AFM - self assessments RTS6

2019 Analysis

Algorithmic trading = Core risk

Focus area in AFM Trendzicht 2019 and 2020

Digitization of capital markets

Risk 1. Cybersecurity

Risk 2. Operational Risk and IT

Risk 3. Outsourcing

AFM Trendzicht 2020

De belangrijkste trends en bijbehorende risico's die de financiële markten gaan beïnvloeden

Ga direct naar Trendzicht

Supervision of PTFs and algorithmic trading

Goal

1. Fair and effective capital markets

2. Trust in financial markets

Risks / threats
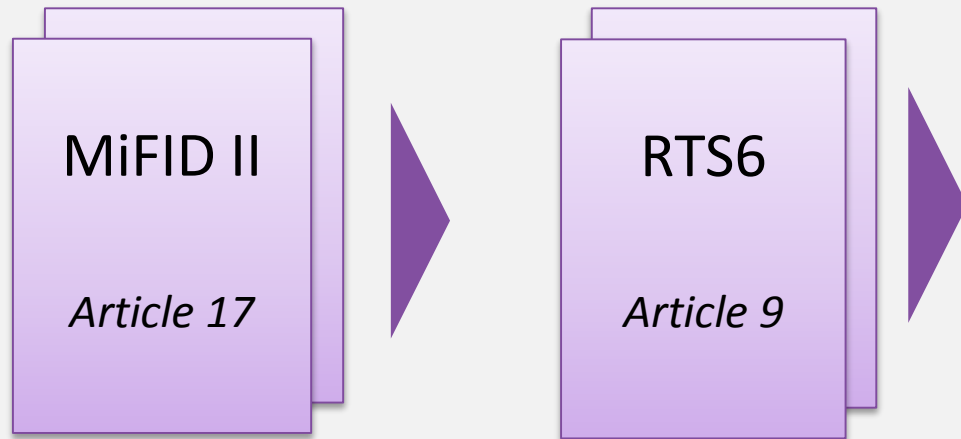
| 1 | Market disruption |
| 2 | Market manipulation |

| 1 | Prevent |
| 2 | Detect |

AFM

Self-Assessment| Regulation

Regulatory Framework

MiFID II

Article 17

RTS6

Article 9

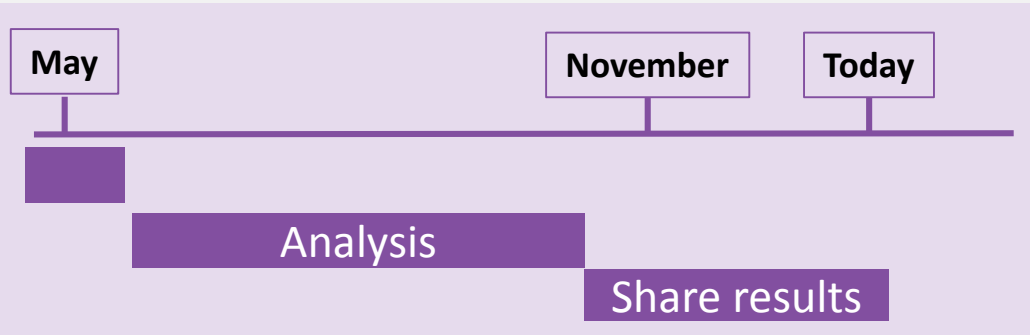| Self-Assessment	
Scope	Investment firms that engage in algorithmic trading
Cycle	Annually
Format	None prescribed
Content	Article 9 of RTS
Proportionality	Annex I

Self-Assessment | AFM analysis 2019

(1) **Goals**

1. Ensure firms conduct assessment
2. Identify areas of attention
3. AFM understanding of sector maturity
4. Basis for future assessments

(2) **Method**

May	November	Today

Analysis

Share results

(3) **Feedback: Letter**

1. Key areas of attention for the sector
2. Firm specific results
3. General sector-wide feedback
4. Possibility for remarks
5. Suggested template

Self-Assessment | Key Areas of Attention

	Observation	**Recommendation**
1 Self-Assessment	• Insufficient information • Structure RTS6 not followed	• Clear and detailed descriptions • Proportionality substantiated • Template (available on AFM website)
2 Governance	• Insufficient information • Not embedded as per RTS6	• Segregation of duties (RACI) • Key approvals documented
3 IT-security	• Insufficient information • Not embedded as per RTS6	• IT security as part of Risk Framework • Penetration and vulnerability scans

Results | Other topics

1. Outsourcing
2. Stress testing
3. Kill functionality
4. Pre- and post trade risk controls
5. Automated surveillance system

Self-Assessment - Suggested template 1/2

Please state level of compliance with the article in the last column of the below table:
1. good, 2. pass, 3. insufficient, 4. not applicable

I General Organizational requirements	Evaluation
Article 1 - General organizational requirements	*Fill out*
Article 2 - Role of the compliance function	
Article 3 - Staffing	
Article 4 - IT outsourcing and procurement	
II Resilience of Trading Systems	
Section 1: Testing and deployment of trading systems and strategies	
Article 5 - General methodology	
Article 6 - Conformance testing	
Article 7 - Testing Environments	
Article 8 - Controlled deployment of algorithms	
Section 2: Post-deployment management	
Article 9 - Annual self-assessment and validation	
Article 10 - Stress testing	
Article 11 - Management of material changes	
Section 3: Means to ensure resilience	
Article 12 - Kill functionality	
Article 13 - Automated surveillance system to detect market manipulation	
Article 14 - Business continuity arrangements	
Article 15 - Pre-trade controls on order entry	
Article 16 - Real-time monitoring	
Article 17 - Post-trade controls	
Article 18 - Security and limits to access	
V High-Frequency Algorithmic Trading Technique and Final Provisions	
Article 28 - Content and format of order records	

Self-Assessment - Suggested template 2/2

Article 1 – General organizational requirements

As part of its overall governance and decision making framework, an investment firm shall establish and monitor its trading systems and trading algorithms through a clear and formalised governance arrangement, having regard to the nature, scale and complexity of its business and setting out:

(a) clear lines of accountability, including procedures to approve the development, deployment and subsequent updates of trading algorithms and to solve problems identified when monitoring trading algorithms;

(b) effective procedures for the communication of information within the investment firm, such that instructions can be sought and implemented in an efficient and timely manner;

(c) a separation of tasks and responsibilities of trading desks on the one hand and supporting functions, including risk control and compliance functions, on the other, to ensure that unauthorised trading activity cannot be concealed.

Level of compliance	Proportionality applied?	Remediation needed?
Please state level of compliance with the above article in this box: 1. good, 2. pass, 3. insufficient, 4. not applicable	Yes / No	Yes / No

Please substantiate your answer here on how the firm complies with the articles (and sub articles), if proportionality is applied and if yes, substantiate, and if any remediation actions are required.

Self-Assessment | proportionality

Comply or explain

Annex I

Market manipulation and market disruption

AFM supervision of algorithmic trading in 2020

Algorithmic trading will be an AFM focus area for 2020

Self assessment request may be a part of supervision in 2020

AFM considers similar approach or deep dive approach for 2020

Other investment firms may be in scope for 2020 as well