Market Surveillance at GME: a transversal approach

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Outline

- Basic procedure and concepts
- Continuous trading
- Auction markets

Basic procedure and concepts

A transversal approach

- Since the start up of its operations, GME has a market monitoring team
  - Dedicated analysts
  - Dedicated tools
  - Ad hoc procedures

- The market monitoring team guarantees compliance to many provisions:
  - Internal market surveillance, according to own market rules
  - National Regulatory provisions
  - REMIT
  - Support to Authorities & Institutiona (Antitrust, DG COMP, Ministries, …)

- GME operates markets…
  - in different commodities: power, gas, environmental credits
  - In different timeframes: forward, day ahead, intraday, balancing
  - In different formats: auction, continuous trading

Basic procedure and concepts

How we operate

- GME daily monitors on each trading session the market participant behaviour, the session results and the long term trends.
  - Monitoring is performed through authomatic and manual “alerts”, which indicate the presence of anomalous behaviours.
  - These are checked to eliminate “false positives”, according to a specific validation process.

- Relevant information is gathered from:
  - market data & transparency data
  - MPs’ inside information data
  - press info
  - any other info gathered within GME.

- At the end of the process, the “case” is either dismissed or reported to the CEO with a proposal to:
  - Commence a disciplinary provision, according to own market rules
  - Report to the NRA the case, as a suspected breach of REMIT
  - Report to other relevant authorities, in case of further unusual behaviours

Basic procedure and concepts

The role of market design

- REMIT widens the scope from *standard market power abuse* (which requires market power) to *a broader concept of market abuse* (which does not require market power).
  - Insider trading
  - Cross market manipulation
  - Market manipulation (=> Market power abuse)

- REMIT is designed for continuous trading markets (where such difference is great), rather than for auctions (where market manipulation often reduces to standard market power abuse).

- Auctions reduce the scope for market abuse (at least, no “temporal” dimension).

Continuous trading

Basic conducts and uneconomic trading

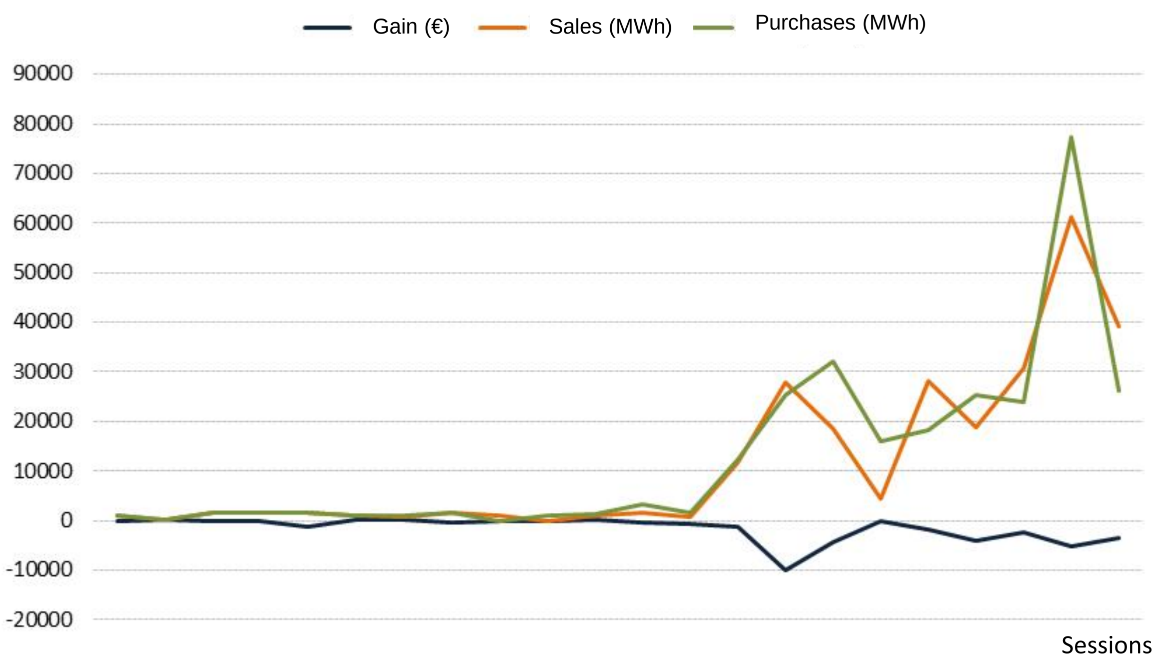
- Full application of standard literature on market manipulation from financial markets, with related alerts.
  - Marking the close
  - Prearranged trading
  - Spoofing
  - Pump & dump
  - …

