FCA MARKET WATCH 74

MARKET CONDUCT & TRANSACTION REPORTING ISSUES

The FCA relies heavily on transaction reports for effective market oversight. The newsletter states that, while there has been a trend of improved data quality, financial firms still have some way to go to improve their transaction reporting processes.

This newsletter emphasizes the need for enhanced reporting reconciliations, clear identification of investment and execution decision-makers, and proper reporting of complex trades and its of best interest to investment firms, credit institutions, trading venues, systematic internalisers, and approved reporting mechanisms (ARM).

Key Highlights in Market Watch 74:

Reconciliations and breach notifications

Reconciliations are essential for firms to ensure that reporting has been done accurately. However, some firms are not paying sufficient attention to the FCA's warnings on the importance of reporting transactions in a complete, accurate, and timely manner.

Some firms were not aware of the Market Data Entity Portal, while others were relying on data extracts provided by ARMs to conduct their reconciliations.

When errors or omissions are identified in transaction reports, firms must cancel the report and submit a new corrected report to the FCA.

Identification of Investment and Execution Decision Makers

When more than one person or algorithm is involved in an investment or execution decision, the person or algorithm taking primary responsibility for the decision should be identified in the transaction report. FCA recognizes that judgement may be needed to determine primary responsibility.

Complex trades

The FCA have identified transaction reports submitted for spread trades that do not conform to the European Securities and Market Authority (EMSA) transaction reporting guidelines as a complex trade. These reports should be linked by the same complex trade component ID in field 40. The FCA expects firms and market participants to continue to apply ESMA guidelines and recommendations to the extent that they remain relevant.

Transmission agreements

Under UK MiFIR and RTS 22, when certain conditions are met, including an agreement between the transmitting firm and the receiving firm, the transmitting firm is relieved of the requirement to submit a transaction report.

The FCA contacted some investment firms who had failed to submit transaction reports to the FCA and some had no transmission agreement in place. The FCA encourages all transmitting and receiving firms to review their transmission arrangements.

Inconsistent price and quantity notations

Investment firms have reported price and quantity fields using different notations. The FCA urges firms to follow market convention when determining which notation to use, and ensure that the notations selected are consistent with those reported by their counterparties.

Transactions executed under the rules of a trading venue

When reporting transactions negotiated off-exchange and brought under the rules of a trading venue, both parties are expected to report the market identifier code (MIC) of the trading venue.

Looking through the chain

Firms should not look through a chain of intermediaries in scenarios other than the transmission of orders meeting the conditions of Article 4 of RTS 22. Some firms have misidentified funds as the buyer or seller in transaction reports when dealing with a fund manager. Similarly, where a firm executes a transaction with an intragroup subsidiary, the firm should not identify the subsidiary's client as the buyer or seller, even where those details are known to the firm.

Reporting instrument details

For transactions in financial instruments, FCA has noticed variable data quality issues with price multipliers, expiry dates, and classification of financial instruments (CFI) codes. Firms must make sure these fields are complete and accurate.

Late reporting

Some trading venues and SIs are not successfully submitting instrument reference data to the FCA within the timeframe required by Article 2 of RTS 23, which impacts the ability of investment firms to submit transaction reports executed on trading venues or with SIs. As such, the FCA reminds trading venues and SIs that they should have adequate systems and controls in place to detect late reporting. And in such cases, they should promptly submit an instrument reference data errors and omissions notification to mrt@fca.org.uk.

Spot FX instruments

Some trading venues are submitting instrument reference data for spot FX instruments, which are not financial instruments under the UK MiFID framework. This is misleading to investment firms.

Cancelled instrument reference data

When instrument reference data is submitted to the FCA in error, it should be cancelled by the submitting entity. The cancelled record will remain in the FCA Financial Instrument Reference Data System.

The FCA notes that it may conduct further work on the areas covered in its Market Watch articles to ensure appropriate remedial actions are undertaken by firms. Firms should continue to submit errors and omissions notifications for any issues of which they become aware.