FMSB

Annual Report 2018

Towards Fairer Markets

Towards Fairer Markets

The FICC Markets Standards Board ("FMSB") is pleased to present its 2018 Annual Report. In this reporting cycle we present significant progress in the work of FMSB along with our work in progress and plans for the future.

FMSB is a private sector, market led organisation, created as a result of the recommendations of the Fair and Effective Markets Review ("FEMR") in 2015, to raise standards of conduct in wholesale Fixed Income, Currencies and Commodities ("FICC") markets.

FMSB has one aim: to help raise standards of conduct in global wholesale FICC markets and thereby make those markets more transparent, fair and effective.

FMSB Members include international users of FICC markets such as corporate issuers, asset owners and asset managers, exchanges, custodians and intermediaries as well as commercial and investment banks, reflecting the diversity of market participants.

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BACKGROUND

Why We Exist

The FEMR was undertaken in 2014/15 as a result of serious concerns over poor market practice in many FICC markets. One of its key conclusions was that there was insufficient, practical and clear guidance available to market practitioners as to how they should operate in the best interests of their clients. Some critics at the time even talked about a crisis of confidence amid concerns that bad behaviour was more widespread than had been generally appreciated.

FMSB was formed with the sponsorship of Her Majesty's Treasury ("HMT"), the Bank of England and the Financial Conduct Authority ("FCA") from a broad cross-section of global and domestic market participant firms and end-users at the most senior management levels. This was the first time that a market-wide and cross-sectoral body has been mandated to focus on market practice and conduct.

Adherence

One of the issues raised by the FEMR was that market discipline was lacking. Part of the role of FMSB is to provide a forum within which market discipline is restored and developed. Our Members make annual public Statements of Commitment on those Standards relevant to their business. FMSB is not an inspection or enforcement agency – that role is performed by regulators – but these Statements of Commitment are intended to be a first step to rebuilding market discipline.

Contributing Factors

A number of factors contribute to problems with market conduct, including: a failure to recognise that the same types of bad behaviour repeat; that these occur across all asset classes and jurisdictions; that these adapt to new media and market structures; and that these behaviours are not fully described or proscribed in laws and regulation. The collective memory of the market is frail. Each time an event occurs and is investigated it is assumed to have been dealt with permanently; but then history repeats itself. Our aim is to address this.

Legislative Response

A significant body of laws and rules designed to regulate financial markets has been produced over the last 200 years. Despite this, as recent history reminds us, market misconduct continues. It is clear that laws and rules on their own do not prevent the repetition of the same types of misconduct.

Rules, Practice and Conduct

A significant part of the problem is that rules and laws do not always describe market practice or market conduct. Rules may mean that it is illegal to carry out certain practices, but they do not necessarily specify what those practices are. There is a gap between high level regulatory principles and low level rulebooks that needs to be filled with better guidance for market participants. The introduction of market practice Standards for practitioners should create the foundation for a decisive and permanent improvement in market conduct.

Review

All FMSB Standards and Statements of Good Practice are reviewed by the various UK public authorities including the Bank of England and the FCA, and are also distributed to more than 90 legislators, regulators and other bodies around the world for comment and feedback ahead of publication.

