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## Governance, Risk Management and Algorithm Testing to Meet RTS6 Requirements for MiFID II

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New challenges for an electronic trading world

- Electronic Trading is increasingly under the spotlight.

- Regulators, Auditors, Compliance, Operational Risk.

- ALL firms who provide electronic services need to demonstrate oversight, training, and a deep understanding of the protective controls framework.

- Governance - Documentation, evidencing, testing.

Complexity

Regulation

Risk

Controls

Technology

Commoditised
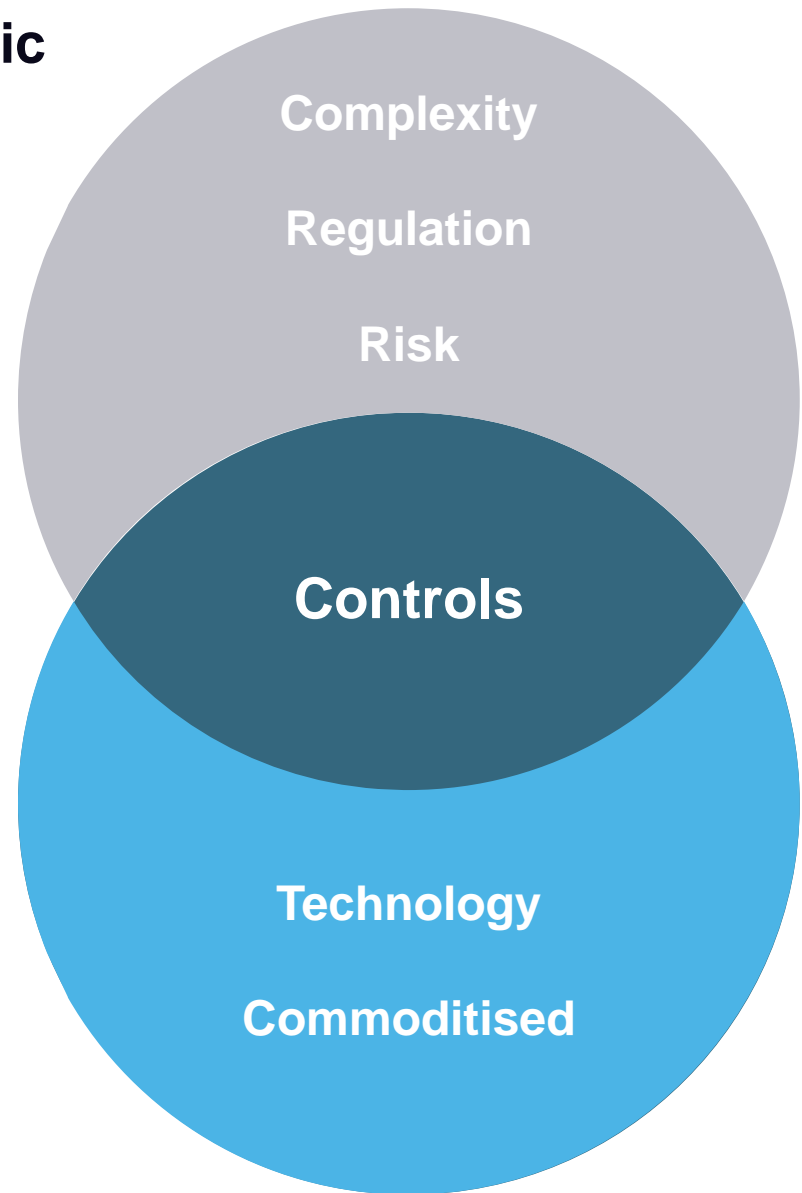
