

FICC Markets Standards Board (FMSB) issues new Statement of Good Practice on Algorithmic Trading

London, 11 July 2018 - The FICC Markets Standards Board (“FMSB”) today publishes a Transparency Draft of a new Statement of Good Practice on Algorithmic Trading in FICC Markets.

The use of computer algorithms to facilitate trading in FICC markets has increased at a rapidly growing pace over recent years and has the potential to adversely impact market and firm stability and to harm clients.

This new Statement of Good Practice sets out a number of core statements of good practice related to the use of algorithms in firms’ FICC businesses.

In certain jurisdictions, significant new regulation – in particular MiFID II - has been introduced to cover this area. However, there are certain types of FICC related activity which are not subject to MiFID, such as trading of spot FX and physical commodities not on a MiFID regulated venue, and this Statement of Good Practice is intended to apply to the use of algorithms in all FICC businesses, including those not covered by MiFID.

The Statement sets out a number of core principles, which are designed to ensure appropriate behaviour and governance in relation to algorithmic trading or the operation of a venue involving an algorithmic trading system.

The statements of good practice include that firms engaged in algorithmic trading should:

- Put in place adequate and effective structures and mechanisms to provide for appropriate oversight, supervision and controls.
- Have appropriate pre- and post-trade controls in operation in relation to algorithmic trading.
- Have a formal risk management function independent of the front office to determine appropriate levels for pre-trade risk controls as well as to monitor the financial exposure and non-financial risks associated with algorithmic trading.
- Consider formalising a specific risk appetite for their algorithmic trading activity.

Mark Yallop, Chair of FMSB said: “The use of algorithmic trading systems has increased enormously over recent years, yet some of these systems lie outside of the reach of current regulatory oversight such as that of MiFID II. The statements of good practice that we set out today are designed to apply to all firms engaged in algorithmic trading practices, including those operating in areas untouched by regulation. We are doing this because we believe this will enhance the stability of markets in the longer term and tackle a growing area which, if left untouched, could become the source of potential market conduct risk and instability”.

FMSB members and other interested parties are invited to comment on the proposed Statement of Good Practice before it is finalised by FMSB. This consultation will run until 7 September 2018 with the final document expected to be published shortly thereafter.

This is the twelfth Standard or Statement of Good Practice (including those in their consultation period) to have been published by FMSB since it was set up 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 markets.

All materials published by FMSB are available at www.fmsb.com.

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Notes to Editors

1) The Fixed Income, Currency and Commodities (“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 identifying emerging vulnerabilities, clarifying and documenting 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.

3) FMSB has a Board drawn from senior executives from across wholesale markets, from corporate clients, asset managers, sell side participants and intermediaries, 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 four asset-class specific committees. There is also an Advisory Council representing the interests of member firms.

4) FMSB’s members bring together sell-side investment banks, buy-side asset managers, market infrastructure providers and exchanges, custodians and users of the market such as corporates. This constitution is unique. The member firms are:

ANZ
BAE Systems
Bank of America Merrill Lynch
Bank of New York Mellon
Barclays
BHP
BlackRock
Bloomberg
BNP Paribas
BP
Citadel Securities
Citigroup Global Markets Limited
Crédit Agricole CIB
Credit Suisse
Deutsche Bank
FastMatch
Goldman Sachs
HSBC
Invesco
J.P. Morgan
Legal & General IM
Linklaters (Legal Advisor)
Lloyds Banking Group
London Stock Exchange Group
M&G Investments
MarketAxess
Morgan Stanley
National Australia Bank
NEX Group PLC
Nomura
RBS
Rio Tinto
Royal Bank of Canada
Royal Dutch Shell
Royal Mail Group
Société Générale
Standard Chartered
Standard Life Aberdeen
State Street
Thomson Reuters
TP ICAP
Tradeweb
UBS
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