



# NORD POOL

A EURONEXT COMPANY

## Newsletter

From Nord Pool Market Surveillance

December 2024



**In this edition of our newsletter, Nord Pool's Market Surveillance experts provide an overview of the new requirements for Persons Professionally Executing Trades (PPETs) and market participants (MPs) engaging in algorithmic trading under the updated REMIT II regulation, effective May 2024. We outline key considerations for market participants to integrate the new requirements into their compliance regimes and address some frequently asked questions.**

### REMIT II

REMIT, the EU's Regulation on Wholesale Energy Market Integrity and Transparency, was revised in May 2024<sup>1</sup>. This introduced new requirements to prevent energy market abuse:

#### *For Persons Professionally Executing Transactions (PPETs):*

- To monitor their trading activity
- To adopt procedures and measures to prevent and discover insider trading and market manipulation

#### *For algorithmic trading:*

- To introduce *effective systems and risk controls* to ensure that their algorithms comply with REMIT.

This newsletter provides a hands-on overview for market participants (MPs) on complying with the updated REMIT requirements, drawing on Nord Pool's extensive Market Surveillance insights and expertise.

### **How to comply with REMIT Article 15 as a Person Professionally Executing Transactions**

Under the revised REMIT requirements, PPETs have an obligation to notify regulatory authorities about any potential breaches of Articles 3, 4 or 5. These articles prohibit insider trading (Art 3), include the obligation to publish inside information (Art 4) and prohibit market manipulation (Art 5).

This obligation applies to all PPETs who trade in financial instruments and who also execute orders in wholesale energy products (see Figure 1).

---

<sup>1</sup> [The revised REMIT \(2024\) is available here](#)

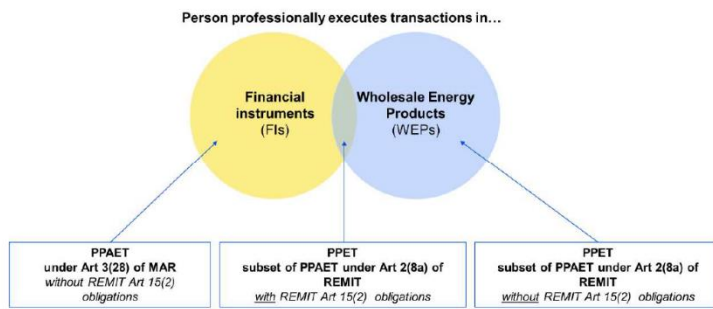


Figure 1: Overview on PPETs, taken from **ACER's 3<sup>rd</sup> open letter** on PPAETs.

## How can PPETs set up compliance with REMIT Article 15?

PPETs trading financial instruments are already subject to the Market Abuse Regulation's compliance requirements (MAR Art 16(2)). In its third open letter on PPAETs<sup>2</sup>, ACER recommends extending this MAR compliance regime to also monitor for potential breaches of REMIT Articles 3, 4 and 5, thus additionally considering the specific features of physical energy markets.

### Setting up a trade surveillance regime

To comply with REMIT Article 15, PPETs need to establish a trade surveillance regime<sup>3</sup>. Key steps include:

- Decide what to monitor
- Consider relevant patterns in different physical markets; set and calibrate monitoring systems accordingly
- Decide what to notify as a Suspicious Transaction or Order Report (STOR).

For greater detail, PPETs can consult ACER's updated guidance<sup>4</sup> on REMIT from December 2024, specifically chapter 9 on PPAETs.

<sup>2</sup> [ACER's Open Letter on PPAETs is available here](#)

<sup>3</sup> PPETs need to "establish and maintain effective arrangements, systems and procedures to [...] identify potential breaches of Article 3, 4 [and] detect and report suspicious orders and transactions." (REMIT Art 15(3))

In this guidance, ACER states that trade surveillance should be reasonable and proportionate to the scale, complexity and nature of the PPET's activities and emphasizes that PPETs should focus their monitoring on their own trading and disclosure activities.

Nord Pool interprets it to be best practice for PPETs to monitor their own trading data and other relevant data to which they have access.

