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Enhanced Market Conduct Risks during COVID-19

During the COVID-19 pandemic, firms are likely to experience higher risk of market misconduct due to:

- volatile markets, higher trading volumes, and generally “fast market” conditions;
- the movement onto new communication platforms and away from firms’ standard systems and controls; and
- front office staff being away from the direct supervision of their management.

In this slide, we set out some of the elevated market conduct risks that firms are currently experiencing and potential compensating controls firms could develop or enhance to mitigate them.

	Risk Appetite Challenge	Possible Compensating Controls
Insider Dealing	The risk of insider dealing is higher in market conditions of this nature, e.g.: • access to information regarding a company’s or bank’s response to the epidemic or impaired financial position; additional material non-public information (MNPI) due to delayed corporate finance deals; • Persons Discharging Managerial Responsibility holding MNPI for longer periods of time; and • there may be concerns about inadvertent sharing of inside information within households.	• Review the calibration of insider dealing alert generation models. • Enhanced monitoring of personal accounts (PA) dealing and reviewing any unusual trends. • Assessment of corporate finance transactions delayed due to COVID-19 (e.g. M&As) to ensure inside information remains protected.
Market Manipulation	The increased market volatility and high trading volumes increase the risk of market manipulation occurring, e.g.: • increased risk of the dissemination of fake news to drive pricing up / down; and • placing orders to drive down an already falling price in order to profit later.	• Re-iteration of existing policies and procedures and improved communications with material risk takers and other first line staff. • Review of market abuse risk assessment to determine higher risks during continued market uncertainty and prioritisation of monitoring activities towards these risks e.g. large exposures or significant losses.
Surveillance Alert Process	Owing to market volatility, many firms are experiencing a substantial increase in market abuse alerts generated by their automated surveillance systems: • alerts that have been calibrated for normal market conditions have not responded well to recent events; • re-calibration may be urgently required to enable the surveillance models to become responsive.	• Surveillance alerts should not be bulk closed. If there are limitations on dealing with the backlog then higher risk events should be prioritised. The remainder dealt with over time or reviewed using analytics (keep records of decisions). • Use the alert metadata to help perform data analytics of any backlog of alerts. • Compare alert output before March and after and look for outliers.
Surveillance of new tools/tech	• Newly adopted technology may not be captured in a firm’s standard systems and controls (e.g. communications recording, trade surveillance). • Data protection requirements may not meet current standards. • New tools/tech may not have been tested in stressed scenarios, leading to a worsening of the situation if they fail.	• Consider bringing new technology into the scope of existing controls where possible, even if they perform only limited checks using metadata. • Consider restricting the use of certain high risk communications systems. • Ensure all trades are confirmed over a recorded medium, e.g. Bloomberg chat.
Lack of supervision	With remote working in place for a large majority of staff, some companies may be concerned with the risks arising from a lack of traditional, in person supervision: • current supervisory controls rely on presence and interaction with an individual’s manager; • people in same household working for different organisations may be a cause for concern for some firms.	• Increased communications to portfolio managers, traders and other front line staff are important to remind them of their obligations to abide by the policies and procedures, and to provide tips to help them do so efficiently. • Some firms may consider increasing their use of existing metrics or procedures to detect outliers, e.g. volume of out of hours trading, trading errors/limit breaches, unusual trading patterns and cancellations.