MiFID II Article 17 RTS 6

Organisational requirements of investment firms engaged in algorithmic trading.
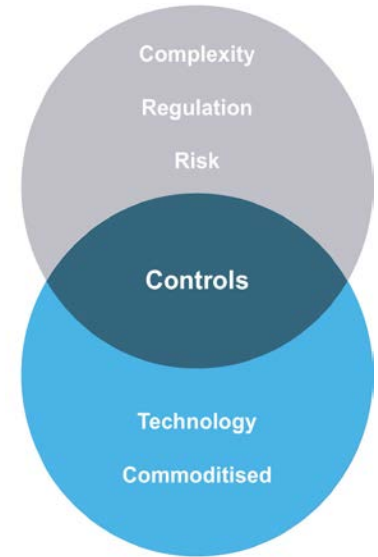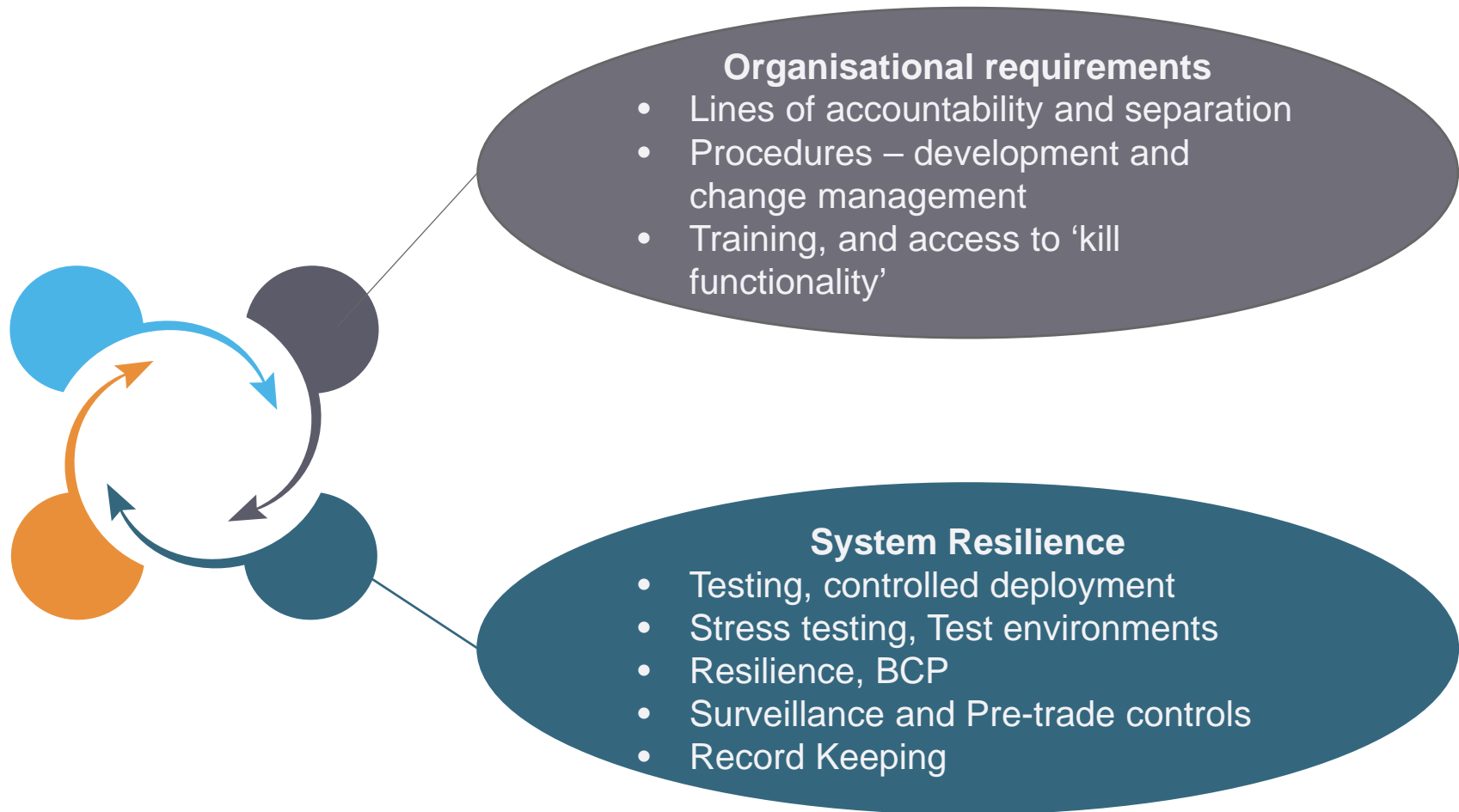

- *"the potential risks arising from algorithmic trading can be present in any trading model supported by electronic means and deserve specific attention and regulation"*

- "the organisational requirements to be met by all investment firms engaging in **algorithmic trading**, providing **direct electronic access** (DEA) or acting as **general clearing members**"

Organisational requirements of investment firms engaged in algorithmic trading.