### Filing Suspicious Transaction or Order Reports

PPETs are required to [file a STOR with ACER](#) and relevant National Regulatory Authorities (NRAs) when they identify suspicious activities. This notification must happen in a timely fashion - 28 days after detection of the suspicious event, at the latest.

Maintaining templates for filing STORs is recommended.

### What is the risk of non-compliance?

The obligations for PPETs to monitor suspicious activities began applying on 8 November 2024.

To highlight the potential consequences of non-compliance, we refer to a case on penalties under MAR Article 16(2). In February 2024, the [Central Bank of Ireland imposed a €1,225,000 fine on a market participant](#) for failing to establish and maintain effective "arrangements, systems and procedures to detect and report suspicious orders and transactions" (MAR Art 16(2)). While the obligation under MAR applies to financial products and can be seen as more rigid compared to REMIT<sup>5</sup>, the growing similarities between REMIT and MAR make this MAR breach relevant to understand the risk of non-compliance under REMIT.

<sup>4</sup> [ACER's Guidance on REMIT from December 2024 is available here](#)

<sup>5</sup> MAR is accompanied by a Delegated Act, imposing stricter compliance requirements and more comprehensive obligations. [The Delegated Act can be found here](#)

## Complying with REMIT II as an algorithmic trader

This section answers some frequently asked questions regarding algorithmic trading compliance. Article 5a of REMIT introduces new requirements for MPs engaged in algorithmic trading; namely the need for effective systems and risk controls, an obligation to notify authorities and the requirement to provide documentation.

Following ACER's REMIT guidance, chapter 7 on algorithmic trading, these requirements apply to *internal (market participant's) algorithms, external (OMP's) "execution algorithms" without human intervention* and to *stand-alone vendor algorithms by third parties*.

### REMIT Article 5a: What is strictly necessary, as of today?

Article 5a introduces new requirements for MPs engaged in algorithmic trading:

#### *Effective systems and risk controls*

These should ensure that the trading systems

- are resilient, have sufficient capacity and are subject to appropriate thresholds/limits
- prevent erroneous orders
- prevent trades that may create or contribute to a disorderly market
- are fully tested, properly monitored and comply with REMIT regulation and the rules of their Organised Market Place (OMP).

MPs are also required to have effective business continuity arrangements to deal with a possible failure of their algorithmic trading systems.

#### *Obligations to notify and provide documentation*

MPs must:

- Provide documentation to NRAs upon request, regularly, or on an ad hoc basis
- Notify both ACER and the NRA of the country in which they are registered, of

their engagement in algorithmic trading. In its REMIT guidance, ACER states that this should be done via its [CEREMP system](#).

### What documentation on my algorithmic trading, should I keep?

Under Article 5a, NRAs may request information on algorithmic trading from MPs at any time. *Following the example of using AI-based forecasts in an algorithm*, Nord Pool's market surveillance recommends the following documentation:

- *Nature of Algorithmic Trading Strategies*  
MPs must document and clearly describe their algorithmic trading strategies. This includes explaining how forecasts are incorporated and generated and the specifics of any AI models used
- *Trading Parameters and Limits*  
MPs should have an understanding of how their forecasts and AI models affect their trading parameters and limits
- *Compliance and Risk Controls*  
MPs must implement effective compliance and risk control measures tailored to their algorithmic trading activities. This includes checking bids via automatic controls and thresholds and can also include further controls related to e.g. forecasts
- *Testing and monitoring of algorithmic trading*  
MPs must document how their algorithmic trading systems are tested and monitored.

Records must be kept for five years.

## Future-proof your compliance - the REMIT Best Practice Report

The REMIT Best Practice Report<sup>6</sup>, jointly developed by Nord Pool and market participants, has a specific section dedicated to algorithmic trading. Section 3.3 contains:

- Technical and general compliance considerations for a safe and sound algorithmic trading regime
- Purchasing algorithms from third-party vendors – what to consider and a questionnaire for the vendor.

The recommendations in this report draw from MAR's financial regulation requirements, adapted to the power market. As REMIT and the financial sector obligations from MAR increasingly align, this approach helps to future-proof your compliance.

Note: This Best Practice Report is not yet up-to-date with REMIT II; it has not taken Article 5a into account and does not use ACER's definition of algorithmic trading. The report will be fully revised in 2025.