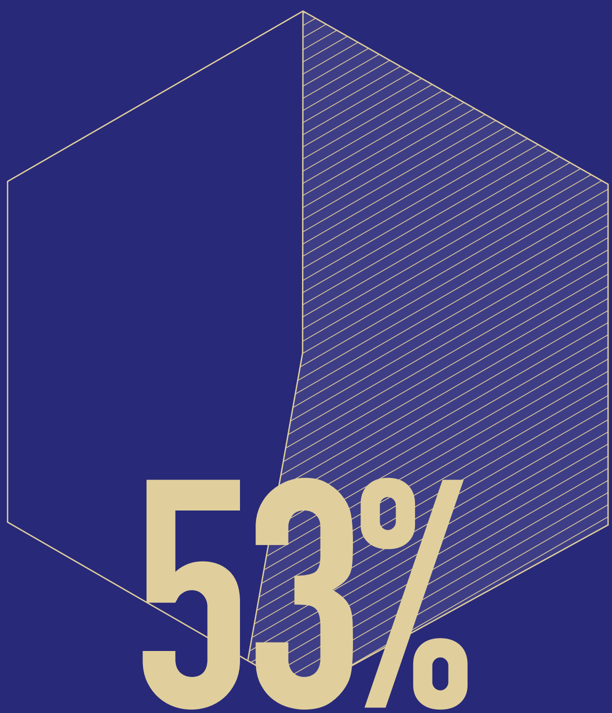
Acknowledgements

FMSB is a network organisation. We are hugely indebted to the 250 or so market practitioners from all disciplines who constitute our Committees and Working Groups and who dedicate their time and expertise to the production of Standards and Statements of Good Practice. We are also superbly supported by a number of organisations and key individuals working on a pro bono basis; this support has been essential to the work of the Board this year. Particular thanks are due to KPMG, Oliver Wyman, EY, Linklaters, Macfarlanes and Wachtell, Lipton, Rosen & Katz.

BACKGROUND

The FMSB Horizon Scan completed in Autumn 2016 identified 72 potential topics and issues to examine within wholesale FICC markets.

FMSB started the current reporting period in August 2017 having published three Standards and two Statements of Good Practice. Since then we have published eight further Standards and Statements of Good Practice (including Transparency Drafts), together with the Behavioural Cluster Analysis ("BCA") research. This means that FMSB has now reviewed and taken action on some 38 of those Horizon Scan issues – just over half of the matters identified in the initial strategy.



COMPLETE

"FMSB has made significant progress during this period due in large part to the commitment of the Board and FMSB Members."

Mark Yallop, Chair

KEY MESSAGES

- We aim to provide our Members and other market practitioners with clear guidance on what is and is not permitted in the markets in which they operate.
- We aim to be proactive, investigating and advising on matters raised by Members as being of particular concern and publishing guidelines, whether as Standards or as Statements of Good Practice.
- Those guidelines are not prescriptive but will indicate what is acceptable and what is unacceptable in FICC markets.
- All our Members have stated publicly that they will adhere to those guidelines. Standards aim to focus on specific, individual issues. Statements of Good Practice are broader and more thematic.
- So far, we have concentrated on matters raised as priorities in our initial Horizon Scan. To support our work going forward, the Board has drawn up a strategic framework to help us identify further key topics we need to address.

"UK authorities have used their convening powers to encourage market participants to establish standards of market practice that are well understood, widely followed and, crucially, that keep pace with market developments…But the authorities cannot future-proof alone. We rely on industry to help us scan the landscape for emerging risks and to help determine ways to mitigate them. We are encouraged by your efforts. In particular, the FMSB is undertaking horizon scanning for future misconduct risks through its innovative Behaviour Cluster Analysis; and the Global Foreign Exchange Committee, which is responsible for keeping the FX Global Code 'alive', has already identified areas of further work on spot FX market practices."

Mark Carney, Governor of the Bank of England, Markets Forum 2018

"Fair FICC markets are those which:

(i) have clear, proportionate and consistently applied standards of market practice;

(ii) are transparent enough to allow users to verify that those standards are consistently applied;

(iii) provide open access (either directly or through an open, competitive and well-regulated system of intermediation);

(iv) allow market participants to compete on the basis of merit; and

(v) provide confidence that participants will behave with integrity.

Effective FICC markets are those which also:

(i) allow end-users to undertake investment, funding, risk transfer and other transactions in a predictable way;

(ii) are underpinned by robust trading and post-trade infrastructures enabling participants to source available liquidity;

