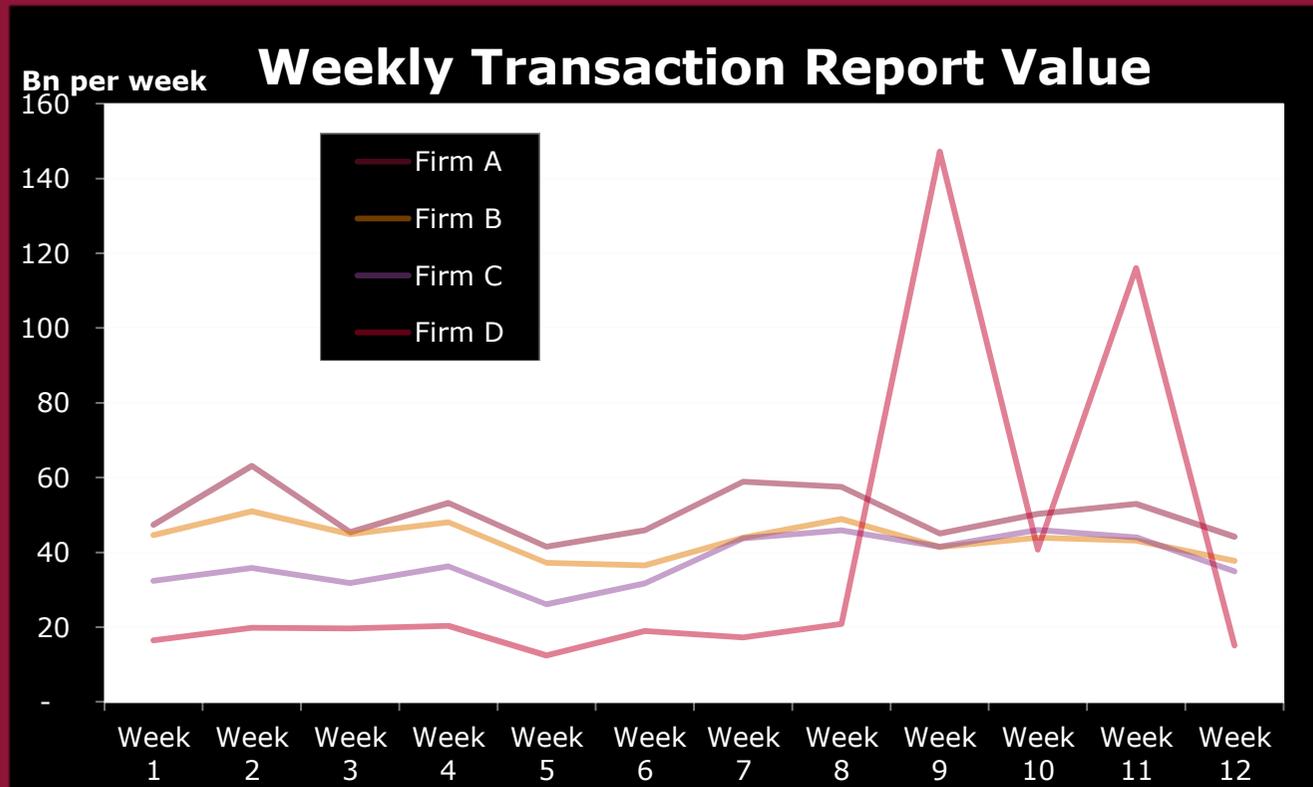
Market dislocations

- Supervision
- Gilt analysis
- Mini-flash crash

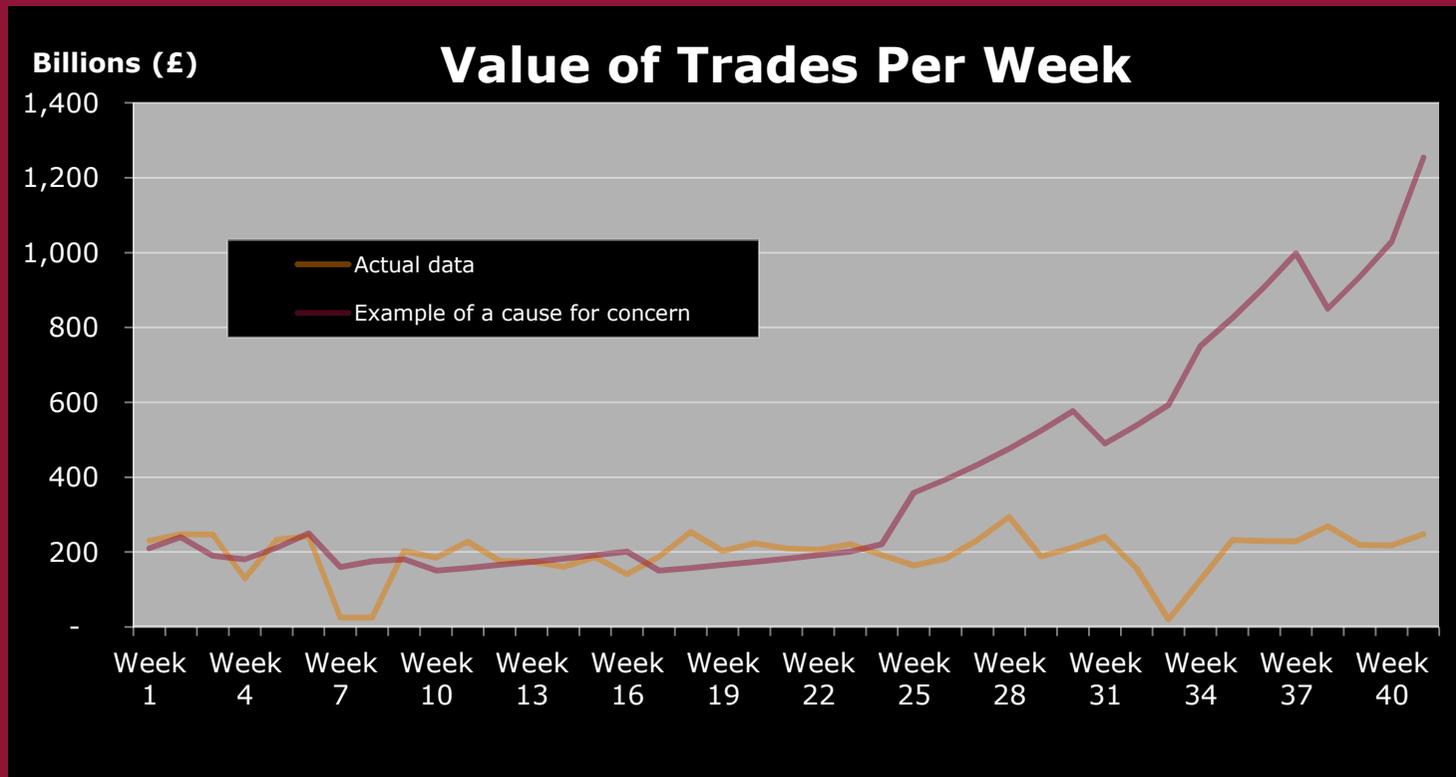
Market abuse objective

To protect and enhance the integrity of the UK financial system

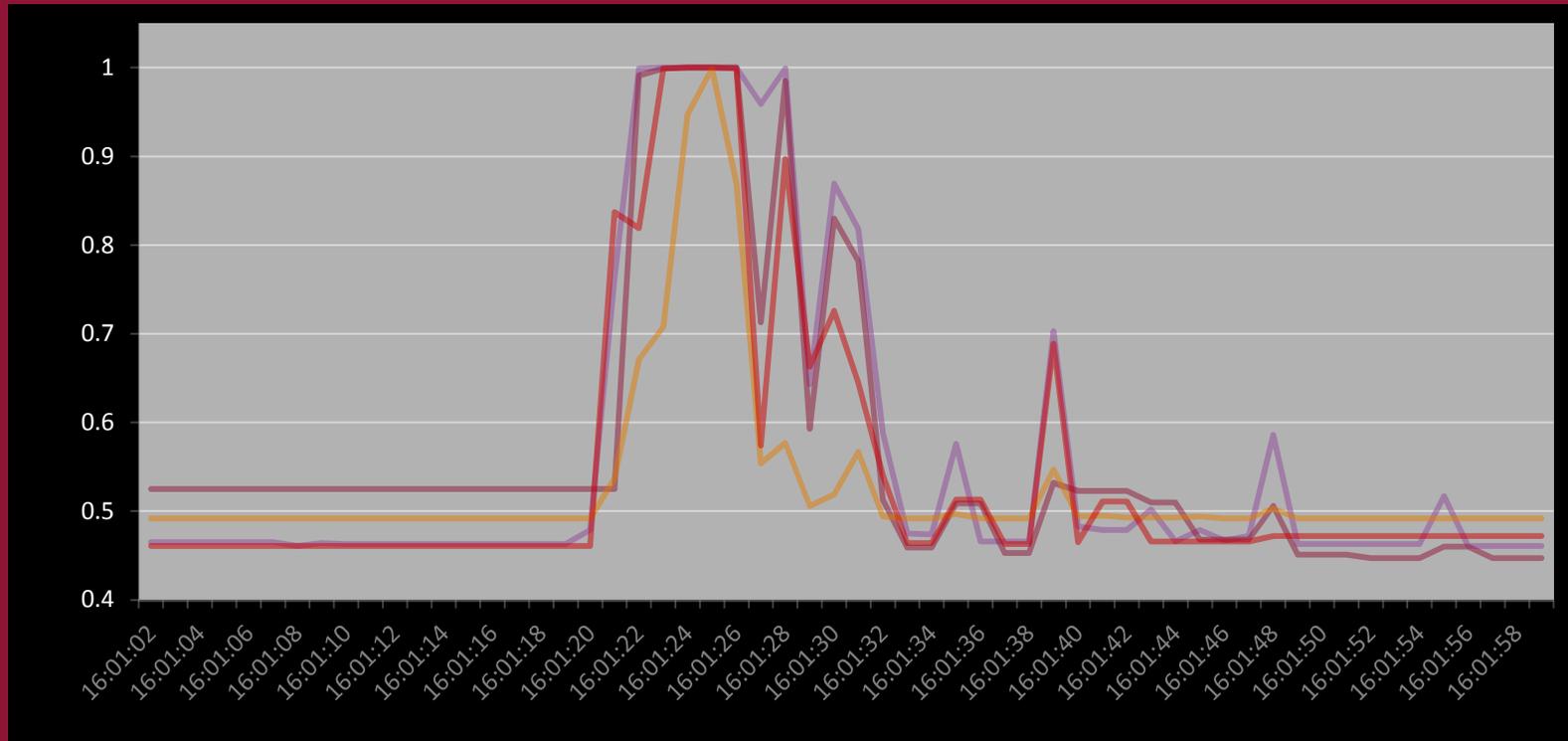
Firm analysis



Market dislocations



Single stock analysis



Questions?

Platform sector review

Findings from a thematic study in 2012

Philip Abbott

Scope of review

- 9 'Platforms' (of 30+ in the UK) reviewed
- 'Platforms' are web based portals accessed by customers or IFAs to execute transactions
- 7 Platforms were not providing transaction reports (77%)
- 1 Platform had no obligation to report (it offered no instruments that were reportable)

Difficulties for Platforms...and other firms?

- Receipt and transmission of orders– what constitutes ‘the identity of the client’?
- Who is the Platform’s client if an IFA enters an order onto the Platform?
