

21 July 2015

N16/15

Disciplinary action against a member firm - Failures in trade reporting and inadequate systems, procedures and controls

Introduction

1. The Executive Panel of London Stock Exchange (the "Panel") has determined a private censure and a fine of £225,000 against a member firm (the "firm") regarding a number of breaches of the Rules of the London Stock Exchange (the "Rules") in relation to the firm's fixed income business.
2. This Notice sets out the relevant details of the case and, in accordance with Rule C020, reminds member firms of their responsibilities in this area.

Summary

3. The disciplinary action relates to rule breaches that arose from the firm's failure to correctly apply rule 3000.3 to its fixed income business over a considerable period of time.
4. In 2007, London Stock Exchange conducted a detailed rules consultation and revision of its rulebook, pursuant to the implementation of MiFID. Rule 3000.3 was introduced as a result of that consultation process.
5. The firm failed to consider the impact of Rule 3000.3 on its fixed income business from the date of its introduction and accordingly did not implement relevant changes to its processes to ensure compliance.
6. In transacting its fixed income business the firm had not agreed with its customers or counterparties to report its trades to a venue with equivalent or greater post-trade transparency. This resulted in the business being deemed to be "on Exchange", pursuant to Rule 3000.3, requiring the firm to submit trade reports to London Stock Exchange in accordance with Rule 3010.
7. The firm did not submit trade reports as required by the Rules and this resulted in a significant impact on market transparency, in that the non-reported volume in some instances represented a significant share of the trading in certain securities.
8. In addition, and as a consequence of the firm's failure to correctly apply Rule 3000.3 to its fixed income business, the firm failed to provide advance notice of a change in the scope of its trading activity in relation to "on Exchange" business.
9. The firm also failed, for a period of 5 months, to notify London Stock Exchange when it became aware of the issue concerning its fixed income business.

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The Executive Panel's findings

10. The firm's failure to adequately consider the impact of Rule 3000.3 on its fixed income business over a considerable period of time led to the subsequent failures referred to above, including a failure to report this business in accordance with the Rules. London Stock Exchange considers that the firm's failings resulted from inadequate internal procedures and controls to be aware of the rules, their application and to monitor continuing compliance.
11. Given the above, the Panel has determined a private censure and a fine of £225,000 in respect of the firm's breaches of the following Rules:

Rule 1020	Suitability, including adequate procedures, systems and controls
Rule 1050	Immediate notification of any circumstances that have, will or may lead to a contravention of the rules
Rule 1051	Advance notification of a change to a firm's membership profile
Rule 3010	Obligation to trade report on Exchange trades
Rule 3012	Responsibility for submission of a trade report
Rule 3020	Standard trade reporting deadlines
12. In reaching its decision, the Panel has taken into account the extent of the breaches but has also noted that the firm brought the failings to the attention of London Stock Exchange and had been co-operative throughout its investigation. The failings have now been rectified.

Guidance to member firms

13. London Stock Exchange wishes to remind member firms of their obligations under rule 3000.3. A trade in a security, which is not a MiFID transparent security or an AIM security, is deemed to be "on Exchange" if one or both parties to the trade is a member firm and the trade is effected in any security admitted to London Stock Exchange's markets, unless the member firm and its customer or counterparty agree at or prior to the time of effecting the trade that it shall be reported to a venue that has equivalent or greater post-trade transparency than London Stock Exchange's regime for that security.
14. Under rule 1020, London Stock Exchange expects member firms, as part of their compliance processes, to review and act upon London Stock Exchange Notices that may amend or introduce new rules, to ensure that a firm's trades are appropriately reported in accordance with the rules. Also, member firms should consider the scope of any existing or proposed trading activity and, where necessary, provide advanced notification of any membership profile changes, in accordance with rule 1051.
15. Furthermore, London Stock Exchange would like to remind member firms of their obligations under rule 1050, which states that London Stock Exchange is to be notified immediately should a firm become aware of any circumstances that

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have, will or may lead to a contravention of any of the rules. Such notifications should be made to the Market Supervision department on +44 (0)20 7797 3666, STX 33666.

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This Stock Exchange Notice will be available on the website at
<http://www.londonstockexchange.com/en-gb/products/membershiptrading/rulesreg/stockexnoticesnew/>

Calls to London Stock Exchange plc may be recorded to enable London Stock Exchange to carry out its regulatory responsibilities