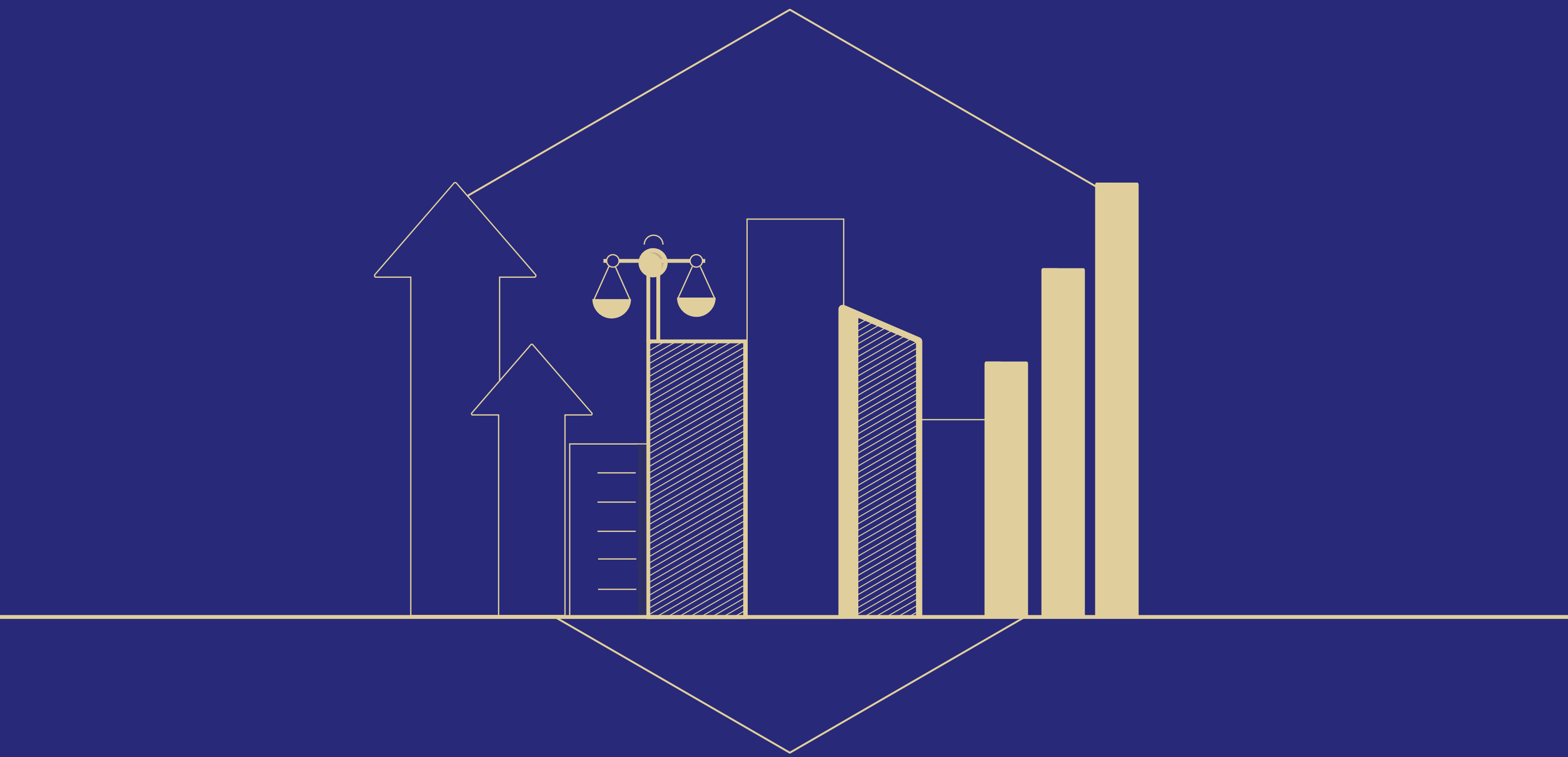
(iii) enable market participants to form, discover and trade at competitive prices; and

(iv) ensure proper allocation of capital and risk."

Fair and Effective Markets Review 2015

Introduction

Raising standards



"…common globally accepted standards of business practice can play a pivotal role in ensuring that global markets operate fairly and effectively for market users and support economic growth goals."

Mark Yallop, Chair

WHAT PEOPLE ARE SAYING

"The misconduct in wholesale markets revealed in recent years was as unacceptable as it has been costly for market participants. The failures in culture and business practices that occurred must be remedied without delay. The FX Global Code in which I was closely involved was a major step forward. I'm delighted that FMSB has made such progress in the rates, credit and commodities markets in its first two years, and is starting to address some of the challenges posed by the electronic trading that will dominate fixed income markets in future. I hope that they make a very significant difference to market practice as their Standards are rolled out."

