

FICC Markets Standards Board (FMSB) issues guidelines on front office supervision and monitoring of electronic communications

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The FICC Markets Standard Board (FMSB) has today issued two new sets of Statements of Good Practice as part of its work to improve standards in the wholesale Fixed Income, Commodity and Currency (“FICC”) markets.

These documents identify good practice that firms should consider in the areas of front office supervision and the monitoring of written electronic communications.

Mark Yallop, Chair of the FMSB, said: *“These latest Statements of Good Practice cover two important areas which support the FMSB strategic objective to enhance standards of behaviour in markets: supervising firms’ front office activities and monitoring written electronic communications. Implementation of effective front office supervisory frameworks promotes the integrity and effectiveness of financial markets leading to better outcomes for all market participants. Given the increasing use of technology, electronic communications need to be adequately monitored as part of efforts to prevent and detect real or potential inappropriate behaviours.”*

Front Office Supervision

Supervision in the front office is a fundamental first line of defence for firms when mitigating risks directly related to employee conduct and their business activities in the FICC markets. Front office supervision is key to strengthening a firm’s overall control framework in mitigating both financial and non-financial risks and promoting good employee conduct and culture. There are increasingly high expectations on firms to identify and correct poor conduct before it leads to potentially significant losses or negative impact on the effectiveness and efficiency of markets.

This statement of good practice covers areas including the clear definition of business activities requiring supervision, arrangements for delegation and the experience and competence of supervisors. Good practice is also identified for how firms can operate a defined control framework to demonstrate the maintenance of complete supervisory coverage of all relevant employees and activities over time. This requires clarity of supervisory hierarchies, in particular where global processes or remote locations are subject to supervision.

Electronic Communications

Market practices for the monitoring of written electronic communications continue to evolve. Wholesale market participants are required to implement and maintain controls to aid in the

detection of misconduct which may include real or attempted incidents of market abuse and manipulation, bribery, fraud and other inappropriate behaviours.

The FMSB has published a total of 10 good practice statements, which cover areas including: that Firms should ensure that roles and responsibilities for monitoring of written electronic communications are clearly defined across the lines of defence; that Firms should have in place appropriate lexicons and related analytics which reflect the inappropriate behaviour and risks in firm activities that the firm is attempting to prevent and/or detect; that all relevant parties in an organisation, regardless of seniority, are in scope of the surveillance programme; and that alerts generated from surveillance activity are appropriately processed by a firm.

The FMSB was established in 2015 in response to the Fair and Effective Markets Review in the UK with a mandate to improve conduct and raise standards in the wholesale Fixed Income, Commodity and Currency (“FICC”) markets.

As well as the FMSB’s 49 member firms, the Statements of Good Practice will be shared with Non-Member firms and industry trade associations, who are encouraged to consider them.

All the materials are available at www.fmsb.com

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Notes to Editors:

1) The Fixed Income, Currency and Commodities or FICC Markets Standards Board (“FMSB”) is an independent body set up by market practitioners to improve standards of conduct in wholesale FICC markets. It aims to bring transparency to grey areas in the wholesale FICC markets by documenting existing practice and agreeing standards to improve conduct and market behaviour. Ensuring that wholesale FICC markets are transparent, fair and effective is at the heart of the FMSB’s mission.

2) Setting up the FMSB was one of the main recommendations to emerge from the Fair and Effective Markets Review (“FEMR”), which was conducted by HM Treasury, the Bank of England and the Financial Conduct Authority and reported in June 2015. The FEMR was launched in June 2014 to reinforce confidence in wholesale Fixed Income, Currency and Commodities markets in the wake of the serious misconduct seen in recent years.

3) The FMSB has a high-level Standards Board drawn from senior executives from across wholesale markets, from corporate clients, other market users such as asset managers and asset owners, and infrastructure providers such as exchanges and custodians. Reporting to the Standards Board are standing sub-committees addressing Market Practices, Codes & Standards Convergence and Conduct & Ethics. The Market Practices sub-committees are split into 4 asset-class specific committees. There is also an Advisory Council representing the interests of member firms. A full list of individuals can be found in 5) and 6) below

4) The FMSB's 44 members and 5 associate members bring together sell-side investment banks, buy-side asset managers, exchanges, custodians and users of the market such as corporates.