STOR Survey (2019-2020)

General Findings and Observations
1. **Introductory Remarks**

   In 2019, the CSSF launched a thematic review of more than 70 Luxembourg banks and investment firms in relation to their systems and procedures to detect and notify orders and transactions in financial instruments that could constitute market abuse. The review covered the period from 2017 to 2018. The statutory obligation for ‘persons professionally arranging or executing...
transactions’ to establish and maintain systems and procedures to detect and notify suspected market abuse is laid down in Article 16 (2) of the Market Abuse Regulation (2014) (also referred to as “MAR”). The related technical standards are set out in more detail in a delegated regulation adopted in 2016 (hereafter the “Delegated Regulation”). The surveyed entities included those entities which, in the period covered by the review, reported the highest numbers of transactions in financial instruments to the CSSF under the transaction reporting regime pursuant to Article 26 of MiFIR.

2. Within the context of the thematic review, the surveyed entities were asked to complete a questionnaire established on the basis of the aforementioned technical standards. After the evaluation of the feedback received, the CSSF communicated the general findings and observations of the thematic review to the surveyed banks and investment firms in June 2020. For a limited number of surveyed entities, the CSSF also reverted with specific observations to clarify certain elements or to highlight potential weaknesses or shortcomings. The entities in question have since reverted to the CSSF, in most cases with an indication of the measures that have been or are being implemented.

3. The findings and observations set out below have been prepared for publication on the homepage of the CSSF on the basis of the general findings and observations

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2 Commission Delegated Regulation (EU) 2016/957 of 9 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the appropriate arrangements, systems and procedures as well as notification templates to be used for preventing, detecting and reporting abusive practices or suspicious orders or transactions.

communicated by the CSSF to the surveyed entities in June 2020.

2. Observations

2.1 General Outcome

4. The CSSF notes that, generally speaking, the outcome of the STOR survey (2019) is rather positive in the sense that no major industry wide shortcomings were identified among the surveyed entities. Furthermore, the review revealed that a majority of surveyed entities had already aligned, or were in the process of aligning, their systems and procedures on the technical standards of the Delegated Regulation. That being said, a limited number of surveyed entities of different sizes indicated a need to engage in further work to bring their systems and procedures fully into line with the technical standards, or to strengthen them.

2.2 Automated Trading Services or Activities (Algorithmic Trading and DEA)

5. All of the surveyed entities indicated that their relevant business activities comprise the activity of ‘order reception and transmission’ and/or ‘order execution’, either on client account, own account or both. A number of surveyed entities also indicated that their business activities comprise algorithmic trading and/or the provision of a direct electronic access to a trading venue (DEA).

6. Automated trading services or activities such as algorithmic trading or DEA typically take place electronically with little or no relevant staff intervention allowing for human monitoring. Therefore, those trading
services or activities should normally require an appropriate level of automation for the purposes of monitoring of orders and transactions in financial instruments pursuant to Article 16 (2) MAR. In this respect, the CSSF notes that all entities that indicated being engaged in algorithmic trading and/or in the provision of DEA (as defined in MiFID 2) also indicated having put automatic monitoring procedures in place for the detection of orders and transactions that could constitute insider dealing or market manipulation or attempted insider dealing or market manipulation.

2.3 Order Chains

7. A small number of surveyed entities bound to comply with Article 16 (2) MAR referred in their feedback to the survey arrangements, systems and procedures to be established and maintained by another entity bound to comply with Article 16 (2) MAR (or with Article 16 (1) MAR).

8. Such a view finds no support in the Delegated Regulation. Article 5 (3) thereof clearly provides that “all persons [professionally arranging or executing transactions] and involved in the processing of the same order or transaction shall be responsible for assessing whether to submit a STOR.” In other words, each professional in the order and transaction chain is bound to comply with Article 16 (2) MAR and to establish and apply the technical standards of the Delegated Regulation and, where relevant, file a STOR with the CSSF (or any other

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competent national authority depending on where the professional is established). This has been clarified by ESMA in 2015: “[…] in the situation where a chain of market participants are involved in a transaction, each entity has its own obligation to report suspicions. Reporting by one entity in the chain does not absolve another entity of its duty to report its own suspicions in relation to the same or connected transactions or orders.”

