



Dear Sir, Madam,

Obligations of firms with respect to the monitoring of orders and transactions

The following competent authorities under coordination of European Securities and Markets Authority (ESMA):

Autoriteit Financiële Markten (AFM),
Autorité des marchés financiers (AMF),
Autorité des Services et Marchés Financiers (FSMA),
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin),
Central Bank of Ireland (CBI),
Comisión Nacional del Mercado de Valores (CNMV),
Comissão do Mercado de Valores Mobiliários (CMVM),
Commissione Nazionale per le Società e la Borsa (Consob),
Cyprus Securities and Exchange Commission (CySEC),
Österreichische Finanzmarktaufsicht (FMA),
and the Financial Services Authority (FSA)

are undertaking joint coordinated action in order to help identify and prevent layering and spoofing from occurring on the European financial markets¹. This type of activity is most frequently seen by competent authorities when firms and/or clients:

- Layer the order book, in which multiple orders are submitted at different prices on one side of the order book slightly away from the touch;
- Submit an order to the other side of the order book (which reflects the client's true intention to trade); and
- Following the execution of the latter order, rapidly remove the multiple initial orders from the book.

This behavior may give a false or misleading impression about the supply and demand for securities and may constitute market abuse.

We would therefore like to remind firms of their obligations to have appropriate systems and controls in place to identify and prevent layering and spoofing as per the ESMA guidelines "Systems and controls in an automated trading environment for trading platforms, investment firms and competent authorities", which became effective as of 1 May 2012.

In addition, we would also like to remind DMA providers of their responsibility for the trading of their clients. These firms are required to establish policies and procedures to ensure trading of their clients complies with the rules and procedures of the relevant trading platforms to which the orders of such clients are submitted, and enables the investment firm to meet its obligations under MIFID and other

¹ Layering and Spoofing as described in as guideline 5 of the ESMA guidelines involves "submitting multiple orders often away from the touch on one side of the order book with the intention of executing the trade on the other side of the order book. Once that trade has taken place, the manipulative orders will be removed"



relevant Union and national law. In particular, these firms should monitor the trading activities of clients, which involves having adequate market abuse detection systems in place.

Furthermore, we remind firms of their continuing obligation to notify their competent authority of any reasonable suspicions of market abuse.

Where there are circumstances to suggest that abusive conduct has taken place in the order book, or where the systems and controls are not deemed sufficient, the relevant competent authorities may consider supervisory or enforcement action.

Firms should also be reminded that competent authorities may seek to visit regulated firms to help assess the adequacy of the systems and controls implemented to comply with the ESMA guidelines.

We hope this is helpful and clearly sets out the importance that we ascribe to this matter. If you have any further queries, please direct them to xxxxxx

Yours sincerely,