Our holistic approach to addressing market abuse

Building upon our experience in the market, we can help you manage your market abuse risks.
In the past six years, financial institutions have paid fines and settlements for a range of market abuse issues including rigging and manipulation in the foreign exchange markets, benchmark manipulation and rogue trading.

At the heart of the scandals has been a lack of integrity demonstrated by individuals when left to their own devices. This has led to increased scrutiny around the plans and controls financial institutions have in place to prevent and detect market abuse and broader misconduct.

As a consequence, the regulatory landscape for market abuse is changing. The Market Abuse Regulation (‘MAR’) and Senior Managers Regime (‘SMR’) will have an impact on how firms are thinking about their conduct agenda, behaviour of traders and other client facing staff, and also widen the scope of existing regulations to new market behaviours, products and platforms.

Trader surveillance is becoming increasingly sophisticated, with global regulators having a higher expectation that institutions will conduct holistic surveillance over multiple data sources including trade and order data, electronic and voice communications, and behavioural data, in order to identify potential market abuse and misconduct.

In the Market Abuse space we have worked with a wide range of financial institutions, helping with investigations, control assessments and responses to regulatory requests, and also advising on the future of market abuse regulation. In addition we can bring expertise and insight into the tactical and strategic solutions that support the financial services sector’s growing market abuse prevention requirements.

The challenges and opportunities that we see in the market include:

- How do you instil a culture of individual responsibility?
- How do you ensure you are fully compliant with the new requirements of MAR?
- How do you implement realistic and adequate controls over high volume businesses?
- How to identify and monitor a broad range of conflicts of interest?
- How to approach the challenges in introducing automated surveillance to detect for complex market abuse behaviours?
- How to assess and ensure you are comfortable with the residual risks left after implementing a new control framework?

This folder sets out our Market Abuse offerings, experience and expertise.
## The future of Market abuse regulation

### The changing regulatory environment

Both as a result of recent regulatory reviews and issues arising following the financial crisis, new regulatory regimes are soon coming into effect.

Regulators have announced new reforms which aim to:

1. Increase the levels of personal responsibility for senior executives at financial institutions;
2. Bring more markets, platforms and products under the scope of regulation; and
3. Standardise the level of penalties for actions found to be in breach of regulation.

These reforms, in addition to being in response to the implications of the financial crisis are also about ensuring existing regulations are enhanced to cover recent innovations and changes within the financial markets, such as algorithmic and high frequency trading.

### Market Abuse Regulation (‘MAR’) and (‘CSMAD’)

MAR will be implemented on 3 July 2016 (with provisions that are dependent on MiFID II being applied on 3 January 2018) and will strengthen the existing UK market abuse framework by extending its scope to new markets, new platforms and new behaviours. Whilst the UK has voted to leave the European Union, there is still the requirement to retain existing EU regulations and therefore firms will still need to be compliant with MAR.

#### What does MAR now apply to?

Areas of the new wider scope includes:

- Algorithms and High Frequency Trading
- Spot commodities
- Benchmarks
- Organised Trading Facilities (OTFs) and Multilateral trading facilities (‘MTFs’)
- Emissions allowance and Emissions Allowance Market Participants (‘EAMPs’)

#### What are the key new requirements?

- The definition of inside information is broadly unchanged, but has been widened to capture inside information for spot commodity contracts, and the obligation to disclose inside information has been extended to some EAMPs.
- It has been clarified that to amend or cancel an order, or recommending or inducing another person to transact, on the basis of inside information shall be considered to be insider dealing. This would also amount to unlawful disclosure of inside information.
- The manipulation offence has been extended to capture attempted manipulation. Benchmarks, and in some situations spot commodities, are now in scope of the manipulation offence.
- MAR introduces a framework for persons to make legitimate disclosures of inside information in the course of market soundings.
- MAR also places an obligation on issuers of any financial instruments and EAMPs to draw up and maintain an insiders list of people that have access to inside information. Issuers on SME growth markets will only be required to draw up a list when it is requested by the regulator.
- The existing obligation to report suspicious transactions is extended to include suspicious orders too.
- The new regulation places requirements on regulators and firms to be able to receive whistleblowing notifications.