2.4 Article 16 (2) MAR is not Restricted to Private Banking Activities or Clients

9. Article 16 (2) MAR clearly is highly relevant when it comes to private banking activities and clients. However, contrary to suggestions contained in the feedback of some of the surveyed entities, the scope of Article 16 (2) MAR is not restricted to private banking. Article 16 (2) MAR is activity based and applies to the execution or arrangement of orders and transactions in financial instruments regardless of, without limitation, business labels, client types, trading capacities, places of execution, etc. In particular, Article 16 (2) MAR also applies to the execution or arrangement of orders and transactions in financial instruments on behalf of investment fund clients.

3. **Findings**

3.1 **The Inclusion of Elements from the Wider Client Due Diligence: a Wide-spread Practice**

10. The survey generally found a good level of inclusion of elements from the wider client due diligence carried out by the surveyed entities into their arrangements, systems and procedures established and maintained under Article 16 (2) MAR. More specifically, almost all of the surveyed entities indicated to check, within the context of their KYC process, whether a client or beneficial owner has been or is involved in proceedings related to insider dealing or market manipulation. More than half also indicated to collect information from their client base with a view to determining whether a client or beneficial owner fits the MAR definition of “person discharging managerial responsibilities” (PDMR) or “closely associated person” (CAP). The feedback of other entities suggests that the relevant information is not collected from the client but from other sources.

11. The inclusion of elements from the wider client due diligence into the arrangements, systems and procedures referred to in Article 16 (2) MAR does not correspond to an explicit technical standard of the Delegated Regulation. Even so, it deserves to be considered as a good practice for entities that count, or are likely to count, PDMRs or CAPs among their client base depending upon the nature of their activities or services. PDMRs and CAPs are, by definition, more likely than others to have access to inside information, in particular as regards the issuer to which they are related. Furthermore, the human analysis of orders and transactions detected for further examination is, at least partially, dependent upon the information available in the client files. Last but not least, clients that qualify as PDMR or CAP are subject to certain notification obligations under Article 19 MAR, including with respect
to transactions entered into on their behalf by banks, investment firms or other third parties to whom they have granted discretionary mandates.\textsuperscript{6}

\subsection*{3.2 Demonstration of Appropriateness and Proportionality of Arrangements, Systems and Procedures Maintained and Established (Article 2 (5) (a) and Article 3 (2) of the Delegated Regulation)}

12. The Delegated Regulation requires the arrangements, systems and procedures to be appropriate and proportionate to the nature, size and scale of the business activities of entities bound to comply with Article 16 (2) MAR.\textsuperscript{7} It also requires entities to demonstrate such appropriateness and proportionality to the regulator upon its request.\textsuperscript{8} Against this background, the survey sought to collect information on whether entities had conducted a detailed assessment prior to the implementation of their systems, arrangements and procedures as well as information on the involvement of their legal representatives (i.e. in a typical Luxembourg public limited company (société anonyme), the authorized management and the board of directors).

13. A large majority of the surveyed entities indicated that the authorized management had taken measures to ensure that the arrangements put into place are appropriate and proportionate to the scale, size and nature of the entity’s business activities. More than half also indicated that the board of directors had been involved. Last but not least,

\textsuperscript{6} Cf. Article 19 (7) (b) of MAR.

\textsuperscript{7} Article 2 (5) (a) and Article 3 (2) of the Delegated Regulation.

\textsuperscript{8} Article 2 (5) in fine and Article 3 (2) of the Delegated Regulation.
a large majority indicated having carried out a detailed risk assessment of the market abuse risks to which they or their clients are exposed before designing the arrangements, systems and procedures required by Article 16 (2) MAR.

3.3 Clarity of Written Procedures (Article 2 (5) (c) of the Delegated Regulation)

14. For the clarity of the written procedures that is a requirement under the Delegated Regulation the self-assessment of the surveyed entities was almost unanimously positive, with the exception of a small number of entities that indicated that a review of their procedures is necessary and underway.