- A very powerful indicator of potential market abuse is *"uneconomic trading"*
  - Applies to MP of any size
  - Affects prices and liquidity
  - Detects many kind of mkt abuse (Pump & dump, prearranged trading, …)
  - …and many kind of frauds (VAT frauds, Money laundering,…)

- How to assess recurrent short run uneconomic trading cicles, embedded in long term profitable trading?
  - Adverse price trend?
  - Parallel traders with different goals?
  - Value of short term liquidity?
  - Trader gaming his own company?

Continuous trading

Case 1: uneconomic trading



Alerts reported systematic uneconomic trading

Systematic uneconomic trading may:

- *indicate a “misuse” of market.*
- *Increase your share even with no mkt power.*
- *Affect liquidity and potentially distorts prices,*

Continuous trading

Case 2: cross market conduct

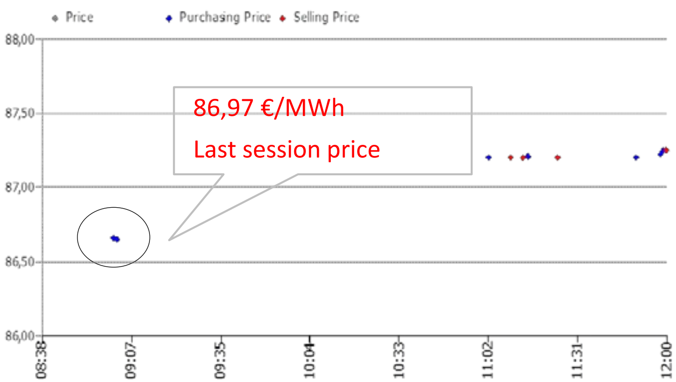
Alerts reported:

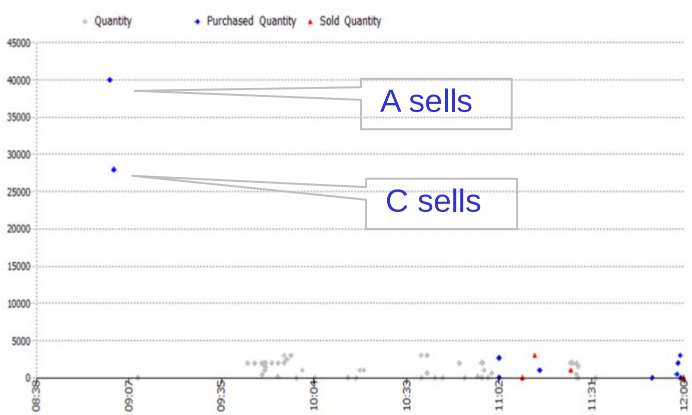
- *"high volume trades" on the market between B (buy) and A and C (sell).*
- *"quick trades" on the market between B (buy) and A and C (sell).*
- *Uneconomic trading for B*

Validation showed that trades took place at the opening of the session,at prices aligned with the last session.