GENERAL CLEARING MEMBERS

ORGANISATIONAL REQUIREMENTS

DIRECT ELECTRONIC ACCESS

SYSTEM RESILIENCE

Prevention

Detection

Stability
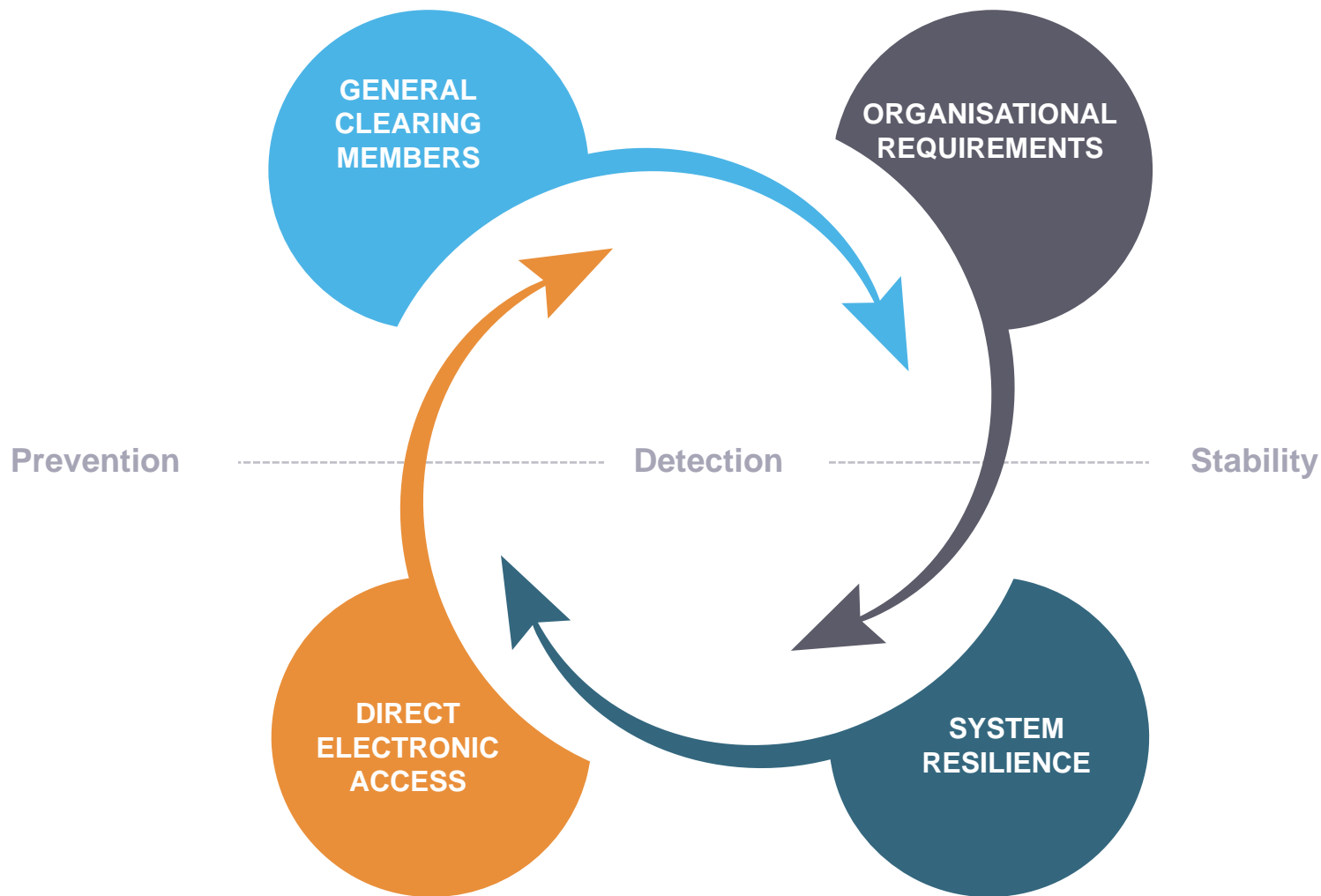
Organisational requirements of investment firms engaged in algorithmic trading.

Organisational requirements
- Lines of accountability and separation
- Procedures – development and change management
- Training, and access to 'kill functionality'

System Resilience
- Testing, controlled deployment
- Stress testing, Test environments
- Resilience, BCP
- Surveillance and Pre-trade controls
- Record Keeping

Organisational requirements of investment firms engaged in algorithmic trading.

Direct Electronic Access
- Oversight and Control
- 'Separate and distinct' monitoring
- DD and KYC, including considering historic behaviour of the client

General Clearing Members
- Client assessments around credit strength, risk controls and other system controls
- Intended trading strategies of clients

10 point checklist

- **Notify** local EU National Competent Authority (NCA)
- **Document** all aspects of behaviour within certain trading strategies, including the use of quoting engines, algorithms and SORs.
- **Review and document** all risk controls and associated trading limits.
- **Store** all orders and quotes for 5 years to 1 microsecond accuracy.
- **Train** all compliance staff on algorithm usage, and ensure the allocation of sufficient resources

10 point checklist

- Accommodate **kill switch** functionality
- Have real-time order and trade **surveillance** on a cross-asset basis with full case management.
- Review the trading firm's IT **business continuity,** business, operational and cyber risk documentation on an annual basis and demonstrate that suitable levels of **testing** on the standards were performed.
- Review, evidence and document all related **trading limits** and have ability to test those methodologies as required.
- **Annual Audit** of above, and assume responsibility even when outsourced

A hard nut to crack

Demonstrating governance and oversight is not easy.

