

Market Abuse Insider Dealing Detection Market Abuse

Bosch Software Innovations



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Turning Away Is Dangerous: Detect and Prevent Undesirable Trading Practices

An extensive report in a recent issue of “Der Spiegel”, a well-known German news magazine illustrates just how longlasting the damage can be when a bank fails to pay close attention. When one of its employees advises a customer to trade in order to gain personal advantage at the customer’s expense, then a dishonest employee can damage a bank’s good reputation for months. But with the number of employees and the volume of daily transactions, is it really possible to determine where and when the situation is getting out of control? Yes, it is: The MAID market abuse module is designed to detect exactly those individual instances – and in good time, before damage claims arise and the bank’s reputation is at stake.

Monitor Transactions and Create Clarity

Although as a rule a bank sees only one side of a market trade, even that angle of vision is enough to detect a whole range of behavior patterns that can indicate attempted market manipulation. MAID supports banks in reviewing customer transactions and characteristics for possible indications of abuse.

A bank establishes scenarios that, when they occur, require the transaction to be investigated. Activities designed to simulate market volumes in order to influence prices are one example. Another example is when a series of transactions are used to give the impression that there has been a change of ownership when there has not been one (wash trades). When a transaction violates a scenario, the incident must be manually investigated.

MAID - Market Abuse

The screenshot displays the 'Compliance Suite' interface. At the top, there are search filters for 'Business relationship', 'Partner', and 'Instrument'. Below this is a 'Work list' section with a 'Common' filter set to 'High transaction after high rate jump (Market)'. A 'Hit 2,871 - Hit 2,871' is selected, opening a detailed view window. This window shows a 'General hit' with a 'Hit Id' of 2,871, created on 06/09/2009. The 'Hit description' states: 'The transaction T-1239 exceeds the limit of EUR 200,000.00. The transaction was preceded by a high rate jump of the related financial instruments: *XS0180211376: 5.25 Bnq PSA 06*: -37.28%'. Below this, a 'General rule' section identifies the topic as 'High transaction after high rate jump (Market)'. A 'Partner' table lists 'Pearce, Benj' in the 'Investment Banking' department, with user 'pearce100306'. A 'Transactions' table at the bottom shows a bond transaction for '5.25 Bnq PSA 06' with an amount of 474,555.97 EUR.

Partner No.	Name	Department	User name
P100306	Pearce, Benj	Investment Banking	pearce100306

Instrument type	Name	ISIN	Execution	B/S	Quantity	Rate	Amount (EUR)	Securities acco
Bond	5.25 Bnq PSA 06	XS0180211376	06/31/2009	B	4,134	71.7459	474,555.97	D184

Suspicious transactions are displayed in a worklist and require investigation. The investigation process is electronically supported.

Abusive practices must be detected as well. They do not meet the criteria of market manipulation but could still damage a company's reputation and a customer's trust. Some examples include excessive trading in a customer's portfolio without financial gain for the customer (churning) or putting less desirable financial instruments in a portfolio, especially after an unsuccessful public offering (parking).

Investigations Result in Clarity

System-supported monitoring follows transparent rules. An electronic form for investigation and documentation is generated automatically for every hit. Relevant supplemental information is also displayed. The investigation is in the hands of the compliance officer with responsibility for transaction monitoring. The investigation is recorded in the system and an auditable history established.

The compliance officer can redefine and revise rules as needed in order to comply with current regulations and internal guidelines.

Flexible Reporting

Flexible reporting supplements standardized analyses by providing an option to make unique assessments of trades and holdings. Characteristics can be combined flexibly and defined as a report in "current investigation." These reports are generated each day. Their entries do not automatically launch an investigation but they do require confirmation by the compliance officer, who must check the hits displayed.

MAID – Market Abuse in Brief ...

- ▶ Automatic monitoring of "abusive practices" in one system
- ▶ Includes a set of scenarios that can be customized
- ▶ Electronic investigation workflows with intelligent user guidance, saving valuable time
- ▶ Relief from routine manual tasks
- ▶ Variety of assessment options created by combining individual reports
- ▶ Ensured auditability through complete documentation and historization
- ▶ Integration in the MLDS anti-money laundering system available

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