- Who is the client when an individual invests in a SIPP or offshore bond?
- Is ‘box managed’ activity a primary or a secondary market activity?

Back reporting

The FCA approach to amending erroneous data in ZEN

Why does the FCA ask firms to back report?

- System designed deliberately so only firms can cancel or amend their transaction reports
- Corrected historical data helps us:
 - identify suspicious activity in the corrected data
 - monitor for market dislocations
 - supervise sectors or individual firms
 - fulfil our obligations to third parties

The back reporting process

- Secondary phase once 'fixing forward' is complete
- Firms asked to correct up to 5 years of data
 - SUP 17.4.3R requirement
- Firm, ARM and FCA work together to schedule back reporting

Questions?

Transaction reporting issues

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Changes to Swift MIC

January 2013 – Swift announces the introduction of a new version of the list of MICs

March 2013 - August 2013 – coexistence period where both current version and new version are available

August 2013 onwards – new version should be used

Changes to Swift MIC

New version of the ISO 10383:

- More granular information;
- Two levels of MICs: operating MIC and market segment MIC

Example:

COUNTRY	ISO COUNTRY CODE (ISO 3166)	MIC	OPERATING MIC	O/S	NAME-INSTITUTION DESCRIPTION
UNITED KINGDOM	GB	BCXE	BCXE	O	BATS CHI-X EUROPE
UNITED KINGDOM	GB	BATD	BCXE	S	BATS CHI-X EUROPE -BXE DARK ORDER BOOK
UNITED KINGDOM	GB	BATE	BCXE	S	BATS CHI-X EUROPE -BXE ORDER BOOKS
UNITED KINGDOM	GB	BATF	BCXE	S	BATS CHI-X EUROPE - BATS OFF-BOOK
UNITED KINGDOM	GB	CHID	BCXE	S	BATS CHI-X EUROPE - CXE DARK ORDER BOOK
UNITED KINGDOM	GB	CHIO	BCXE	S	BATS CHI-X EUROPE - CXE OFF-BOOK
UNITED KINGDOM	GB	CHIX	BCXE	S	BATS CHI-X EUROPE -CXE ORDER BOOKS
UNITED KINGDOM	GB	CHIY	BCXE	S	BATS CHI-X EUROPE LIMITED - CHI-CLEAR

Changes to Swift MIC

What to do?