## Who is responsible for an algorithm's behaviour?

MPs are fully responsible for the behaviour of the algorithms they use and must ensure their compliance with REMIT. To ensure this, the REMIT Best Practice Report recommends consideration of REMIT's market abuse prohibitions throughout the entire design phase - from initial conception to technical implementation. Consider implementing a kill switch and robust pre- and post-trade controls.

## How can my algorithms comply with the prohibition of insider trading?

To ensure compliance, the REMIT Best Practice Report recommends the following steps:

---

<sup>6</sup> [Nord Pool's REMIT Best Practice Report \(2nd edition 2020\) is available here](#)

- Maintain clear documentation detailing the information the algorithm uses and does not use
- Assess how to adjust measures to prevent insider trading when introducing algorithmic trading
- Establish a standard procedure for managing active trading algorithms when inside information reaches the trading floor.

Further guidance is given in ACM's report<sup>7</sup> on algorithmic trading, which stresses that inside information must not be fed to algorithms before publication. In case the person responsible for an algorithm receives knowledge of inside information, they should not intervene with a running algorithm (the "hands-off" approach).

## How much does a market participant/trader need to know about how their algorithms work?

MPs and traders do not need to know every detail of the algorithms they use. They do need to know and be able to show documentation of the underlying logic and assumptions.

It is recommended that MPs always have the possibility to backtrack and explain the actions of an algorithm. This is not only relevant for complying with the new Article 5a, but also for standard REMIT compliance under Articles 3, 4 and 5. One should be able to trace and explain the reasoning behind order placements and the determination of volumes and prices.

<sup>7</sup> [ACM's Report on Algorithmic Trading in Wholesale Energy Markets is available here](#)

## Market Surveillance Statistics 2024

So far in 2024, Nord Pool Market Surveillance has concluded 78 cases. 24 of these cases were notified to relevant NRA(s). Market Surveillance spent on average 23 days investigating each case, (consistent with previous years). Of the 78 cases investigated, 26 originated from tip-offs. Among these, 19 were notified by external parties reporting unusual market observations to Market Surveillance, while the remaining seven came from sources internal to Nord Pool. Tip-offs are highly appreciated and we encourage notifying Market Surveillance of unusual observations in the market. Table 1 shows key statistics on investigations and notifications from 2020 to 2024.

|                            | 2020 | 2021 | 2022 | 2023 | 2024 YTD |
|----------------------------|------|------|------|------|----------|
| Number of cases            | 94   | 92   | 130  | 99   | 78       |
| Cases sent to NRAs         | 40   | 34   | 46   | 38   | 24       |
| Average investigation time | 21   | 22   | 23   | 23   | 23       |
| Tip-offs internal/external | 10/3 | 10/2 | 17/2 | 8/18 | 7/19     |

Table 1: Key statistics for investigations and notifications. Statistics for 2024 - updated 02.12.2024.

### Would you like to be notified when a new Market Surveillance newsletter is published?

You can subscribe to our newsletter by registering your email [here](#).

#### HOW TO CONTACT MARKET SURVEILLANCE

We hope that you have enjoyed reading our latest Market Surveillance newsletter. Please let us know if you have any comments on the subjects covered here, or if there are any issues you would like us to examine in future editions: [market.surveillance@nordpoolgroup.com](mailto:market.surveillance@nordpoolgroup.com)

**ABOUT NORD POOL** Nord Pool, Europe's leading power market, delivers efficient, simple and secure trading across Europe. The company, which is majority owned by Euronext, offers day-ahead and intraday trading, clearing and settlement, and additional services, to customers regardless of size or location. Today 360 companies from 20 countries trade on Nord Pool's markets. Nord Pool operates markets in the Nordic and Baltic regions, Germany, Poland, France, The Netherlands, Belgium, Austria, Luxembourg and the UK. Nord Pool is a Nominated Electricity Market Operator (NEMO) in 15 European countries, while also servicing power markets in Bulgaria, Croatia and Georgia. In 2023 Nord Pool had a total turnover of 1103 TWh traded power. Nord Pool has more than 30 years of power market experience built on offering flexibility, transparency, innovation, greater choice and participation to our customers.