### Challenges for clients

The new regulations will bring about a number of key compliance challenges including:

#### Implementing sufficient systems and controls to meet the new regulatory requirements

- Investigating options for adequate and proportionate enhanced trade and communications surveillance, including monitoring voice communications on a timely basis and in multiple languages.
- Introducing clear internal review and escalation procedures to ensure alerts are appropriately managed.
- Establishing an audit trail to evidence compliance with the new framework.

#### Appropriate tone from the top

- Ensuring there is appropriate engagement from both individuals within the Front Office and Senior Management regarding additional requirements of the new regulations, including complying with the Senior Managers Regime.
- Introducing appropriate training to provide clear guidance on expectations of Management for staff behaviour, including employee conduct.
- Monitoring the conduct of individuals and the underlying culture of the Firm to ensure alignment with the new regulations.

#### Adequate coverage from all lines of defence

- Reviewing the current operating model to understand if appropriate individuals have relevant roles, including ownership of surveillance tools and monitoring of alerts.
- For new requirements regarding Market Soundings ensuring that insider information is correctly categorised, appropriately handled and records kept in line with new requirements.
- Reviewing existing procedures regarding how information is shared with investors, including the involvement of second line of defence in managing the potential risks.

### What PwC can offer you

#### Help you stay ahead of the regulatory curve

Advising on the regulatory regime and regulators’ hot topics and provide insight into how peers are addressing these issues.

#### Perform a gap analysis with new regulation

Provide control recommendations to meet the expectations of the regulator, using our insight into current and emerging industry practices.

#### Assist in drafting policies

Work with you to draft policies which are compliant with new regulation.

#### Surveillance

Using our industry expertise to advise you on potential surveillance options to support your compliance with regulatory requirements.

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1 CSMAD will be brought in across Europe at the same time as MAR, however will not be enforced in the UK as the UK is evoking its special treaty rights. The UK has already implemented many of the directive’s policies, and will look to introduce new criminal offences instead.

### Additional Regulations for consideration

There are several other regulations that could have an impact on your market abuse monitoring regime including the Senior Managers Regime (SMR), Markets in Financial Instruments Directive II (MiFID II), and Markets in Financial Instruments Regulation (MiFIR) amongst other global initiatives. Firms will also need to consider whether to enhance policies and controls to be compliant with all relevant regulations at one time, or whether to use a staged approach, considering budgets and resources, to ensure complete compliance with MAR.
Market abuse risk
Knowing your market abuse risks

How can I be confident I have identified all relevant risks?
How can I be comfortable my control framework is adequate for the businesses and markets I operate in?
How can I manage my risks in an efficient and effective way?
How can I make sure I keep my risk assessment current?
What are the upcoming industry and regulator hot topics?

Market abuse risk assessments
A detailed risk assessment is at the heart of any good risk management programme. We can assist in the production of a risk assessment across a broad range of inherent market abuse risks within the context of your business.

Where required, our risk assessment will identify key risks applicable to your business, as informed by our market and industry knowledge. We can also help you to take a holistic approach to addressing risks, to ensure efficiency in this exercise.

When conducting a risk assessment it may also be worthwhile creating a conflicts of interest register to ensure the efficient management of risks and conflicts and to allow for multiple business areas to be compared at the same time.

Emerging regulations
We can advise you on forthcoming regulatory hot topics which are relevant to your business including how to ensure compliance with the significant changes to the EU and UK regulatory regimes.

We can help you to understand how these regulations may affect your business and suggest ways in which you can enhance your current operations to ensure you are compliant.

A broad range of experts are available to advise you in multiple fields – with our joined-up approach to ensure that our advice comes in a holistic and succinct way.

Holistic risk assessment
There is more to managing market abuse risks than a one-off risk assessment. Regular innovations in financial products and evolving organisational structures mean that ongoing monitoring of risks is a key element to an overall evaluation of your market abuse risks.