3.4 The Monitoring of Orders and Transactions (Articles 2 (1) (a), 2 (2) and 3 (1) of the Delegated Regulation)

3.4.1 Scope of Monitoring

15. The definitions of insider dealing and market manipulation have been extended significantly by MAR as compared to the former market abuse regime set up by MAD\(^9\). MAR now expressly contemplates that insider dealing may not only occur by acquiring or disposing of financial instruments, but also by cancelling or amending an order. On this point, Article 8 (1) MAR provides, in its relevant parts, that “the use of inside information by cancelling or amending an order concerning a financial instrument to

which the information relates where the order was placed before the person concerned possessed the inside information, shall also be considered to be insider dealing.”10 Attempted insider dealing and attempted market manipulation are also explicitly prohibited by MAR.11

16. This extension of the scope of the behavior that is prohibited by MAR has had an impact upon the scope of the monitoring, detection and reporting obligations of professionals bound to comply with Article 16 (2) MAR. The obligations in question are no longer confined to suspicious transactions that might constitute insider dealing or market manipulation, but have been extended to include suspicious orders as well as attempted insider dealing or market manipulation.12 As a result, the monitoring is no longer limited to executed transactions, but shall “allow for the analysis, individually and comparatively, of each and every transaction executed and order placed, modified, cancelled or rejected.”13

17. The survey found that, in 2017 and 2018, a number of entities had not yet fully adjusted the scope of their obligations to the extended behavior that is prohibited by MAR. In particular, the survey showed that, in certain cases, the monitoring of order cancellations and amendments could be technically challenging because the core system does not allow to distinguish between client-induced order cancellations and amendments, on the one

10 Also see recital 26 of MAR.
11 Article 14 (a) MAR and Article 15 MAR.
12 The difficulties of identifying attempted market abuse were already highlighted within the course of the adoption of the Delegated Regulation (cf. § 192 of ESMA Discussion Paper 2013). ESMA assuaged the concerns by pointing out that reporting is required only when there is a reasonable suspicion of market abuse or attempted market abuse (cf. § 183 of ESMA Consultation Paper 2014).
13 Article 3 (1) (a) of the Delegated Regulation.
side, and order cancellations or amendments for other reasons (such as, for example, to correct a mistake in inputting the order). The entities concerned have sought to overcome those technical limitations through the adoption of appropriate market abuse policies providing for staff vigilance and training.

18. Regardless of whether the monitoring occurs automatically or through staff vigilance, it may be quite difficult to monitor attempts, in particular, but not exclusively, because MAR contains no general definition of ‘attempt’. In this latter respect, some guidance may, however, be drawn from the recitals of MAR. Recital 23 envisages attempted insider dealing as attempts to acquire or dispose of financial instruments or attempts to cancel or amend orders. When it comes to market manipulation, recital 41 clarifies that this includes situations where the activity is started but not completed, for example, as a result of failed technology or an instruction to trade which is not acted upon (unexecuted orders).

19. The survey also found that not all surveyed entities had yet fully included all types of financial instruments into their monitoring systems, in particular as regards derivatives. It is however clear that the monitoring under Article 16 (2) MAR applies not only with respect to listed derivatives, but also as regards OTC derivatives where the underlying instrument is traded on a trading venue (regulated market, MTF or OTF). The entities in question have indicated to have put in place appropriate procedures pending the integration of derivatives into their automated surveillance systems.

3.4.2 Automated Monitoring

20. Almost half of the surveyed entities indicated to have in place automated surveillance systems. They include the entities with the highest number of orders and
transactions in financial instruments in 2017 and 2018. On this point, it appears that while certain entities have deemed it appropriate to resort to third party software in the design and implementation of their systems, others have resorted to in-house built tools. Under the Delegated Regulation, both solutions are acceptable provided that they ensure an effective and ongoing monitoring for the purposes of detecting insider dealing, market manipulation or attempted insider dealing and market manipulation.

