30 September 2014

During my appearance before your Committee on 9 September, I agreed to write to the Committee to clarify or answer a number of points raised during the session. I hope the below is helpful in answering the Committee’s questions.

**Benchmark individual action**

Pat McFadden MP asked how many individuals involved in benchmark fixing have had action taken against them. We have published warning notices against 11 individuals involved in the attempted manipulation of interest rate benchmarks. Many of our cases against individuals have been stayed at the request of the Serious Fraud Office (SFO) to avoid jeopardising their investigations and prosecutions. The SFO’s first LIBOR-related criminal trial of Tom Hayes is due to start in January 2015.

**Secondees**

Mark Garnier MP asked us to look at the issue of regulated firms taking on secondees from firm advisers and accountancy firms. Under our rules firms are required to manage conflicts of interest effectively, however we are aware of customer concerns regarding specific cases. We are discussing with a number of firms to assess the situation across the industry before deciding what, if any, action may be taken. We will of course keep the Committee updated on our progress.

**Cyber security**

Steve Baker MP asked a number of questions about cyber security. We employ two dedicated resilience specialists that focus on cyber security issues. We do not employ former hackers or “Black Hatters”. In addition to the specialists, we have cyber security capability across IT, Resilience, legal and policy, and this knowledge is filtered through to supervisors. The FCA works in partnership with other UK regulators, international regulators and we also engage with a number of government agencies. We do not believe we have faced any competition from our partners to hire relevant cyber expertise.
We have an internal Resilience working group that meets quarterly to discuss intelligence and acts as a virtual team for issues as they arise. We also attend groups within the Bank of England and Government to ensure skills, knowledge and emerging threats are understood. As discussed with the Committee, the FCA is a member of the CBEST design group and is heavily involved in the rollout and implementation of this testing framework as well as delivery of the FPC work programme.

High-frequency trading

The Committee asked for confirmation of volume of high-frequency trading (HFT) as a proportion of the total equities trading in the UK. As I said during the session, using data from the London Stock Exchange and BATS we estimate that HFT makes up around one third of the UK equity market. The exact figure will depend on how HFT is defined, and as discussed, MiFID II will introduce a common definition of HFT for the first time.

The 77% figure quoted by the Chairman comes from consultancy TABB Group is an estimate from 2011. It was not based on an outright data collection, but partly implied from volume data, and only included trading on the main trading venues. Since 2011 the relative importance of HFT participants in the overall trading volume has declined, as per TABB’s own statement. TABB’s latest estimate is that 35-37% of the UK equity market is generated by HFT trading firms. This estimate is consistent with the FCA’s own estimates, based on data received by our supervised trading platforms, and also shared with ESMA.

Market Monitoring

During the Committee we discussed market surveillance, particularly in regard to equity prices. I explained that our market surveillance system monitors constantly throughout the day and certainly at the close, and our computer takes in a very large amount of market data, transaction by transaction. This could be interpreted as a statement that we investigate this information in real time, so I would like to clarify for the record that we do not monitor this information in real time, but instead look for spikes and movement patterns in the data, which we then investigate. We also work closely with, and supervise, trading venues, who do real-time monitoring of the trading on their platforms, and are obliged to alert us to any instances of concern. We understand this is an issue of interest to the Committee, and would be happy to host Committee members on a visit to the FCA to discuss further our market monitoring function.

The Committee also asked a number of questions in respect of the possibility of requiring banks to calculate the impact of conduct fines on different sources of potential funding, including bonuses; the costs and benefits of increased competition in platforms as a result of MiFID; and further discussion with other regulators on the costs and benefits of anti-money laundering regulations. We will report back to the Committee on all of these issues in due course.

Martin Wheatley
Chief Executive