

Market Watch

Newsletter on market conduct and transaction reporting issues

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1. Transaction reporting observations

Investment firms which execute transactions in financial instruments must report complete and accurate details of these transactions to the relevant competent authority under [Article 26\(1\) of MiFIR](#). Transaction reports are a critical part of our work to ensure that markets function well. We rely on their completeness and accuracy to identify and investigate potential instances of market abuse and to help protect and enhance the integrity of the UK's financial markets.

The Markets Reporting Team (MRT) at the FCA is responsible for monitoring the accuracy and completeness of transaction reporting and instrument reference data. We proactively monitor data quality and receive notifications from investment firms, approved reporting mechanisms and trading venues of errors and omissions in transaction reports.

As a result of this work, we have identified a variety of data quality issues, some of which are set out below. Investment firms, trading venues and ARMs should take note of these observations. They must have appropriate arrangements in place to ensure and assess the completeness and accuracy of their transaction reports and instrument reference data submissions.

Systems and controls

We wish to stress the importance of market participants maintaining adequate procedures, systems and controls to meet their transaction reporting obligations. Article 15 of [Commission Delegated Regulation \(EU\) 2017/590](#) (RTS 22) requires the

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establishment of certain methods and arrangements for reporting transactions. This includes the requirement to conduct regular reconciliation of front office trading records against data samples provided by competent authorities.

The FCA provides a [facility](#) for firms to request samples of their transaction reporting data. However, the number of data extract requests we receive suggests some market participants may not be aware of this, or may not be conducting regular or sufficiently thorough reconciliation. Firms should not assume that a report was accurate because it was accepted by the Market Data Processor, as business validation rules are not intended to identify all errors and omissions.

Reporting trade time, price, and venue

We have identified instances of firms reporting inaccurate details for trading date time (Field 28), price (Field 33) and venue (Field 36). These information requirements are set out in Table 2 to RTS 22.

- The time when the transaction was executed should be reported in Coordinated Universal Time (UTC). We continue to see errors in transaction reports when UK clocks transition to and from British Summer Time, as well as errors driven by inaccurate clock synchronisation. Firms should have arrangements in place to ensure consistent and accurate reporting of trading date and time.
- Where price is reported in monetary terms, it should be populated in the major currency (eg pounds). We have identified multiple instances of firms misreporting in the minor currency (eg pence). This presents a misleading impression of the value of the transaction, limiting the FCA's ability to conduct effective market abuse surveillance. We have also noted firms reporting a price of zero or 'NOAP' in circumstances not permitted by the applicable guidelines.
- RTS 22 requires firms to populate Field 36 (venue) with the segment MIC for transactions executed on a trading venue, systematic internaliser or organised trading platform outside the Union. The operating MIC should only be used when a segment MIC is unavailable.

The FCA made improvements to validation rule 220 in November 2018 to enforce this requirement. This led to a significant number of transaction reports being rejected where Field 36 was inaccurately populated with an operating MIC (when a segment MIC was available). We expect firms to cancel, correct and resubmit all transaction reports affected by this issue.

Party identifiers

We have noted a number of firms misreporting buyer and seller identification codes (Fields 7 and 16). This is often in the context of misreporting the buyer as the seller and vice versa. It is critical that firms have arrangements in place to report party identifiers accurately. These should include controls to ensure transactions are not entered into prior to a client obtaining an LEI (where the client is eligible for such an identifier).

Another observation has been inaccurate reporting of national identifiers for natural persons. In some cases, generic 'dummy' identifiers have been used

(eg GBXX999999X). Other firms appear to have reused identifiers for multiple clients.

Similarly, some market participants have reported identifiers that are not in the list of identifiers in RTS 22 Annex II (eg a passport number, where the passport number is not one of the allowable identifiers for the country of the nationality of the individual). Other firms have not used the first priority identifier where available (eg using concatenated codes for British nationals with a national insurance number).

We have further recorded firms populating buyer and seller fields inconsistently with the trading capacity field. For example, firms reporting themselves as the buyer or seller where the trading capacity is AOTC.

Some market participants have incorrectly populated the LEI of the broker they are forwarding an order to in the executing entity field. They should have populated this field with their own identifier. As above, we expect firms to have arrangements in place to report details accurately, and to notify the FCA where inaccurate information is identified.

Instrument reference data

Accurate, complete and timely submission of instrument reference data is critical in enabling instrument validation in transaction reports. Some trading venues and systematic internalisers may not always be submitting this data within the timeframe required by [Commission Delegated Regulation \(EU\) 2017/585](#) (RTS 23) Article 2. Trading venues and systematic internalisers must notify their competent authority promptly where they become aware of incomplete or inaccurate reference data.

We have noted a high volume of transaction reports being rejected where the relevant instrument is not valid in the instrument reference data on the trade date (known as a CON-412 error) or where the underlying instrument is not valid on the trade date (CON-472). This may be caused by errors or omissions in instrument reference data submissions. Before contacting the FCA about these errors, we would urge investment firms to review key aspects of the affected transaction report(s) that may have caused the error. This would include all the following:

- identifying whether the instrument (or its underlying) is reportable;
- ensuring the MIC code of the trading venue is accurate
- confirming the underlying instrument is populated in the correct part of RTS 22 Field 47 (underlying instrument code) for a CON-472 error. Such errors frequently occur due to inaccurate population of the underlying instrument in the individual or index element of the XML schema.