Emerging risk issues in the market should inform both your full risk assessment procedure and ongoing monitoring of risks. We can help advise on emerging market hot topics across a broad spectrum of market abuse risks and how you can keep on top of these going forward.

Our approach
Through our extensive experience helping our clients think in a holistic way about their market abuse risks, including those around conflicts of interest, we have developed an approach to risk assessment which allows an efficient yet comprehensive review.

Current and emerging regulations
We can draw on our global team to provide a view on regulatory expectations in your key operating locations and advise on how current regulations and regulatory changes will affect your business.

Market abuse risk assessment
We have a wealth of experience in conducting a risk assessment across a broad range of inherent market abuse risks and can work with you to make the output relevant to your business and the markets you operate in.

We have an existing catalogue of potential risks and the knowledge of how these may occur across a spectrum of financial institutions. This catalogue will add efficiency to the risk assessment by helping to identify the key risks applicable to your business, and allow a holistic view of risk across your business.

Where required, we can also assist you in the compilation of a conflicts of interests register, and identify any key conflicts that could give rise to a heightened market abuse risk profile.

GAP analysis
Policies
We can review your market abuse related policies to ensure that they meet current and upcoming regulations, regulator expectations and good practice amongst your peer financial institutions.

Controls
We can assist you in identifying, documenting and testing your internal control framework across all lines of defence.

Additionally, we can perform a gap analysis between your control framework and your identified risks, emerging industry practice and regulatory expectations.

Escalation/Governance
We can provide a view on whether we think that your governance and escalation procedures are robust in the context of the risks you face in your business.

Recommendations
From the gap analysis we can provide a set of recommendations and identify a clear roadmap for current and ongoing compliance with market abuse risks. We can help you to prioritise key areas for enhancement and using our wider industry knowledge to help you align these with other regulatory priorities such as the Senior Managers Regime.

Credentials
Client need
Following a visit from a UK regulator our client had embarked on a significant controls enhancement programme. This covered all aspects of governance and compliance and included a specific workstream on Market Abuse.

Approach
• Identified the Bank’s exposure to Market Abuse risks through its trading activities;
• Identified existing Market Abuse controls and processes;
• Made detailed recommendations to management to remediate key control gaps and weaknesses; and
• Supported the client in implementing the key control recommendations.

Benefit
Based on our experience of working with other leading financial institutions, we were able to assist in implementing a number of recommendations including drafting a new Market Abuse policy and desk-top procedures in respect of Market Abuse controls.

What PwC can offer you
Regulatory insight
Our global network of firms contains regulatory subject matter experts with knowledge of how regulatory focus in your key territories is developing. We will use our network to support you assess your market abuse risk exposure.

Industry insight
We have worked with a number of financial institutions to conduct or support risk assessment exercises in the context of market abuse. We will leverage our understanding of current market risks to provide insight into your risk assessment process.

An independent, trusted advisor
Our experience in conducting risk assessments means that you can take comfort that your independent advice will be from the leading professional services firm in this area.
Market abuse investigations
Investigate, Assess, Remediate

Regulatory enforcement
The media continues to report on regulatory investigations over a range of market abuse issues. We know that in addition to these investigations, many internal assessments into potential market abuse are also taking place.

Increasing complexity of investigations
Investigations in the modern age are often hugely complex, with data being captured from a variety of sources. It can be difficult for internal investigations units to keep up with the evolving technological techniques used to collate, ingest and process disparate and diverse data sets.

The challenge for efficient investigation
Completing an investigation in an efficient way, whilst ensuring a robust review can create significant challenges. However, conducting an inefficient review can result in cost and resource pressures for a business that wants its core focus to be market orientated.

Investigation key elements

1. Understand the key facts and individuals involved
2. Identify the data universe, location and format of data
3. Conduct investigation
4. Independent reporting and insightful recommendations

Data collection
All investigations begin with data collection. We are best in class for core technology and expertise in the forensic capture of data from a variety of sources, ranging from the detailed structured trading data on trading platforms through to mobile devices, Instant Messaging (e.g. Bloomberg chat) and voice recordings.

