

Mitigating Conduct Market Risks: FCA's Insights on Combatting Market Manipulation and Organised Crime Groups

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Introduction

In the dynamic landscape of the UK financial services sector, maintaining market integrity and compliance with regulations is crucial. In this month's article, we delve into two key publications by the Financial Conduct Authority (FCA): **Market Watch 76** on Market Manipulation and **Market Watch 77** on Organised Crime Groups (OCGs). These reports serve the crucial purpose of illuminating issues in the financial markets. By focusing on areas highlighted by the FCA and addressing regulatory expectations, Market Watches provide valuable insights to assist firms in navigating the complexities of the UK market.

Market Watch 76: Tackling Market Manipulation - Flying and Printing

Market Watch 76 addresses the persistent challenges associated with 'flying' and 'printing' which are deceptive practices that create a false impression of a financial instrument's liquidity and price. Flying involves misleading communication about the level of bids or offers in the market, while printing involves falsely reporting on the execution of trades. Despite previous warnings in Market Watch 57 (November 2018), the FCA states instances of flying and printing persist, especially in markets dealing with fixed income, commodities, and currencies. The FCA highlights in this Market Watch that some firms are still failing to address these behaviours effectively, almost 6 years on.

Firm Action Plan

Flying and Printing are behaviours which constitute Market Abuse under the Market Abuse Regulation ("MAR"). To prevent the behaviours of flying and printing from taking place, firms are advised to:

- **Compliance Manual:** Incorporate explicit prohibitions in their compliance manuals against flying and printing, with senior management ensuring effective communication of the firm's compliance policies and procedures.
- **Training:** Enroll senior managers, certified functions, and rest of staff in training courses for 2024, focusing on understanding the nature and consequences of 'flying' and 'printing'.
- **Surveillance:** Implement surveillance procedures targeting spread compression, order cancellation rates, order-to-trade ratios, and lexicons to analyse and monitor electronic communications and track potentially illicit activities.
- **Disciplinary Procedures:** Establish clear and consistent processes for addressing misconduct, ensuring that an individual's commercials do not influence outcomes.
- **Policies and Procedures:** Regularly review and adapt practices to comply with relevant legislation, addressing identified gaps promptly. For example, Firms must ensure their market Abuse Risk Assessments and Compliance Monitoring Programmes are up to date and specifically detail the risk of a Firm being involved in 'Printing' or 'Flying'.



Market Watch 77: Guarding Against OCGs in Trading

Market Watch 77 alerts readers to the dangers of Organised Crime Groups (OCGs) engaging in suspicious trading, especially in UK and internationally listed equities. The Market Watch highlights the importance of Firm's implementing robust processes around 'Inside Information', highlighting the tactics used by OCGs including: trading before M&A announcements, recruiting inside information sources, and using intermediaries for confidential data.

The FCA reiterates that OCGs' pre-meditated market abuse poses a serious threat to market integrity and highlights its expectations for increased vigilance from financial institutions. The FCA specifically notes that Firms should be alert for potential OCG insider dealing through signs like frequent STORs, pre-M&A trading, and use of umbrella accounts at overseas broking firms.

Firm Action Plan: The FCA detailed the following measures which Firms must ensure are implemented and effective:

- **Market Abuse Policy:** It must clearly convey zero-tolerance for market abuse and reflect that it is the firm's market abuse policy to foster open communications with regulators, to promptly submit STORs, and to terminate accounts with low suspicion thresholds.
- **Overseas Broker Verification:** Request documentary evidence from overseas broking firms to verify adequate surveillance arrangements and a commitment to combat market abuse.
- **Suspicious Trades Reporting:** Treat trades placed before media reports of M&A as potentially suspicious and submit STORs accordingly.

Conclusion

By heeding the insights provided in FCA's Market Watch 76 and 77, financial firms can proactively safeguard their operations, contribute to market integrity, and demonstrate a commitment to regulatory compliance. As the financial landscape evolves, continuous vigilance and adherence to best practices are paramount in maintaining a resilient and trustworthy financial system.

How Can Effecta Help

Effecta assist firms in undertaking a Market Abuse risk assessment to understand what systems and controls need to be implemented to protect the firm from being involved in market manipulation or being used by OCG's. This can include drafting relevant control documents to establish a strong compliance framework as well as reviewing alerts generated by surveillance systems adopted by the firm.

Effecta can also provide support in relation to onboarding of clients and business partners allowing firms to independently review and sign off client take on forms taking in to account any issues identified during the on boarding process.

In addition to the above Effecta can also provide training for all staff in relation to Market Abuse, Anti Money Laundering and Fraud.