- RM and MTF – use ESMA MiFID database (<http://mifidatabase.esma.europa.eu/>)
- Venues outside the EEA – use Swift ISO 10383 MIC

Example:



COUNTRY	ISO COUNTRY CODE (ISO 3166)	MIC	OPERATING MIC	O/S	NAME-INSTITUTION DESCRIPTION
UNITED STATES OF AMERICA	US	XCBO	XCBO	O	CHICAGO BOARD OPTIONS EXCHANGE
UNITED STATES OF AMERICA	US	C2OX	XCBO	S	C2 OPTIONS EXCHANGE INC.
UNITED STATES OF AMERICA	US	CBSX	XCBO	S	CBOE STOCK EXCHANGE
UNITED STATES OF AMERICA	US	XCBF	XCBO	S	CBOE FUTURES EXCHANGE

Changes to Swift MIC

Make sure you use a valid MIC:

- as per trade date
- for an actual venue

Clearing arrangements and transaction reporting

Where a firm executes a transaction in a reportable financial instrument, that firm has the responsibility to transaction report the transaction to the relevant competent authority

- This responsibility does not change as a result of clearing arrangements
- Clearing activity should not be transaction reported

Investment Management Reminder

SUP 17.2.2 of FCA Handbook – Reliance

Investment management firms can rely on the broker's own transaction report where:

- the investment management firm acts under a discretionary mandate; and
- the investment management firm uses an EEA broker to execute the transaction.

Transaction reporting fields reminder

- Client identification:
 - Swift BIC/FCA Reference Number
 - Internal code allocated by the firm:
one code/one client throughout the time

Transaction reporting fields reminder

- Buy/sell indicator:
 - agency/principal cross/agency cross: buy/sell indicator from the perspective of the entity in the client field
 - principal: buy/sell indicator from the perspective of the reporting firm

Transaction reporting fields reminder

- Use of INTERNAL:

Example – Clients 1, 2, 3 and 4 want to buy XYZ shares



Transaction reporting fields reminder

Market side: (X)

Reporting firm	Trading date	Trading time	Buy/Sell	Trading capacity	Instrument name	Quantity	Unit price	Price notation	Counterparty One	Counterparty Two
Firm X	01/04/2013	10:00:00	S-Sell	A-Agency	XYZ	1000	1.5	GBP	INTERNAL	Market

Client allocations: (X)

Reporting firm	Trading date	Trading time	Buy/sell	Trading capacity	Instrument name	Quantity	Unit price	Price notation	Counterparty One	Counterparty Two
Firm X	01/04/2013	10:00:00	S-Sell	A-Agency	XYZ	100	1.5	GBP	Client 1	INTERNAL
Firm X	01/04/2013	10:00:00	S-Sell	A-Agency	XYZ	350	1.5	GBP	Client 2	INTERNAL
Firm X	01/04/2013	10:00:00	S-Sell	A-Agency	XYZ	230	1.5	GBP	Client 3	INTERNAL
Firm X	01/04/2013	10:00:00	S-Sell	A-Agency	XYZ	320	1.5	GBP	Client 4	INTERNAL

Transaction reporting fields reminder

Market side: (✓)

Reporting firm	Trading date	Trading time	Buy/Sell	Trading capacity	Instrument name	Quantity	Unit price	Price notation	Counterparty One	Counterparty Two
Firm X	01/04/2013	10:00:00	B-Buy	A-Agency	XYZ	1000	1.5	GBP	Market	INTERNAL

Client allocations: (✓)

Reporting firm	Trading date	Trading time	Buy/sell	Trading capacity	Instrument name	Quantity	Unit price	Price notation	Counterparty One	Counterparty Two
Firm X	01/04/2013	10:00:00	B-Buy	A-Agency	XYZ	100	1.5	GBP	INTERNAL	Client 1
Firm X	01/04/2013	10:00:00	B-Buy	A-Agency	XYZ	350	1.5	GBP	INTERNAL	Client 2
Firm X	01/04/2013	10:00:00	B-Buy	A-Agency	XYZ	230	1.5	GBP	INTERNAL	Client 3
Firm X	01/04/2013	10:00:00	B-Buy	A-Agency	XYZ	320	1.5	GBP	INTERNAL	Client 4

Questions?