Multiple asset classes, all with bespoke processes.

Lack of centralise knowledge, policies and procedures.

The controls framework, the documentation, and the knowledge does not sit with one person or one team.

Documentation is fragmented – at best.

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How to implement this properly

Standardisation.

GreySpark have developed a methodology and process to capture the controls across all platforms in a consistent manner.
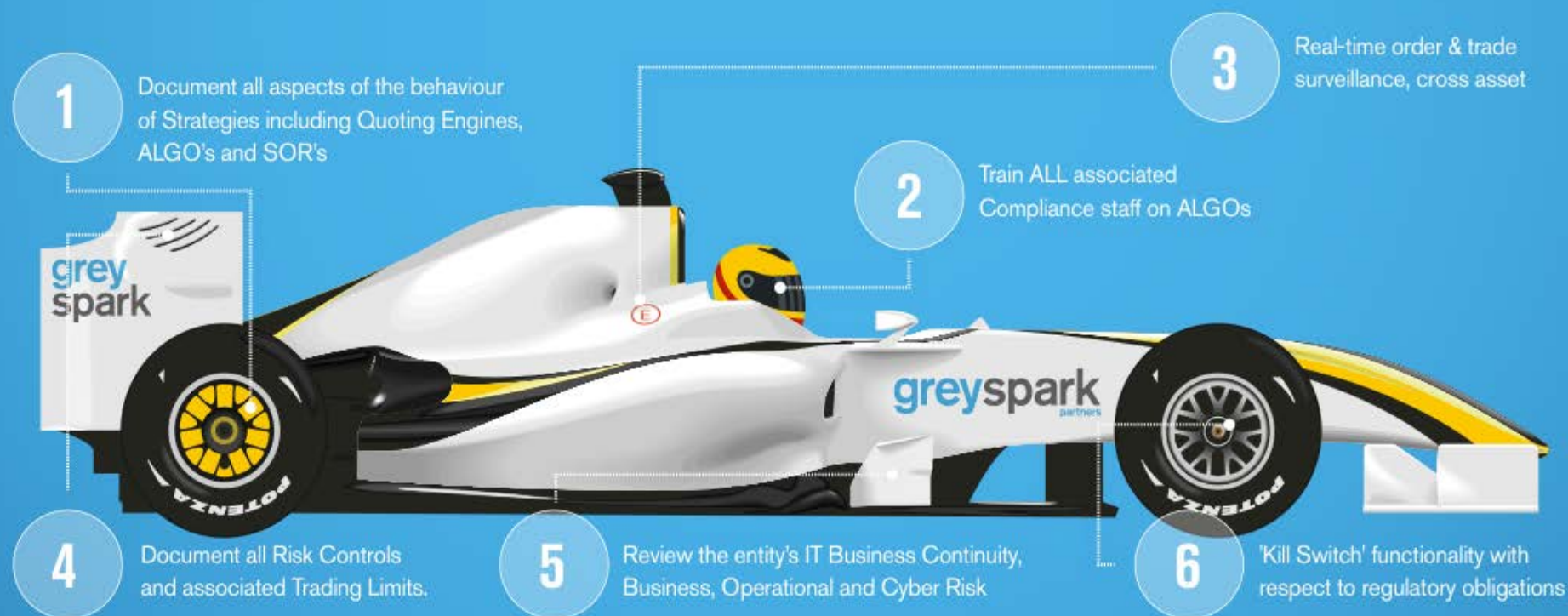
It is clearly labour intensive, manual, and requires a high degree of care and attention to minimise mistakes.

Having a dedicated team is critical to capture the consolidated governance, policies & processes and evidencing the controls.

Outsourcing the effort will minimise the risk of delivery. This does not exclude the need for internal teams to be involved – the contrary.

Governance, Risk and Compliance for RTS 6

1 Document all aspects of the behaviour of Strategies including Quoting Engines, ALGO's and SOR's

2 Train ALL associated Compliance staff on ALGOs

3 Real-time order & trade surveillance, cross asset

4 Document all Risk Controls and associated Trading Limits.

5 Review the entity's IT Business Continuity, Business, Operational and Cyber Risk

6 'Kill Switch' functionality with respect to regulatory obligations

GreySpark: our expertise

GreySpark offers Capital Markets business, management and technology consulting. We are at the heart of the financial industry, helping different kinds of businesses across all asset classes. GreySpark is 100+ people based out of London, Hong Kong Sydney and Edinburgh as of January 2017.

Proven RTS 6 Governance methodology…

come and speak to us at Booth 10, in the Atrium