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The UK's Financial Conduct Authority Discusses Gaps in Firms' Surveillance for Market Abuse

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The UK's Financial Conduct Authority (FCA) has reported its observations on firms' market abuse surveillance arrangements in the **May edition of Market Watch**. The newsletter looks at a peer review of surveillance model testing and examples of malfunctions the FCA has seen in practice in firms' systems for monitoring and detecting market abuse, and how firms review and deal with the functioning of these monitoring and surveillance systems.

Examples of surveillance system failures given include:

- Incomplete implementation of a firm's flagging system that was not picked up because the firm did not undertake testing – if it had, it would have seen that the news feed had not been activated, meaning that alerts for insider dealing were not being generated over a period of three years because they were lacking complete information.

- Incorrect coding of an insider dealing alert trigger, requiring the firm to trade in the instrument on the day that the price moved outside a defined threshold. For less liquid instruments, there was a real risk that insider dealing could be missed due to this incorrect trigger.

- A firm offering direct market access failed to capture trade data when it connected clients directly to the trading venues (rather than offering connectivity through the firm itself).

On its 2023 peer review of firms' testing of automated surveillance models, while the FCA found that most firms had formal procedures for testing and did perform some form of it annually, the FCA has felt the need to set out various steps to avoid surveillance failures. These include making sure that data governance is thorough enough to make sure sufficient, accurate data is being captured. Model testing should be similarly thorough and effective, with new models being robustly interrogated before implementation. Finally, governance arrangements should be sufficiently resourced so as to deliver timely, efficient and effective outcomes. Firms are encouraged to review their arrangements and make changes where necessary.