

FICC Markets Standards Board issues new Standard on risk management activity associated with bond new issuance

London, 25 October 2017 - The FICC Markets Standards Board (“FMSB”) today publishes its Transparency Draft of the Risk Management Transactions for New Issuance Standard for the Fixed Income markets. The Standard sets out several core principles relevant to risk management transactions associated with new issues in the fixed income markets, and identifies potential conduct risks created by these transactions.

Risk management transactions by an investor or issuer to adjust the cash flow of a new issue to suit their requirements are an important part of the new issue process. The Standard explains why investors and issuers may wish to enter into risk management transactions, the typical types of risk management transactions used, and the conduct risks that are created by their use; in particular, the possibility of influencing the reference rate used in the associated new issue.

The Standard details expected best practice and conduct with respect to

- potential conflicts of interest concerning the selection of the reference rate for a new issue
- the formation of the reference rate and reoffer yield for a new issue
- the hedging of risk acquired by dealers who enter into risk management transactions with investors and issuers
- the dissemination of information about risk management transactions associated with new issues

This Standard applies to activity in the wholesale primary bond markets in Europe but it is anticipated that it will be adopted by participants in primary markets in other jurisdictions over time.

Mark Yallop, Chairman of the FMSB, said:

“This new Standard builds on our already published Standard for New Issues in the European markets and addresses conduct in relation to the hedging and risk management aspects of the New Issue process. It provides further practical, granular assistance to all parties as to how the process should work and is another step in our overall goal to create market practice standards for the whole FICC market.”

FMSB members and other interested parties are invited to comment on the proposed Standard before it is finalised by the FMSB. This consultation will run until Wednesday 20 December 2017 with the final Standard expected to be published early in 2018.

The FMSB anticipates it will undertake further work in the related areas going forward.

This is the fourth Standard to have been published by the FMSB since it was set up in 2015 in response to the Fair and Effective Markets Review in the UK. The Standards are designed to improve conduct and raise standards in the wholesale Fixed Income, Commodity and Currency markets. The FMSB has so far published Standards on Reference Price Transactions, Binary Options in the Commodities markets and on the New Issue Process for Fixed Income Bonds in Europe, all of which are available at www.fmsb.com.

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Notes to Editors

- 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.
- 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.
- More information about the FMSB can found at www.fmsb.com