Our network of forensic technology experts can be deployed across the globe in a short timeframe. Our experts are also knowledgeable on local data privacy requirements and will always protect your confidential data, and in addition we are experienced in the handling of data which is legally privileged.

Document filtering and review
We are experts in handling unstructured communications data such as email, instant messages and voice. We will work with you to understand the issues being investigated and from this determine the key areas, individuals and themes to search for. Applying the latest forensic technology, we can analyse large volumes of data, de-duplicate and quickly target the communications of interest, whilst minimising the number of false positives.

Once the data has been initially processed, our document review teams have extensive experience reviewing electronic communications from a broad spectrum of sources including chat communication platforms. Our iterative review process ensures that new information forthcoming from the review is quickly fed back into the document search parameters, and algorithms are deployed to further reduce the volume of false positives. These elements combined can lead to significant cost savings when undertaking a large review exercise.

Advanced analytics and visualisation
As well as unstructured data, we are experts in handling the vast volumes of structured and detailed trading data a bank generates across all its trading activities. Our advanced analytics capabilities allow us to utilise the trading ‘noise’ and quickly pick out the patterns of interest. With leading visualisation capabilities, we can then analyse those patterns and set them in context against the wider business/market trends.

Where this becomes most powerful, is when we combine our unstructured and structured capabilities to focus investigative efforts on the most powerful and relevant cases.

Reporting and recommendations
We will provide an independent view over the issue being investigated, drawing out the key facts which enabled the issue to arise, providing an assessment on the current status of the root causes and where required, recommendations for remedial actions.

Credentials
Client need
In the wake of global regulatory investigations into potential manipulation of key benchmarks and other issues in the FX market, we were asked to assist six Tier 1 Banks with their internal investigations into the alleged misconduct.

Approach
Our approach was to provide the Tier 1 banks with a clear picture of their traders’ activities on particular days using trade data from multiple sources, and the wider context of patterns of activities. Using the detailed data profiling, we worked closely with the client to provide enhanced monitoring and investigation capabilities.

Benefit
Our trade data analysis allowed us to identify potentially suspicious trader activity that otherwise would otherwise not have been flagged by the existing control environments of the banks.

Using the data analysis, the Tier 1 banks were able to respond to regulatory requests in a confident and informed manner.

What PwC can offer you
Experience
We have experience of supporting large, complex financial institutions investigate a range of market abuse issues including LIBOR and FX manipulations.

Tailored designs
We recognise that each client has different capabilities, cultures and demands for which an investigation must fit. We recognise the balance of tailoring the review to be most effective and proportionate for the shape of your business whilst meeting global regulatory expectations.

Technical insight
We work with forward looking technology and technology experts to perform our work. As trading and other technologies evolve at a rapid pace, we have access to tools which enable us to navigate large and complex data, with concise and easily understood outputs.
Market abuse remediation
Managing your market abuse risks

How can I prevent Market Abuse?
How can I implement a remediation plan and still remain profitable?
How can I make sure my remediation is robust?
Do I know which benchmarks I am operating and participating in?
How can I build an effective incident response plan?
What are the upcoming industry and regulator hot topics?

Executing an effective remediation exercise
We can assist you in defining the scope of your remediation exercise and establishing an effective programme structure to ensure all requirements are met. Following an initial risks assessment we will work with you to identify areas of your policy and control framework that need to be enhanced and create a suitable plan to allow all areas to be addressed in a timely, risk-prioritised basis.
We have vast experience in revising and drafting relevant policies, designing suitable controls and delivering training to address any market abuse risks which your business may face.
Following the enhancement of these areas we can work with you to design an appropriate testing framework to allow you to assess and monitor the adequacy and effectiveness of your policy and control framework on an ongoing basis. We can also share our insights of regulatory expectations to ensure your framework is fit for purpose.

Benchmark analysis
We can provide advice in relation to the submission to and the management of financial benchmarks and indices.
We have insight into the way that banks are dealing with being involved in a very broad range of financial benchmarks, current practices being implemented, or indeed where banks are withdrawing from involvement in some benchmarks altogether.

