Energy markets:
Switching to effective trade surveillance

New obligations versus market abuse

As competent authorities across Europe are focusing on ensuring wholesale energy markets are open, transparent, fair and competitive, firms trading in energy and commodity markets are under increasing pressure to implement and maintain effective systems and procedures are in place to detect and report suspicious orders and transactions and other activity.

The Regulation on Wholesale Energy Market Integrity and Transparency (REMIT), covering wholesale physical and financial power and gas trading, and the more recent Market Abuse Regulation (MAR) with an updated jurisdiction covering the commodity and energy sectors, ultimately mean that the case for energy firms to implement effective monitoring of their own activity is now more than compelling and, in many cases, mandatory.

Firms that do not get trading supervision right risk incurring large penalties. Regulators have come out firmly against misconduct and market manipulation across all asset classes; in 2015, for example, the Spanish energy regulator imposed a €25 million fine under REMIT on a large utility owner for driving up power prices. In many cases, MAR adds commodities markets to the scope of financial regulators.

Effective monitoring requirements

In gas and power markets, REMIT requires Professional Persons Arranging Transactions (PPATs) to monitor for market abuse. Asset owners are required to disclose inside information through either using an inside information platform, or in a specific format on their websites.

Participants trading in commodity derivatives, not already covered by REMIT, are now regulated by MAR (and in many cases those under REMIT will be under MAR for some activity). Under MAR, firms are required to implement "effective monitoring", defined by a combination of procedures, technology, training, and Suspicious Transaction and Order Reporting proportionate to the risk and size of the business.

The European Agency for the Cooperation of Energy Regulators (ACER) is in possession of more transaction data from energy markets than ever before, and on the lookout for incongruencies. Energy trading firms need to understand that installation of an effective trade surveillance system can not only help meet regulatory requirements, but will provide an important step towards the avoidance of reputational risk if market abuse is suspected by regulators.

Ancoa Technology:
Insightful analytics through contextual surveillance

Ancoa has specifically focussed on helping energy trading firms comply with their monitoring requirements, undertaking a significant amount of work in the translation of market abuse scenarios set out under MAR and REMIT into scenarios specifically applicable to energy products.

Ancoa believes that energy markets can learn from some of the mistakes other sectors have experienced in trade surveillance, and as such uses a contextual approach to enable a consolidated view across siloed systems and communication channels in order to minimise the number of false alerts.

The Ancoa system provides distinct models for energy markets, based on different products, venues and trading protocols:

- **Trayport data:** Ancoa is an accredited Trayport Certified Software Provider, meaning Ancoa connects to Trayport's platforms for the benefit of mutual clients. Trayport's market data enables Ancoa to run high-quality alerts, covering both intent as well as actual manipulation outcome, including surveillance platform deployment within a much shorter timeframe.

- **Specialised knowledge base:** Ancoa works with specialised energy consultants to help energy and commodity firms define MAR and REMIT market abuse scenarios relevant to their trading activity and translate these into tools to help compliance teams efficiently monitor for market abuse.

- **Flexibility:** Because no energy market is the same, Ancoa's system is designed to provide flexibility when modelling specific instruments and customising the user interface. Flexibility on data integration, report generation and alert logic are key for achieving successful monitoring capabilities tailored for energy markets.

- **Cross-asset alerts:** The characteristics of energy markets make monitoring and surveillance a complex task. Ancoa's solution puts both physical and financial trading into context along with market data in order to generate alerts, providing compliance officers with a better understanding of whether a financial position is a pure hedge or aimed at profiting illegally from inside information.

- **Contextual approach:** Unstructured data incorporating electronic communication channels is placed on the same timeline and in context with orders and trades. It is also crucial to have the ability to replay audio calls or display the transcripts in context, with the right visualisation tools.

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

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