Guy Debelle
Deputy Governor
Reserve Bank of Australia

"FMSB's work on creating behavioural clusters as a broad thematic initiative is both innovative and informative.
The FMSB Secretariat examined hundreds of cases of market misconduct spanning a period of more than 200 years.
This was the first time that domestic and international sources have been pulled together and analysed to identify core market behavioural problems. This allows firms to pre-empt these and provides a key range of accessible training materials."

Michael Cole-Fontayn
Chairman of the Association of Financial Markets in Europe,
Chairman of the Chartered Institute for Securities and Investment and FMSB Advisory Council Member

"As a corporate user of markets it is now built into our code of conduct and working practices that we will ask whether any Member firm or anyone aiming to work with us are actually Members of FMSB and whether they have signed Statements of Commitment because that in itself gives us a level of comfort as to good practice adherence."

Vandita Pant
Group Treasurer and Head of Europe, BHP and FMSB Board and Advisory Council Member

"To support economic growth, Europe needs stable, orderly capital markets where investors are well protected. MiFiD II/MiFIR is transforming the regulation of our capital markets but we know this will not be enough. Business practices and culture need to change as well if we are to deal with the root causes of the problems revealed in the past years. This is why I am very happy to see the work of FMSB advancing which is an important complement to the regulatory framework in wholesale markets: I welcome this work."

Steven Maijoor
Chair, European Securities and Markets Authority ("ESMA")

"Good conduct in global financial markets cannot be achieved by regulation alone. FMSB's novel work on the historical causes of misconduct in wholesale markets makes this very clear. Private sector participants have to play their role as well and actors in markets need to cooperate across jurisdictions if arbitrage is to be avoided and standards raised. I'm delighted that FMSB has made so much progress in its first two years. The CTFC looks forward to continuing to work with FMSB and its Members, to rebuild trust and deliver the fair and effective markets which are the core of FMSB's mission."

J. Christopher "Chris" Giancarlo
Chairman, US Commodity Futures Trading Commission ("CFTC")

CHAIR'S STATEMENT

Mark Yallop
Chair

> **"Healthy and well functioning, fair and effective markets are crucial for global economic growth."**

FMSB Members and those who support our work have good reason to look back on the past 17 months with pride.
FMSB has assembled among its Members over 50 major firms in global fixed income markets; has now mobilised over 330 senior industry experts and market leaders on its work and engaged with 50 separate regulators and central banks globally; and has so far published 13 Standards or Statements of Good Practice and original research on historical causes of misconduct.

FMSB has shown its early sceptics that tension can be managed creatively and constructively between its Members, even when they have opposed commercial interests, to develop the best solutions to knotty market problems; and that private sector market participants can, with appropriate safeguards, cooperate and share concerns and views openly on market practice. It has shown the power of an "ideas network" and the value of bringing all market participants together to solve common problems.

It is clear that FMSB now operates in a very different world to that which pertained when the FEMR was published and FMSB was initially established. Post-crisis financial regulation is now virtually complete; domestic regulatory priorities are starting to take precedence over global consensus; and this is happening against a political backdrop which seems increasingly fragmented.

Fragmented regulation and more distributed business models among market participants create new challenges for firms wanting to demonstrate best market practice and support fair and effective markets. These tests compound the complexities arising from the post-crisis drive to make more FICC markets trade electronically and increase transparency, and the use of central clearing and settlement mechanisms.

This is a fertile landscape for FMSB.
In a fragmenting landscape, common globally accepted standards of business practice can play a pivotal role in ensuring that global markets operate fairly and effectively for market users and support economic growth goals; and at a time when we are probably closer to the next crisis than we are to the last, such standards are doubly important.

In the next three years FMSB will need to move beyond the pure market conduct agenda that we have tackled in our first two years to address broader market structure questions, develop metrics to demonstrate the practical effectiveness of our standards in supporting fair and effective markets, and support Members further with education and training. FMSB will also need to review its international engagement with firms and regulators in other regions of the global markets. These ambitions are not additional to our original goals and the intention of the FEMR; they are crucial to the strategy of delivering them.

I have a great many people to thank for the success of FMSB in the past 17 months. First, to all the Partner Members who have supported us; in particular I would like to thank Oliver Wyman, KPMG and Linklaters.