Developing a remediation plan
We can assist you in developing and implementing a full remediation plan and introducing robust policies and procedures. See the diagram below for some key areas to consider in a remediation exercise, and overleaf for details on how we can assist you in implementation.

Key components of an remediation exercise

| Programme management and set-up | • Define scope of remediation exercise  
| Policy drafting and guidance | • Identify and mobilise relevant resources  
| Training design and delivery | • Conduct initial assessment to identify areas that may require remediation  
| | • Review existing policies against relevant regulations  
| | • Revise and draft new policies to address relevant risks  
| | • Circulate clear guidance on new policies and applicability  
| Control design and validation | • Design relevant training to address identified risks  
| | • Conduct ‘train the trainer’ sessions for new materials  
| | • Identify relevant control framework in operation  
| | • Conduct design effectiveness testing on identified controls  
| | • For any gaps design appropriate controls to enhance framework  
| Control testing | • For new and existing controls conduct operational effectiveness testing for control framework  
| | • Facilitate any issues and propose remedial solutions to address any weaknesses  

Our approach
We know from our past experience that a structured approach is needed to deliver a remediation that is robust and effective. We will combine our existing methodologies with a detailed understanding of your business to create an effective, yet efficient overall approach.

Our approach to Market Abuse remediation has three key elements:

1. Existing and forthcoming regulation form the core of what we do. We can draw on our global team to provide a view on regulatory expectations in your key operating locations.
2. We work with you to obtain a deep understanding of your business and to articulate your specific requirements. We use this understanding to tailor our work to your needs.
3. We can draw on a wide range of experience assisting financial institutions investigate and combat Market Abuse in their organisations. We also have vast experience of working with the regulator to perform regulatory reviews across a broad range of products and industries.

Developing and executing a remediation plan
We can assist you in developing and executing a full or partial remediation exercise. Working closely with you we can help draw up a plan of remediation, including setting realistic milestones, identifying key persons responsible and assessing the resources required for the review.
We can also provide additional assistance when required in implementing the final remediation plan.

Policy drafting
We can assist you in reviewing and drafting your market abuse policies to manage the complexities of financial crime compliance and ensure they fall in line with your business and operations, current market practice and regulator expectations, whilst minimising business impact.
Our approach and way of working will fit your needs, be fit for purpose and be able to respond to your current and future regulatory needs.

Credentials

Client need
In light of high profile industry events, the client needed to enhance their Front Office control environment surrounding their submission to and administration of benchmarks and indices.

Approach
• Defined and agreed a detailed definition of benchmark.
• Developed a set of ‘high watermark’ control standards for benchmark submission.
• Undertook a gap analysis against the set of control standards.
• Enhanced the control standards to include the client’s role as administrator of benchmarks.

Benefit
A repeatable framework developed to assess a wider scope of benchmarks. The Internal Audit points raised three months earlier were fully addressed.
Leveraging our experience and expertise

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Anne-Marie works in the Financial Crime team specifically focusing on market abuse and rogue trading investigations and regulatory reviews. She has been involved in a number of both regulator and client initiated reviews in a number of areas across the Banking and Capital Markets sector, including a number of s166 reports. She has significant experience in leading teams conduct analysis of trade and communications data, including most recently supporting a top tier investment bank conduct a major review of their FX business.

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Ruk has significant experience of investigations and remediation programmes at large Financial Services institutions. He has recently conducted a review at a global Investment Bank’s FX business trading operations from a business practices, conduct and control perspective. Ruk has also led regulatory reviews on how organisations are structured and controlled to mitigate the risk of market abuse or unauthorised trading.

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Andrew specialises in the investigation and prevention of Financial Crime in the Financial Services sector, and is the Leader of PwC’s Financial Crime practice in the UK. He has wide experience in Financial Services and the UK’s financial regulators have instructed Andrew and his team, under S.166 of the Financial Services and Markets Act 2000, to examine the Financial Crime systems and controls of financial institutions, often in circumstances where there are concerns that fraud, market abuse or money laundering may be occurring.