Potential misreporting has also been identified in relation to the instrument maturity dates being published by trading venues and systematic internalisers (Field 15 of Table 3 to RTS 23). Reported maturity dates should be consistent with the date in the instrument's prospectus. After a financial instrument has expired or matured, the termination date (RTS 23 Field 12) must be populated.

Trading venues are expected to submit termination dates when instruments are no longer available to trade on their platform. Further detail on this issue is in Section 5

(Questions 3 and 4) of the ESMA Q&A on MiFIR data reporting.

Finally, we have noted inaccurate reporting of the Issuer LEI in instrument reference data submissions. Trading venues and systematic internalisers should actively review the accuracy of LEIs reported in Field 5 (RTS 23) for the issuer or trading venue operator. Firms should also have arrangements in place to locate and update incorrect or missing instrument issuer LEIs.

Errors and omissions

Where errors or omissions are identified in transaction reports, the ARM, investment firm or trading venue reporting the transaction must correct the information and submit a corrected report to the competent authority. This is stated in Article 26(7) of MiFIR.

We have noted that some firms have identified errors or omissions in their transaction reports but failed to cancel, correct and resubmit corrected reports to the FCA. This requirement is critical to ensure complete and accurate data and to enable the FCA to carry out market abuse surveillance effectively.

We have also identified instances of trading venues submitting transaction reports under Article 26(5) of MiFIR when the member firm is itself subject to MiFIR transaction reporting requirements, including UK branches of third country firms. We expect trading venues to have methods and arrangements in place to ensure that reports are only submitted on behalf of firms not subject to these requirements.

Finally, market participants must promptly notify the relevant competent authority where they become aware of errors or omissions within a transaction report. As well as demonstrating that a firm has identified an issue, these notifications are an important source of information to us, and enhance our understanding of transaction reporting issues.

We are concerned that firms may be correcting transaction reports without notifying us of the errors or omissions identified, as required by Article 15(2) of RTS 22. Notifications to the FCA should be made using an [errors and omissions notification form](#).

Additional information regarding transaction reporting is available on the FCA website at: <https://www.fca.org.uk/markets/transaction-reporting>. MRT is also contactable at mrt@fca.org.uk.

2. Telephone recording and retention

SYSC 10A sets out our requirements for telephone recording and retention. Firms subject to these rules must record telephone conversations that relate to, or are intended to result in, the performance of regulated activities in financial instruments. Firms must also keep copies for at least 5 years.

Telephone recordings are an important record that the FCA may request and rely upon to establish the facts and context around allegations of market abuse and rule breaches. We have also observed firms incorporating the monitoring of telephone recordings into their surveillance programmes. These firms note that this has helped them provide assurance to compliance functions and senior management regarding the effective identification of potential misconduct.

However, we have observed that some firms have not properly ensured conversations are being recorded, despite having telephone recording systems installed. In some recent cases, several months passed before firms realised that telephone conversations were not being correctly recorded due to system failings.

Firms are reminded of the importance of ensuring that they have the systems in place to record telephone conversations and are undertaking the appropriate checks to ensure that calls are consistently recorded. They may also find it valuable to use the recordings as part of their market abuse surveillance programme.

3. Use of client codes

We are aware that many operators of Trading Venues do not collect the full client identification code (LEI or National ID) when an order is received. Instead they receive the information later in the day. We have also observed some Trading Venues using 'short codes' in their market abuse surveillance system, rather than 'long codes'. Consideration is then only given to the 'long code' once an exception alert has triggered, for example, to gather further client details.

We have observed some Trading Venues' member firms using different 'short codes' for the same client over time. Where an entity is a client of multiple member firms, member firms will use different 'short codes' for the same client. We are concerned that, as a result, the use of 'short codes' may not be as effective as using 'long codes' from a market abuse surveillance perspective.

In addition, we have observed member firms making errors when the short-to-long code mapping is provided to the Trading Venue. This results in incorrect data being stored by the Trading Venue, with an adverse impact on their ability to perform market abuse surveillance. Incorrect data may also be sent to the FCA in transaction reports and orderbook data. This could limit the FCA's capacity to undertake its own effective market abuse surveillance.

Inaccurate transaction and order data affects our ability to maintain the integrity of the UK's financial markets, one of our statutory objectives. Compliance with market abuse requirements such as article 16 of the Market Abuse Regulation (Regulation 596/2014/EU) is crucial to this. It is also critical to ensure compliance with transaction reporting requirements, including requirements in Commission Delegated Regulation 2017/590 (RTS 22) and Commission Delegated Regulation 2017/580 (RTS 24). Member firms and trading venues should therefore ensure that their systems for use of 'short' and 'long' client codes are adequate for these purposes.