

*Second OECD-China Forum on Public Debt Management  
and Government Securities Markets*

# **Market Surveillance in Belgium**

Supervision of the secondary market in  
government securities by the Securities  
Regulation Fund

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# Overview

- Market surveillance purposes
- Collection of basic information
- Systematic control procedures
- Focus of systematic controls
- Indications of infringement - Procedure
- Outcome of investigation
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# Market Surveillance purposes

- Monitor compliance with market rules
- Monitor compliance with reporting rules (on behalf of BFIC)
- Monitor compliance with public order rules (on behalf of BFIC):
  - market manipulation
  - insider trading
  - code of conduct

# Collection of Basic Information

- Reporting of transactions
- Periodic inspections
- Other sources of basic information

# Reporting of transactions

- Base for market surveillance and market transparency
- Only outright purchases and sales
- Transaction details to be reported
- Reporting deadline (before 10.30 a.m. T+1)
- Reporting channels
  - ICMA's reporting and matching system Trax (compulsory for primary dealers)
  - NBB's Securities Settlement System

# Periodic inspections

- Only applicable to market members
- Written versus on the spot inspections
- Requested information
  - documentary evidence of a sample of transactions (contract notes, confirmations...)
  - file of all transactions for a given period
  - description of internal organization and procedures
- Verifying storage of telephone conversations and transaction data

# Other sources of basic information

- Other trade information
  - real time access to surveillance screen and database of MTS Belgium
  - copy of primary dealers' activities reports to Belgian Debt Agency
- Information providers and media
  - price evolution, auction results, market comments, rumours, infringements, financial innovations...
- Information provided by foreign supervisors

# Systematic control procedures (1)

- Monitoring of market evolution on Reuters and MTSB screens
- Consistency control of trade data
  - comparison of Trax reporting data with NBB's SSS data, MTSB data, PD's activities reports and periodic inspection data
  - comparison of transaction prices with official reference prices

# Systematic control procedures (2)

- Automated queries
  - daily turnover per market participant
  - list of all transactions exceeding € 100 mln
  - track possible wash trades (artificial trades)
  - exhaustiveness and timeliness of reporting
- Analysis of auctions (prices and allocation)
- Investigation of rumours or comments relating to possible infringements

# Focus of systematic controls

- Market rules
  - correct implementation of market rules
  - adequate organization and internal procedures
- Reporting rules
  - exhaustiveness, accuracy and timeliness
- Public order rules
  - market manipulation: squeezes and wash trades
  - insider trading
  - code of conduct: best execution rule

# Indications of infringement of public order rules - Procedure (1)

- Written or on the spot ad hoc inspection with the investigated institution(-s) requiring
  - justification of operation
  - additional transaction information (for own or for a client's account...)
  - detailed evolution of securities accounts
  - transcripts of e-mails and phone recordings
  - justification of compatibility of operation with internal audit and risk management procedures

# Indications of infringement of public order rules - Procedure (2)

- Ad hoc queries of database
  - screening of data of the investigated institution(-s) (similar cases ?)
  - specific queries depending on the case (e.g. squeeze)
- Request for additional information
  - from electronic trading platforms (e.g. MTSB)
  - from other market members
  - from Treasury (e.g. detailed auction results)

# Indications of infringement of public order rules - Procedure (3)

- Appeal, through BFIC, to foreign supervisors for obtaining information from:
  - foreign financial institutions (non-market members)
  - foreign trading platforms (e.g. EuroMTS)

# Outcome of investigation (1)

- Report with SRF's conclusions and recommendations provided to management of investigated institution(-s)
  - request to remove shortcomings
  - request to adapt internal procedures
- Impose a sanction (*breach market rules*)
- Transfer file with SRF's conclusions to BFIC (*infringement reporting or public order rules*)

# Outcome of investigation (2)

- Circular to market members
  - to remind existing rules ("warning")
- Adapt regulatory framework
  - lay down new rules or change existing ones
  - suggest change code of duties primary dealers
- Change control procedures
  - develop new queries or change existing ones

# Assessment (1)

- Market rules
  - a lot of observations and recommendations (no use of contract notes and confirmations and missing or incorrect data, no timely settlement, no phone recordings, incorrect daycount...)
- Reporting rules
  - a lot of observations and recommendations (no, late or double reporting, no reporting of cancellations, reporting of internal transactions and sell/buybacks, incorrect data...)

# Assessment (2)

- Public order rules (since July 1998)
  - market manipulation
    - squeezes: 6 investigations
    - wash trades: 7 investigations
    - price positioning: 2 investigations
  - insider trading: 1 investigation
  - code of conduct:
    - charging unreasonable prices: 3 investigations
    - reckless trading: 1 investigation
- Other observations
  - unauthorized use of client securities

# Concluding remarks

- Reporting is critical for market surveillance of OTC-transactions
- Pro-active market surveillance has a deterring effect
- Importance of a pragmatic approach
  - avoid excessive paperwork and bureaucracy for market members
- EU-cooperation through CESR satisfactory
  - however, legal hurdles hamper co-ordinated sentence in transnational cases

# More Information

- Securities Regulation Fund
  - [www.rentenfonds.be](http://www.rentenfonds.be)
- Banking, Finance and Insurance Commission (BFIC)
  - [www.cbfa.be](http://www.cbfa.be)
- Committee of European Securities Regulators (CESR)
  - [www.cesr-eu.org](http://www.cesr-eu.org)
- International Capital Market Association
  - [www.icma-group.org](http://www.icma-group.org) (Trax reporting)