

Conflicts of interest in Dark pools

Financial Conduct Authority (FCA)

RPC rating: validated

Description of the measure

The FCA has made a series of information requests and visits to firms operating “dark pools” – private exchanges or forums for trading securities that, unlike stock exchanges, are not directly accessible by the investing public.

The review provided the FCA with a better understanding of how dark pools are promoted to clients and how conflicts of interest arising from use of the pools are managed. The FCA found that *“the degree of adherence to the rules regarding promotion, disclosure and best execution was good with no serious breaches requiring significant action”*.

The FCA wrote to each firm with its observations and also published a report to remind firms of good and poor practice.

Impacts of the measure

The FCA explains that fewer than 20 investment banks and standalone Multilateral Trading Facilities (MTFs) operate dark pools in the UK. It expects that most of these firms should be familiar with the content of the feedback letters and the report, which reflect existing regulatory requirements. It also expects that where necessary firms would undertake gap analyses to test their compliance with existing regulatory requirements and would put in place any necessary actions identified by the analysis. The FCA estimates that a gap analysis would impose a one-off cost of £61,000 per firm; any actions identified as a result would be required to meet existing regulatory requirements and would therefore impose no costs on compliant firms.

The RPC verifies the estimated equivalent annual net direct cost to business (EANDCB) of £0.1 million. This is a qualifying regulatory provision that will score under the Business Impact Target.

Quality of submission

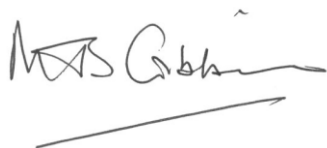
The assessment is concise and provides proportionate evidence to support the FCA’s estimate of the impacts of the measure. In particular, it notes that the cost analysis is supported by feedback from firms received by the FCA in response to the published report.

Regulator assessment

Classification	Qualifying regulatory provision
Equivalent annual net direct cost to business (EANDCB)	£0.1 million
Business net present value	-£1.23 million

RPC assessment

Classification	Qualifying regulatory provision
EANDCB – RPC validated ¹	£0.1 million
Business Impact Target (BIT) Score ¹	£0.5 million



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.