21. Entities may wish to note that, according to ESMA, the elements to be taken into account in considering whether an automated monitoring is necessary and, if so, its level of automation include: the number of transactions and orders that need to be monitored, the type of financial instruments traded, the frequency and volume of orders and transactions, and the size, complexity and/or nature of the business.14

3.4.3 Parameters

22. The survey found that in most cases, the monitoring is based on a combination of parameters rather than on a single parameter. The parameters generally are based on order size, order volume, order frequency, client identity, price volatility, pre-arranged trades, unusual price, trading before news, etc. It goes without saying that the calibration of those parameters needs to be adequate in light of the specific size and scale of the business of each entity. It is clear that parameters and calibration that may be appropriate for one entity are not necessarily

appropriate for another entity. There is no “one size fits all” when it comes to calibration.

3.5 The Human Analysis (Article 3 (4), and Article 5 (1) and (3) of the Delegated Regulation)

23. The survey found that in most entities, it is the Compliance function that is in charge of the human analysis of orders and transactions flagged for further analysis, whether detected through automatic alerts or staff vigilance. The finding is the same as regards the sign-off on whether to file a suspicious transaction and order report (STOR) with the CSSF or not.

24. The allocation of the human analysis and the sign-off to Compliance is in line with the general requirements of CSSF Circular 12/552 (for credit institutions) or of CSSF Circular 20/758 (for investment firms). On the basis of the “comply or explain approach”, it is possible to designate a different department, body or function provided that the department, body or function thus designated is in a position to carry out the human analysis independently and free from conflicts of interest.

25. The survey found a very positive self-assessment when it comes to the unrestricted rights of access of the individuals in charge of the human analysis and the written documentation of the analysis carried out, including the reasons for submitting or not submitting a STOR. On this point, it may be worth recalling that pursuant to Article 5 (8) of the Delegated Regulation, entities are obliged to maintain for a period of five years the information documenting the analysis carried out with regard to orders and transactions that could constitute insider dealing, market manipulation or attempted insider dealing or market manipulation which have been examined. It is important to note that the
documentation requirement not only applies to STORs actually submitted to the CSSF but more widely to all analysis carried out pursuant to the Delegated Regulation whether a STOR has eventually been submitted or not.\textsuperscript{15}

26. Entities may also wish to note the no-tipping off rules enshrined in Article 5 (4) and (5) of the Delegated Regulation.\textsuperscript{16} Similar no-tipping off rules exist under applicable AML legislation.\textsuperscript{17} The purpose of the no-tipping off rules is to preserve the integrity of any investigation that may be launched by the national competent authorities under MAR following the submission of a STOR.\textsuperscript{18} In the day-to-day examination of the STORs received from Luxembourg entities, it can be noted that entities sometimes contact their clients to enquire about the rationale of a particular investment. While such enquiries certainly cannot be considered, in a general and abstract manner, to constitute a violation of the no-tipping off rules of the Delegated Regulation, entities should nevertheless be careful in those enquiries not to cross the fine line between an analysis legitimately carried out in accordance with Article 5 (1) and (3) of the Delegated Regulation and tipping-off individuals in violation of Article 5 (4) or (5) of the Delegated Regulation. Therefore, enquiries with the client should be made very cautiously to avoid alerting the client on the potential submission of a STOR.

\textsuperscript{15} Also see recital 12 of the Delegated Regulation.

\textsuperscript{16} The questionnaire contained no specific questions dealing with the no-tipping off rules.

\textsuperscript{17} See Article 5 (5) of the amended law of law of 12 November 2004 on the fight against money laundering and terrorist financing.

3.6 **The Annual Audit and Review (Article 2 (5) (b) of the Delegated Regulation)**

27. The Delegated Regulation requires an annual audit and internal review of the arrangements, systems and procedures referred to in Article 16 (2) MAR.

28. The annual audit and internal review in question is not explicitly mentioned in the CSSF Circular 12/552 on central administration, internal governance and risk management. Even so, according to the survey, this technical standard of the Delegated Regulation seems to be largely complied with. There only were a limited number of entities which indicated that the last relevant audit took place in 2017 or even before that. The entities in question have been invited, by way of specific observations, to proceed to an internal review and audit.

3.7 **The Delegation Arrangements (Article 3 (6) and (7) of the Delegated Regulation)**

29. The survey found that almost a third of the surveyed entities (mostly banks) use the intra-group delegation contemplated in the Delegated Regulation. The delegates mostly are parent companies that are licensed as banks and established in another Member State, i.e. the delegate itself is bound to comply with Article 16 (2) MAR and the Delegated Regulation.

