FICC Markets Standards Board

Reference Price Transactions Standard in the Fixed Income Markets

Summary Transparency Draft Feedback

Final

November, 2016

1. Introduction

The Fixed Income Rates sub-committee of the FMSB Board is grateful for the suggestions submitted as feedback to the Reference Price Transactions (RPT) Transparency Draft Standard. In this document we lay out some observations on that feedback.

2. Examples

Some commenters asked for more examples of areas within Fixed Income markets where Reference Price Transactions are currently used. In section II.5, we have listed all of the ones we are aware of.

A commenter also requested worked examples to further delineate good and bad behavior. We found this very difficult to execute and were also concerned that it would be moving away from principles based standards. In the end we prefer to describe acceptable standards of behavior and leave it to each firm to assess each situation using their own best judgment.

3. Standards vs Regulation

Some commenters wanted greater clarity on the difference between standards and regulation. We have addressed this in Section I point 3, which we hope makes this clearer.

4. Internal Guidelines

A comment suggested that we encourage participants to develop internal guidelines and procedures. In Core Principle 7 we recommend adoption of “processes”, but we chose not to recommend that participants develop their own specific standards or guidelines, in part because one of the goals of the RPT standard itself is to be a reasonable and broadly applicable, reasonable guide to conduct. Participants who want to expand on this or any standard in scope or detail are of course welcome to do so.

5. Pricing

A commenter suggested we add RPT pricing guidelines, reflecting the desire for transparency. We feel this would be straying too far from our mandate, and are also cautious of the risks of suggesting particular levels of market pricing. We preferred to come at the issue the other way around – to make clear what the standards of proper behavior are, and let the market and the ongoing relationship between a dealer and client determine pricing subject to those constraints.

6. Clients First

A commenter suggested should be managed by Dealers in a way that promotes the fair treatment of firstly Clients and secondly other market participants. Our assessment is that the expectations of regulators would be that dealers seek to balance these competing priorities and not simply put one individual client ahead of all other considerations or market participants.

7. Accidental Manipulation

Some commenters suggested carving out ‘accidental manipulation’. Our assessment is that ‘manipulation’ or ‘attempted manipulation’ by definition entails purposeful behaviour, i.e. would not be accidental. Also specific behaviours are set out in the Market Abuse Regulation, and so considered it unnecessary to elaborate further in the Standard.

Other commenters suggested that for a breach of the standard to incur it should be necessary to prove willful misconduct or wanted to add language such as “without reasonable excuse”. We feel that this would be a watering down of the standards. As mentioned above we expect that the processes dealers employ to ensure adherence to RPT standards will be similar to those they use to ensure compliance with market abuse standards, where there is no relief simply because there was an absence of intention.

8. Purpose / Intent

Our Committee discussed at length use of the word “intent” or “purpose”, when describing the issue at the core of RPT’s – how the dealer should balance his/her interest to hedge in advance of the observation time against putting undue pressure on the observation price. In analyzing this tradeoff it is important to note that elsewhere in the standard we ensure that the client is made well aware that hedging in advance is highly likely to take place.

In the end we felt that the word “purpose” better conveyed the type of behavior we were looking to proscribe as it seemed to best capture the notion of market behavior solely directed at moving the reference price.

9. Volatility

The draft standard suggested that a “reasonable hedging strategy would not be expected to induce materially higher volatility” – a comment pointed out that this might not be the case if the underlying transaction is large. We have improved the wording to take account of this point.