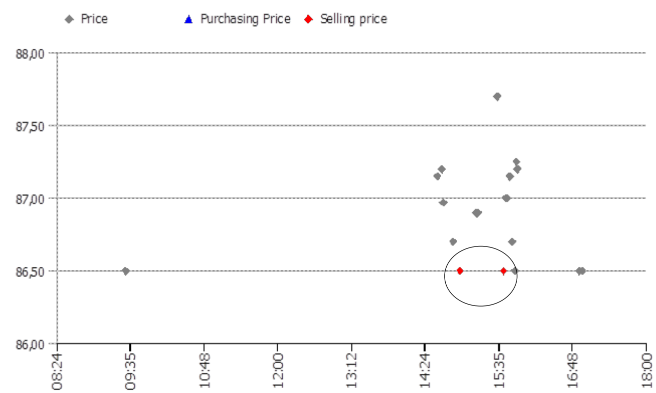
Validation also showed that, in the previous day, the same MPs registered OTC trades in opposite direction, for equal quantities and worse prices for B.

Day G: market

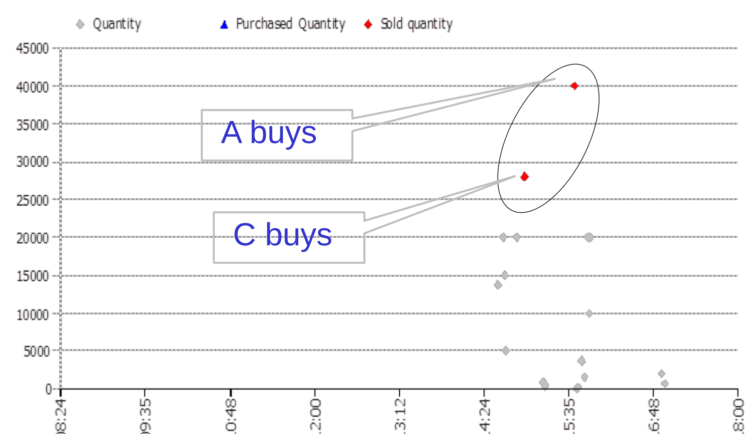




Day G-1: OTC



Price



Quantity

Auction market

Basic conducts

- In auction markets no time related manipulation can apply. Market abuse basically restricts to:
  - Insider trading
  - Cross market manipulation
  - With-holding
  - Bid-Up/down
  - Frauds

✓*Mainly related to non market information (inside info, fwd mkt info, BM info)*

✓*Hard to detect at PX level, high risk of false positives*

✓*In line with more standard mkt power abuse analysis*

✓*The physical nature of italian market (no trading, no short selling on DAM) widley prevents it from VAT fraud cases*

- Further complexity arises from specificities of local market design
  - Cross zonal manipulation
  - Cross market manipulation (differencies in balancing pricing)

Auction market

Case 1: bid up

- Bid up: how to treat “material mistakes”?
  - REMIT distinguishes between “market manipulation” and “intended market manipulation”. That means that unintentional market manipulation is a breach!
  - A market participant, who always submits sell order at very high price for a production unit out of merit order, by mistakes submits the same price as a buy order, causing a price spike. Is this market manipulation?

- Bid up: how to treat “peaking units”?
  - Unregulated peaking units, pricing beyond MC in tight hours, should be suspected of market manipulation?

Auction market

Case 1: with holding

- With-holding: How to treat “market arbitrage” and “regulatory arbitrage”?
  - In a non compulsory market (or in a market with a residual share of the total), a market participant offers a “low” quantity, absent publication of lower available capacity. Is this suspected with-holding?

- With-holding: how to treat “regulatory arbitrage”?
  - Non predictable renewables were subject to a preferential unbalancing regime, pricing all real time production at the day ahead price $\Rightarrow$ explicit incentive not to nominate production, to increase day ahead price (only if collective behaviour applies) $\Rightarrow$ is this withholding according to REMIT’s article 5?

- Cross market behaviour:
  - One MP operating on both sides of the market with a long net position could profitly over-buy in order to increase the price received on the sell side
  - One MP selling in two zones can profitly with-hold in the importing zone in order to induce price increases in the selling zones, if in the former either its quantity or the price increase are lower than in the letter

Thank you for the attention