30. Not all concerned entities indicated the existence of a written intra-group delegation, which is nevertheless an explicit requirement under the Delegated Regulation.

19 Article 3 (6) of the Delegated Regulation.
The latter also requires the agreement to be clear, to assign the tasks and responsibilities and to indicate the duration of the delegation. It may be worth highlighting here that the existence of an intra-group delegation arrangement does not relieve entities of their duty to demonstrate the appropriateness and proportionality of their systems, arrangements and procedures in light of their own business activities (as opposed to the business activities of the intra-group delegate), including in particular as regards the calibration of the alert parameters.

31. Only a small number of entities indicated to make use of the third-party delegation possibility referred to in Article 3 (7) of the Delegated Regulation. The delegates mostly are third party software providers or third-party banks. It is recalled that the third-party delegation possibility is much more limited in scope than the intra-group delegation possibility. By virtue of the Delegated Regulation, it can only relate to data analysis, including order and transaction data, and the generation of alerts but not, unlike the intra-group delegation, to all of the monitoring, detection and identification functions. Article 3 (7) of the Delegated Regulation lays down the requirements with which the delegation arrangements and its monitoring must comply.

3.8 The Effective and Comprehensive Market Abuse Detection Training to be Provided to Staff Involved in the Monitoring (Article 4 (1) of the Delegated Regulation)

32. The survey found a wide-spread positive self-assessment as regards the technical standards of the Delegated Regulation on the effective and comprehensive training to be provided to the staff involved in the monitoring, detection and identification of orders and transactions that could constitute insider dealing, market manipulation
or attempted insider dealing or market manipulation.\textsuperscript{20} Almost all entities indicated that the training required by the Delegated Regulation had been provided in recent years. Most entities also indicated that the training in question was provided to all relevant staff, which, according to the Delegated Regulation, shall include the staff involved in the processing of orders and transactions.

33. The Delegated Regulation arguably leaves much flexibility as regards the organization and provision of the required training (i.e. e-learning or face to face, by an external or internal provider, etc.) provided that (i) it is effective and comprehensive, (ii) is provided to all relevant staff, including the staff involved in the processing of orders and transactions, (iii) takes place on regular basis and (iv) is appropriate and proportionate to the scale, size and nature of the business. The most effective training, as already highlighted by ALCO in 2010,\textsuperscript{21} is a training that is as close as possible to the daily activities of the staff to whom it is dispensed.

3.9 The Reporting of STORs to the CSSF (Article 6 of the Delegated Regulation)

34. A significant number of the surveyed entities indicated to have reported at least one STOR to the CSSF in 2017 and 2018. The survey found that banks generally are more active in reporting STORs than investment firms (or, for that purpose, other entities bound to comply with Article\textsuperscript{20} Article 4 (1) of the Delegated Regulation.
\textsuperscript{21} ALCO, Newsletter, n°20, October 2010.
16 (2) MAR such as, for example, asset managers\(^{22}\). Investment firms may wish to review their practice in this respect and, if and to the extent relevant, implement any necessary changes.

35. As regards the STORs filed in 2017 and 2018, it may be noted that, from a substantive point of view, the quality of the STORs received from Luxembourg entities is generally speaking rather good. Some entities clearly take great care to ensure that the information conveyed in a STOR is as accurate, complete and relevant as possible. The quality issues identified mostly relate to technical points (ex: missing LEI, date format, divergences between order and transaction information set out in the STOR itself and, on the other, included in appendices). Some of those technical points may, at least at first sight, seem minor. They are nevertheless important, in particular in light of the exchange of STORs among national competent authorities pursuant to Article 16 (4) MAR. In addition, abbreviations or jargon should ideally be avoided.

3.9.1 Threshold for STOR Submission

36. The threshold for filing a STOR is the existence of a reasonable suspicion. This is expressly spelled out in Article 6 (1) of the Delegated Regulation. That threshold applies to insider dealing, market manipulation or attempted insider dealing or market manipulation.