Second, I thank a number of regulators in Britain and overseas for engaging with us so constructively and encouraging our work. The ongoing commitment and support of Mark Carney and Dave Ramsden at the Bank of England, Andrew Bailey at the FCA and Charles Roxburgh at HMT have all been particularly helpful and welcome. We are also very pleased by the encouragement given by, among many others, President Dudley and Simon Potter of the Federal Bank of New York, Andreas Dombret lately of the Deutsche Bundesbank, Chairman Giancarlo of the CFTC and Ashley Alder of the Hong Kong Securities and Futures Commission and The International Organisation of Securities Commissions.

Finally, I would like to thank especially all our primary Members, whose commitment to the Advisory Council and Standards Board and contributions in our Committees and Working Groups have made possible the progress that we have achieved during the reporting period.

Mark Yallop
Chair

REVIEW OF OPERATIONS

Reporting Period

The last FMSB Annual Report covered the period to 31 July 2017. To bring the reporting and financial periods for the Company into alignment, this Annual Report covers the 17 month period from 1 August 2017 to 31 December 2018. Future Annual Reports will cover calendar years.

Introduction and Summary

FMSB has retained significant momentum in the last 17 months. The Board published one final Standard, two final Statements of Good Practice, one Transparency Draft Standard and four Transparency Draft Statements of Good Practice. FMSB has also published its work relating to BCA.

FMSB has over 50 Member firms and has over 330 Member executives directly supporting our work.

Engagement and Work in Progress

The Board and its Committees are engaged in the production of Standards and Statements of Good Practice across the conduct horizon. FMSB's initial Horizon Scan identified 72 issues which the Board might seek to address. Of these, over half have been addressed by way of the publications set out on page 40.

Work in progress includes reviews of structural and conduct risks in electronic trading, government bond auctions, the sharing of allocation information in primary bond markets, the management of large trades and the conduct of precious metals fixes.

The Conduct & Ethics Sub-Committee is preparing a document relating to changes in the three lines of defence model and has commenced work on the projection of BCA patterns to emerging market structures, conduct issues in e-commerce environments, public side conflicts of interest and the design of conduct metrics.

FMSB has been requested to examine structural and conduct issues in relation to reference prices.

Strategic Goals and Workplan

FMSB developed and agreed its strategy and workplan for the next two years. The strategy is designed to advance the four strategic goals of FMSB:

- to scan the horizon for emerging risks where market standards could be strengthened;
- to address areas of uncertainty in specific trading practices;
- to promote adherence to standards, including by sharing and promoting good practices on control and governance structures around FICC business lines; and
- to contribute to international convergence of standards.

Developments in respect of these strategic goals are set out in more detail below.

Membership

FMSB Membership now consists of forty-three Full Member and three Associate Member firms, together with five Partner Member firms. Seven firms have joined during the reporting period (ANZ, BAE Systems, FastMatch, Invesco, MarketAxess, Royal Bank of Canada and Tradition). Four firms resigned during the reporting period. A list of all FMSB Members is set out on page 36.

The Advisory Council, the Board, Committees and Working Groups

Structure

FMSB comprises the Advisory Council, the Standards Board, three Standing Committees (the Market Practices Committee, the Conduct & Ethics Sub-Committee, and the Codes & Convergence Sub-Committee). The Board has also formed a fourth Committee, the Electronic Trading and Technology Committee, to examine structural and conduct risks in electronic trading environments.

Meetings

The Advisory Council met on three occasions during the reporting period. The Board met on eight occasions during the reporting period.

Mobilisation

Some 250 industry leaders and senior practitioners from all disciplines and sectors are engaged in FMSB Committees, Sub-Committees and Working Groups in the production of Standards and Statements of Good Practice. Together with members of the Advisory Council and Standards Board, this means that over 330 Member executives are directly supporting the work of FMSB.

Horizon Scanning and Workplan

Horizon Scanning

Horizon scanning is the process by which areas of potential practice opacity and risk are identified. FMSB undertook an initial Horizon Scan of potential emerging risks and areas in which standards could be strengthened in FICC Markets in 2016. Inputs to this exercise included all issues identified by the Market Practitioner Panel and cited in the FEMR; the use of BCA to determine repeat patterns of market misconduct; and a Horizon Scan performed by FMSB Committees and Working Groups.

