

Insider Trading Is Abuse of Information – and We Uncover It.

Compliance of Securities with Siron®

Market Abuse: Market Manipulation & Insider Trading

The integrity of securities markets and the guarantee of functioning financial markets form the basis for the trust of investors.

The misuse and disclosure of insider information for unfair trades and the manipulation of stock prices and other instruments on exchanges markets damage the integrity of financial markets and undermines public trust in securities and derivatives.

Insider trading involves the unfair use of non-public information and can significantly affect share prices, in order to give oneself or third parties a trading advantage. Market abuse, on the other hand, refers to such deceptive practices as the improper or misleading disclosure of information or the execution or issuing of buying or selling orders, in order to manipulate the price of a financial instrument. Market manipulation and insider tradings are illegal and have serious consequences for a financial institution as well as for the employees involved if detected and reported to the authorities. A series of international and national laws and directives (Market Abuse Directive – MAD, Markets in Financial Instruments Directive – MiFID, ...) define the regulatory framework that is necessary for the integrity of capital markets.

The damage to market participants in securities transactions occurs in many different forms, for example brokerage firms abusing confidential information about an impending customer transaction for their own benefit (front running) or the practice of executing trades on customer portfolios by asset managers in order to generate commission from the account ("churning").

In addition, rules of conduct stipulate correct behaviour of employees of financial institutions and define what is expected from them in terms of proprietary trading, appropriate investment advice and dealing inline with the investment advice.

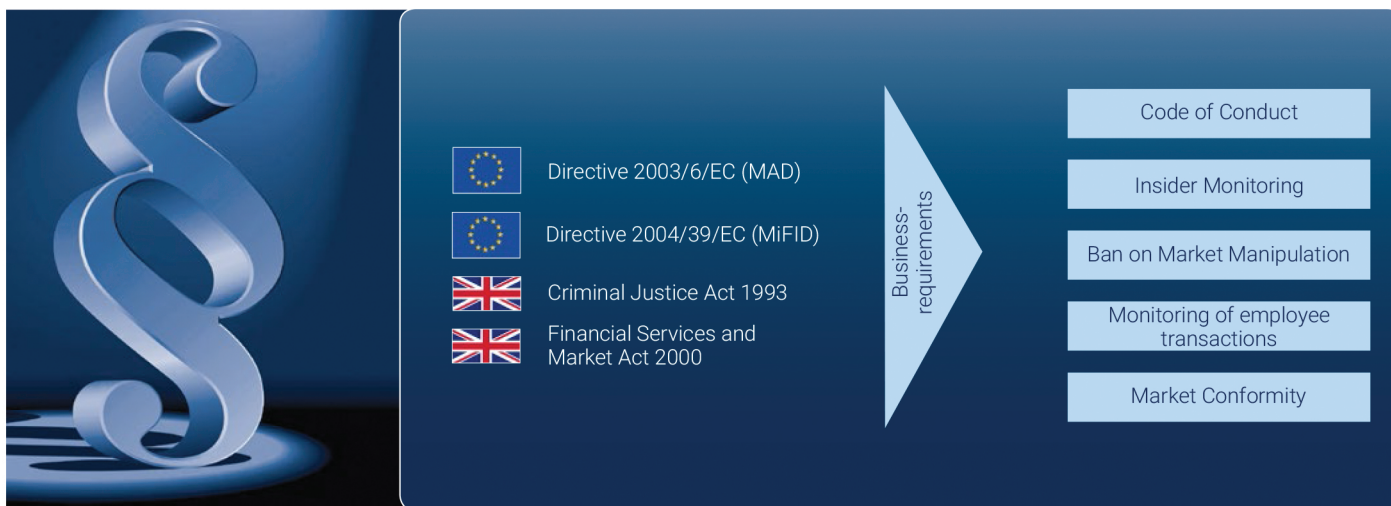
Efficient compliance with legal requirements and rules of conduct

Siron®MM effectively supports internal auditors and compliance officers of financial services providers in the monitoring,

Siron®MM – The Highlights

- Complies vastly with legal regulations and directives due to freely definable rules engine
- Efficiently identifies and combats incidents of market manipulation and insider trading (etc.)
 - Front/parallel running
 - Marking the close
 - Matched orders
 - Snake trading
 - Parking
 - Cancellations
 - Wash trades
- Checks employee dealing against watch lists, restricted lists and any individual list
- Database-driven recording, maintenance and monitoring of insider list
- Automated compliance-checking of rules of conduct
 - Best execution of customer orders (MiFID)
 - Monitoring of proprietary trading of employees
 - Checking appropriate investment advice to customers
 - Pre-clearing of employee dealings
 - Day trading / frequent trading
- Dashboard views of suspicious trade activities
- Dashboard with graphical display of trading history and other graphics for analysis
- Comprehensive case management for handling of suspected market abuse cases
- Audit-proof historisation of all system checks, work steps and decisions

Further information www.tonbeller.com



detection and prevention of infringements of the rules of conduct of an institution and cases of market abuse. Reportable circumstances and infringements are automatically and near real-time identified by the system via a pre-installed set of rules out-of-the-box. These rules are based on checks for standard scenarios (including such as front/parallel running, matched orders, marking the close, etc.) but also include freely configurable rules set. The latter can be created or modified by the compliance department using the integrated intuitive rule editor.

In the case of an infringement of the defined set of rules, the incident in question is stored in the Siron®MM Case Manager. The compliance officer analyses the infringements and suspicious cases, with Siron®MM supplying all the relevant details already prepared. They can, for example, display graphs of the price performance and trading volume of a security or derivative for analysis, or check whether pre-clearing rules for security transactions have been complied with during holding or blackout periods. All processes, actions and decisions are logged in a database in an audit-proof way.

How financial institutions can guarantee monitoring of insider trading

Insider trading refers to the issuing or prompting of a securities order using insider information. Persons who have access to insider information must be documented by the financial institution on insider lists to allow checks for possible misuse of insider information. Siron®MM allows the record of insider knowledge of employees, organisational units and customers on insider lists. The compliance officer can assign the respective insider information concerning an issuer or class to employees, organisational units and customers. When selecting a class, associated classes, the underlying or the derivatives can be included in the selection. All transactions in securities of a financial institution and of third-party banks are checked against the insider list. All irregularities are automatically identified and can be viewed and analysed in the Siron®MM Case Manager.

Avoiding reputational risk through market manipulation

Activity which serves to give false or misleading signals concerning supply, demand or price, or which creates an artificial price level, or other deceptive practices, can be filtered out with the help of predefined and freely configurable rules. Suspicious transactions can be monitored with dashboard features. Graphical displays and trading histories help identifying and analyzing market manipulation scenarios. Among others, Siron®MM identifies the following types of market manipulation:

- Trading before Ad-hoc
- Marking the close
- Scalping
- Snake trading
- Cancellations
- Matched orders

Automated monitoring of behavioural, organisational and transparency obligations

Behavioural, organisational and transparency obligations force financial institutions to render their services with care, expertise and diligence in the interests of the customers. These fundamental duties of care also apply to securities dealing. Among them are the requirements of the MiFID (Directive 2004/39/EC), such as best execution and the suitability test for investment advice. Compliance with these and other obligations can be automatically monitored via Siron®MM:

- Prompt execution of customer orders
- Monitoring of proprietary trading of employees / monitoring of trading in high risk instruments
- Checking of appropriate investment advice and suitability test
- Checking for front running against high volume orders
- Identification of day trading or high frequency trading by employees
- Monitoring of compliance with black-out periods

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