\(^{22}\) On the definition of persons professionally arranging or executing transactions under MAR, please refer to the Questions and Answers on the Market Abuse Regulation published by ESMA (in particular question n°6.1 thereof).
When it comes to the detection and reporting of potential cases of insider dealing, it follows from that threshold that, as a matter of elementary principle, only those transactions carried out prior to the announcement of price-sensitive information should be reported to the CSSF for which, after analysis, there is a reasonable suspicion of insider dealing. The survey found that a large majority of surveyed entities correctly understand that threshold.

37. On this point, it may be worth highlighting that entities bound to comply with Article 16 (2) MAR are or should be in a position to detect transactions entered into prior to the announcement of price-sensitive information with the help of appropriate surveillance systems (such as, for example, but without limitation, surveillance systems operating on the basis of an analysis of market news or alerts based on unusually high profits either triggered automatically or raised by staff according to a market abuse policy). It would however not be in line with the Delegated Regulation to systematically submit all such timely transactions as reasonably suspicions of insider dealing, without further analysis taking into account all information available to the entity. Besides the timely nature of the transaction, other elements to be taken into account include or may include, without limitation, the profit made on the transaction, the characteristic features of the transaction as compared to other transactions by the same client, any unusual behavior surrounding the placing of the order, the connection or possible connection between the client and individuals working for the issuer or its advisors, etc. The repeated occurrence of timely and highly profitable transactions prior to the announcement of price-sensitive information may also ground a reasonable suspicion of insider dealing and call for the submission of a STOR.

3.9.2 Timing Requirements
38. The survey found that the timing requirements of the Delegated Regulation are generally complied with.\textsuperscript{23} In the vast majority of cases, STORs were reportedly notified to the CSSF within less than 20 days or even less than 10 days from the formation of a reasonably suspicion of actual or attempted insider dealing or market manipulation. In this context, it may be worth highlighting the possibility (or rather the obligation) to report any additional relevant information of which a reporting entity may become aware after the STOR has been submitted.\textsuperscript{24}

3.9.3 CSSF Information Requests as Indicators of Potential Weaknesses

39. For a very small number of entities, the survey confirmed the existence of marked discrepancies between the number of STORs filed by an entity with the CSSF and, on the other hand, the number of information requests submitted to the same entity by the CSSF in market abuse investigations. Such marked discrepancies can be an indication of potential weaknesses in the entity’s arrangements, systems and procedures to detect and report orders and transactions that could constitute insider dealing, market manipulation or attempted insider dealing or market manipulation. In this respect, it is worth noting that several surveyed entities indicated to check, after having received a relevant CSSF information request, whether their own systems to detect and report suspicious orders and transactions are appropriate and have been properly followed in the case at hand. Such internal verification has much to commend itself and deserves to be approved as a good practice.

\textsuperscript{23} Article 6 (1) of the Delegated Regulation ([…] without delay […] once a reasonable suspicion of actual or attempted insider dealing or market manipulation is formed.)

\textsuperscript{24} Article 6 (3) of the Delegated Regulation.
3.10 The Parallel Reporting of Suspicious Activity Reports to the Financial Intelligence Unit

40. The survey found that the vast majority of entities that filed a STOR with the CSSF in the period covered by the survey also filed a related ‘suspicious activity report’ (SAR) with the Financial Intelligence Unit (FIU) in consideration of the circumstance that insider dealing and market manipulation also are predicate offences under applicable AML legislation.\(^{25}\)

41. In theory, the submission of STORs to the CSSF pursuant to Article 16 (2) MAR is not to be confused with the submission of SARs to the FIU under applicable AML legislation.\(^{26}\) The obligation to submit STORs to the CSSF exists independently of, and in addition to the obligation to file SARs with the FIU. In practice, as shown by the survey, this will often lead to a double reporting, which seems difficult to avoid given that the defining elements of the administrative violations of insider dealing and market manipulation and the criminal offences of insider dealing and market manipulation are identical and that the threshold under MAR and applicable AML legislation for the reporting of suspicions to the authorities are very similar.

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Luxembourg, February 2021

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\(^{25}\) Article 506-1 of the Luxembourg Criminal Code.

\(^{26}\) Article 5 (1) (a) of the amended law of 12 November 2004 on the fight against money laundering and terrorist financing.