Outputs

These sources indicated 72 potential subject matter areas for review. The subject matter areas comprised a range of issues from broad cross-market and asset class themes, to idiosyncratic practice issues in particular markets and matters pertaining to market oversight and control arrangements.

Workplan

The results of this Horizon Scan were set out in the FMSB Strategy and formed the basis of the workplan for FMSB Committees and Working Groups. It is recognised that flexibility is required in relation to the plan. The market and regulatory environment is dynamic, and the initial plan has already been revised as Committees have found ways to consolidate it. A summary of progress in the execution of the workplan is set out below.

Review of Operations

Execution of the Workplan

The Market Practices Committee

The Market Practices Committee comprises four Sub-Committees for each of the Rates, Spreads, Commodities and Currencies markets:

Rates. The Rates Sub-Committee met on nine occasions during the reporting period. The Sub-Committee has finalised the Standard for Risk Management Transactions for New Issuance for the Fixed Income Markets (jointly with the Spreads Sub-Committee). The Sub-Committee has commenced work on a Standard for Government Bond Auctions.

Spreads. The Spreads Sub-Committee met on three occasions during the reporting period. The Sub-Committee supported the production of the Standard for Risk Management Transactions for New Issuance for the Fixed Income Markets. The Sub-Committee has commenced work on a Standard for Sharing Allocation Information with Secondary Desks.

Commodities. The Commodities Sub-Committee met on three occasions during the reporting period. The Sub-Committee initiated a Statement of Good Practice for Information and Confidentiality for the Fixed Income and Commodities Markets which was managed thematically with the support of the Rates and Spreads Sub-Committees with a view to the production of a market-wide thematic Standard or Statement of Good Practice. The Sub-Committee is now considering precious metals fixes.

Currencies. Prior to the establishment of FMSB, work had been commenced by the FEMR Market Practitioner Panel FX Working Group on guidance covering Stop Loss and Hedging for Stop Loss. Upon the establishment of the BIS Global Foreign Exchange Working Group to produce the FX Global Foreign Exchange Code of Conduct, FMSB submitted its working drafts to the BIS to avoid duplication and to support the development of a global code. The Committee will consider what (if anything) it will examine next following a suitable implementation period for the Code.

Thematic Work. The Market Practices Committee undertook two pieces of cross-committee thematic work and published a Transparency Draft Standard for Secondary Market Trading Error Compensation and a Transparency Draft Statement of Good Practice for Information and Confidentiality.

The Electronic Trading and Technology Committee

The Electronic Trading and Technology Committee was established to review the requirements for Standards and Statements of Good Practice in the electronic platform trading environment and met on two occasions during the reporting period. It has published the Transparency Draft Statement of Good Practice for Algorithmic Trading in FICC Markets and is preparing a Statement of Good Practice for Trading Platforms. The Committee will consider a further 12 topics including change management and control, integration with risk data infrastructure, conduct issues in algorithmic trading, systemic risks to market liquidity and the design of market mechanisms (e.g. CLOBs and matching engines etc.).

The Conduct & Ethics Sub-Committee

The Conduct & Ethics Sub-Committee met on seven occasions during the reporting period and appointed four Working Groups in the reporting period and completed two Statements of Good Practice. The Committee finalised Statements of Good Practice relating to the Monitoring of Written Electronic Communications and Front Office Supervision. In addition, the Committee published the Transparency Draft Statement of Good Practice for Suspicious Transaction and Order Reporting. Working Groups are preparing a document relating to changes in the three lines of defence model and have commenced work on the projection of BCA patterns to emerging market structures, conduct issues in e-commerce environments, public side conflicts of interest and the design of conduct metrics.

The Behavioural Cluster Analysis Committee

The Behavioural Cluster Analysis Committee was formed to consider research identifying common repeat patterns of market misconduct. BCA is an evidence-based methodology identifying common recurring abusive behavioural patterns in markets.

The Committee published its work on the identification of repeat misconduct patterns using BCA. This consisted of four publications: a document setting out the methodology and conduct patterns ("Behavioural Cluster Analysis – Misconduct Patterns in Financial Markets"), a Statement of Good Practice, a document providing selected case studies and a database of 390 reference cases. The main document was published as a hard copy manual in October 2018. This is the first time that a review of this type has been undertaken and it addresses a significant quantum of the issues identified in the Horizon Scan (25 identified issues).

