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## Member Controls Oversight Programme – importance of accuracy of information

Early in 2014, the Exchange introduced the Member Controls Oversight Programme (“MCOP”). This was established in response to the publication by the FCA in August 2013 of finalised guidance on ‘Market Operators’ oversight of member firm compliance with rules’. This guidance outlines the approach the FCA expects recognised investment exchanges (“RIEs”) and multilateral trading facilities (“MTFs”) to take to ensure on-going oversight of the systems and controls which their member firms operate to comply with the RIE’s or MTF operator’s rulebook.

All market operators are required to have in place proactive, effective, proportionate and risk-based arrangements in order to be able to determine that their members’ systems and controls can be reasonably expected to ensure compliance with the respective market operator’s rules and trading procedures by both new and existing members.

The Exchange’s MCOP is based around a programme of reviews of an identified population of firms over a six-monthly cycle. Firms which are selected for review are required to complete a systems and controls questionnaire covering matters such as the pre-trade controls they operate during each trading phase for each type of order flow; the monitoring by the firm of its trading activity; automated trading management; and how firms ensure that trading staff are sufficiently aware of the Exchange’s rules. Following receipt and review of each completed questionnaire, the Exchange determines whether clarifications are necessary and/or whether further discussions are required, either in a meeting or conference call.

The aim of the reviews is to identify the risks to the Exchange of firms whose controls are not of a sufficiently high standard to prevent disruption to orderly trading. Where controls are not considered to be sufficient in relation to the nature of a firm’s business, the Exchange will draw this to the attention of the firm and require remedial action.

Accurate and comprehensive completion of systems and controls questionnaires is essential to enable the Exchange to assess the adequacy of a firm’s controls. Failure to do so may constitute a breach of, for example, Exchange Rules 1210 and 1211 and LSEDM Rules 1.1.39 and 1.1.40. Furthermore, in the event of erroneous order entry by a member firm or its DEA client, where one has been completed, the Exchange will consider the firm’s responses in its systems and controls questionnaire and any discrepancies between the responses provided and the actual controls in operation will be taken into consideration by the Exchange in deciding whether to take disciplinary action against the firm. The Exchange recently took disciplinary action against a member firm for providing inaccurate information in a systems and controls questionnaire.