

FMSB: Challenges and Opportunities for the next 3 years

Thank You Karim. Good morning

In Europe and America the latter half of the 18th century was a time of war.

On the other side of the world a different kind of upheaval was taking place: the opening up of previously unknown cultures by European explorers.

In 1768 - 250 years ago this year – this institution, the Royal Academy, was founded and James Cook departed on his first voyage of discovery to the Pacific to track the transit of Venus and search for the Unknown Southern Continent. He never made it to Antarctica, but he did have a remarkable series of encounters with hardly-known civilisations scattered across many thousands of miles in the Pacific.

The superb exhibition that we are privileged to be able to see this morning celebrates that voyage and explores the culture, history, religion and art of Australasia, Polynesia, Melanesia and Micronesia, which together make up the vast region of Oceania.

Oceania is an area one-third of the earth's surface, 3.5 million square miles of ocean, whose 10,000 islands make up only 6% of its land mass and house just ½% of its population. The demography of the region changed dramatically when the arrival of Europeans with and after Cook placed Oceania right in the path of global maritime transport routes; and so the works shown here are a record of a cultural transformation as well as a witness to extinct ways of life on the far side of the globe.

This is the first major exhibition of Oceanic art in the UK and we are truly lucky to be here at KPMG's invitation. If you have time for only one exhibit, can I recommend that you go straight to the room with Lisa Reihana's installation: In Pursuit of Venus [infected], which is quite arresting.

But before we enjoy a tour of the show we have a few minutes to celebrate something closer to home, the FICC Markets Standards Board.

Those who have been involved with FMSB for the past 3 years have quite a few reasons to feel pleased.

FMSB has assembled 50 major firms in global fixed income markets; has mobilized over 350 senior industry experts and market leaders on its programme and engaged with 50 regulators and central bankers globally; and has published 14 Standards or Statements of Good Practice.

FMSB has shown its early sceptics that:

- tension between its Members, when they have opposed commercial interests, can be managed creatively and constructively to develop the best solutions to knotty market problems; and that
- private sector market participants who are normally locked in deep competition can cooperate in a “safe space” and share concerns and views openly on market practice.

FMSBs work has also shown that *lack of clarity over roles in markets, poor management of information, and defective management of conflicts of interest* are more important factors when things go wrong in wholesale markets than deliberate bad behaviour.

But I don't want to talk about FMSBs successes this morning; rather about the challenges and opportunities that lie ahead for the Board.

A changed landscape

The world that FMSB operates in today looks very different from that we all faced when the Fair and Effective Markets Review was published, only 3 years ago in summer 2015.

In the short time we have this morning, let me call out just three of what I think are the most significant changes for us.

First, post-crisis regulation is virtually complete. At the time of FEMR, post-crisis waves of new regulation were still crashing at full force onto the shores of global capital markets. But these are now abating rapidly. Most regulators see the prudential agenda as now largely delivered with Basel 3 and the Dodd Frank and MiFID2/EMIR regimes, coupled with aggressive enforcement actions, as having addressed their conduct agenda.

Some regulators are even actively seeking to reduce the intrusiveness and complexity of post-crisis measures already enacted.

Second, politics has become a lot more complex and fragmented. The primacy of national interests, national sovereignty over decision making, and domestic control of financial stability tools all seem to trump – if that is the correct term – international collaboration for the greater good.

Regulators have legitimate concerns that this political climate will undermine the cross border collaboration which they need for effective regulation and supervision of firms and to ensure fair and effective market functioning. And obvious developments in the US, Europe and UK all fuel these concerns.

This is especially galling for regulators as many of them believe we are now closer to the next crisis than we are to the last one.

Third, regulatory priorities have changed significantly. In the United States, interventionist, detailed, prescriptive rule-writers have been succeeded by people who are more interested in efficient and effective capital markets that will support economic growth and who believe that detailed regulation for fast-evolving, innovative wholesale markets is as impractical as it is undesirable.

In continental Europe, 27 National Competent Authorities, ESMA and the SSM face material new challenges in overseeing complex banking and financial markets businesses that were previously outsourced to the UK authorities.

And in the UK, while no-one yet knows where the balance between national interest and international political and regulatory co-operation will be struck, there is a real possibility that a new framework may be needed for wholesale financial markets.

This is a fertile landscape for FMSB.

- Internationally, there is a much broader recognition of the role that global, expertly drafted standards can play in supporting common business standards across jurisdictions and the way in which this can contribute to economic growth.
- There is much greater recognition of the value that private sector expertise can add to the formulation of standards in complex markets that are prone to regulatory arbitrage;
- There is specific excitement among the US agencies about the complementary role that private sector standards can play, alongside black-letter law and formal regulation;
- And there is a growing awareness in Europe of the role that standards, and the analysis of market vulnerabilities and behavioural patterns of misconduct that FMSB has led, could play in addressing the new supervisory challenges.

Partly because of the modest successes we have recorded in our first three years, and partly because of these landscape changes, FMSB is significantly better positioned today than it was 3 years ago to deliver its goals.

But the next 3 years can't just be an incremental extension of the past three.

The future

In addition to continuing the development and roll-out of market standards on a truly international basis, we need to

- move on from the *heavy compliance and market conduct* agenda that we have attacked in our first two years to address the *market structure* questions that concern market participants and which may challenge the fairness and effectiveness of markets. Electronic markets are facilitating the break-up of traditional market structures in fixed income but it is not always clear that the new order that is emerging improves fairness and effectiveness for market users;
- shine a light on, and produce practical solutions for, the dangers of *regulatory divergences and inconsistencies* that threaten fairness and effectiveness of wholesale markets. The ways in which OTC derivatives regulation and central clearing house regulation work are obvious examples where the interests of market users may not be receiving the attention they deserve, but there are many others; and third
- *demonstrate more clearly the practical effectiveness* of our standards in supporting fair and effective markets, perhaps by developing a suite of metrics that allow us to track progress.

These ambitions aren't additional to our original goals and the intention of the FEMR; they are crucial to the strategy of delivering those goals.

How they are to be delivered will be a big topic for our Advisory Council this Autumn; but FMSBs agenda and work is crucial to the future health of global capital markets – and all that depends on that - and I for one look forward addressing them with our Members.

Thank you for your attention.