

Fixed income, currencies and commodities (FICC) markets: Mind the gaps in monitoring systems

Accountability and manipulation rules intensify

Regulators are keen to address the often underreported market manipulation within the fixed income, currencies and commodities (FICC) markets, with one central bank going so far as to accuse market participants of “ethical drift”. Combine this with the new UK Senior Managers Regime rules, putting new individual onus on the most high-ranking front office executives, means a far greater level of accountability is needed to demonstrate that reasonable steps have been taken to do the right thing.

EU rules including the Market Abuse Regulation (MAR) and the Markets in Financial Instruments Directive (MiFID II) require firms to extend market surveillance capabilities to fixed income, currencies and commodities, as well as capture market manipulation *intent* by reporting suspicious orders in addition to suspicious transactions.

Because the FICC markets have different characteristics to equities, firms and senior managers need to be confident that their market surveillance system provides full coverage in identifying and reporting potential market abuse and reckless trading, whilst simultaneously gaining greater analytical insights and spotting business opportunities.

Ready for surveillance in an RFQ world?

One of the key changes MiFID II is expected to bring to FICC markets is the extension of the transparency regime. Liquid instruments will be subject to strict pre-trade transparency with requirements of *request-for-quotation*-based (RFQ) venues to publish bids, offers and depth of market.

With the emphasis now being placed on FICC products, analysis of the data collected cannot make use of the usual methods to identify market abuse scenarios. A complete rethink is due.

Under the new regulation, firms need to be fully satisfied that their system will report all potential intent scenarios in an RFQ world, or correctly mark commodity-specific instruments.

Due to increased regulatory attention, senior managers can no longer put off the requirement for implementing a capable market surveillance system.



Answers in automation

In practise, an important part of a firm's monitoring overheads can be greatly reduced by technology. Once responsibilities have been delegated and processes put in place, these can be monitored more effectively and independently using automated systems. Senior managers in the front office can benefit from intelligent behavioural alerting and reporting on trading behaviour by trader, desk or counterparty, whilst reaping great analytical insights and identifying potential business opportunities. A wide range of operational, as well as reputational and compliance risks, can be removed. An automated approach based on contextual surveillance can bring consistency and convenience to the front office.

Ancoa Technology: Insightful analytics through contextual surveillance

The Ancoa automated surveillance platform is specifically designed with FICC markets in mind using specialised RFQ-based trading alerts and visualisation, plugging the gaps where market surveillance systems traditionally designed for equity markets fall short, both in terms of representing relevant market structure and collusion risks.

Organisations trading in fixed income, currencies and commodities need to ensure that all cases of market manipulation and intent are documented and, if deemed necessary, subsequently reported. The Ancoa system provides distinct models for FICC surveillance, based on different products, venues and trading protocols:

- **Composite price feeds:** allows pricing analysis of (semi-) illiquid securities by providing a visualisation of the RFQ compared to a composite price (in the absence of trades)
- **Alert calibration:** customisation of systematic and rigorous parameters for alerts that can be grouped according to types of instrument or specific participant
- **Contextual surveillance:** streamlined monitoring and ability to overlay different data types including electronic communication (such as instant messaging), and social media feeds
- **Case management:** ability to create thematic reviews to facilitate grouping of related alerts, allowing individual alerts to be involved in multiple cases, with the option of adding comments whilst recording a full audit trail at alert and case level
- **Best Execution solution:** customisation and visualisation of metrics and trade prices incorporating a firm's placement along the investment chain, client requirements, methods of execution, order type, region of trading, and asset class

About Ancoa

Ancoa provides contextual surveillance and insightful analytics for exchanges, regulators, buy- and sell-side firms. Our highly sophisticated, yet easy to deploy and simple to use, monitoring and surveillance platform helps firms take full control of their regulatory, reputational and operational risks across markets, functions and asset classes.

We help improve market integrity by providing greater visibility over trading behaviour. Our independent and flexible approach to monitoring, analytics, alerting and reporting, using powerful visualisation tools, enables firms to identify and manage potential risks of market abuse, fraud and operational shortcomings on a single platform, both overnight and in real time.

Founded in 2010, Ancoa's management team brings together a strong pedigree and track record in capital markets, technology, surveillance, analytics and entrepreneurship.

Let us help your firm take control

Please contact our sales team for more information and a free demo. Independent subscription or enterprise versions available.

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