Other Initiatives

Sourcing

Most of the work of FMSB is generated by its Members. However, issues of conduct and practice which might benefit from the development of Statements of Good Practice are now being referred to FMSB for consideration from other participants in the market and from industry bodies. FMSB has also been approached to provide input to educational programmes.

Wash Trades and Broker Errors

Following discussions with the FCA, the Wholesale Money Brokers Association contacted FMSB with a view to developing guidelines in relation to the resolution of broker errors. In certain instances, broker errors are being resolved using wash trades and compensation trades. FMSB published a Transparency Draft Standard for Secondary Market Trading Error Compensation.

Large Trades

A Working Group was formed to consider issues relating to the management of large trades. Topics under consideration include pre-hedging, disclosure and relevant procedures, classification of trades on an agency and principal basis and market making obligations.

Reference Price Work
Following discussions in relation to the Risk Management Transactions Standard, FMSB has been requested to undertake work relating to the application of principles of benchmarks to new issue reference prices.

Education
The Secretariat has engaged in and supported a number of educational initiatives during the reporting period. The Secretariat has supported programmes provided by CASS Business School, including Risk Management Programmes for the Asian Institute of Chartered Bankers ("AICB"). The Secretariat also developed a two-day Market Conduct Programme for the AICB and supervisory staff from Bank Negara Malaysia, which was delivered in Kuala Lumpur in July 2018.

External Engagement

Codes & Standards Convergence Sub-Committee
This Committee engages with other standards setters and communicates with industry associations. The objectives of FMSB's international programme are twofold:

Understanding: to explain the FMSB goals, role and activities to international regulators and to promote their understanding of the value of Standards as a complement to formal regulation.

Contribution to Convergence: to disseminate FMSB published material to non-UK authorities (finance ministries, central banks and regulators) and market participants, and to support convergence.

Approach
Initial outreach meetings illustrated the need for the explanation and positioning of the Standards concept requiring central messaging and coordination. As such, and with the agreement of the Chair of the Codes & Standards Convergence Committee, this activity has been led by the Chairman in the first phase. Further convergence work has included a round table at the Bloomberg Headquarters in New York attended by 16 organisations including the NY Fed, the Treasury Market Practices Group and the Credit Roundtable. The event was attended by Chairman Giancarlo of the CFTC.

Engagement
The Secretariat has met with over 30 international public authorities, standards bodies and trade associations during the review period.

FMSB: Two Years On From the Fair and Effective Markets Review Event
On 29 November 2017 FMSB hosted a half day conference in London, "FMSB: Two Years On From the Fair and Effective Markets Review". This brought together a wide range of industry participants to discuss FMSB's work and to look at potential future conduct vulnerabilities in the FICC markets. The event, at Bloomberg's then London headquarters, was the first such in FMSB's history. It was attended by more than 200 representatives from the market, both our Members and others, from UK and international regulatory bodies and from professional and industry interest groups. We were honoured that both Mark Carney, Governor of the Bank of England, and Andrew Bailey, Chief Executive Officer of the FCA, spoke at the event. Their speeches are reproduced elsewhere in this Report.

Public Authorities

UK Authorities
The Public Authorities (the Bank of England and the FCA) are strongly supportive of FMSB. The FEMR requires that FMSB maintains a regular dialogue with the Public Authorities. The Secretariat meets regularly with the Bank of England and the FCA to review progress and exchange information as to emerging vulnerabilities and areas of mutual interest. All Standards and Statements of Good Practice are provided for comment to the FCA and the Bank of England. The FCA also engages directly with Sub-Committee and Working Group Chairs in the review of Board outputs.

International
Transparency Drafts and final Standards and Statements of Good Practice are now published to 90 international legislators, regulators and other bodies for comment and information.

Legal Entity – Governance and Finance

Legal Entity Board
The Legal Entity Board met three times during the reporting period. The Legal Entity Board considered and approved the Audit Report and financial statements prepared by BDO LLP. No adverse issues were raised in the Audit Report.

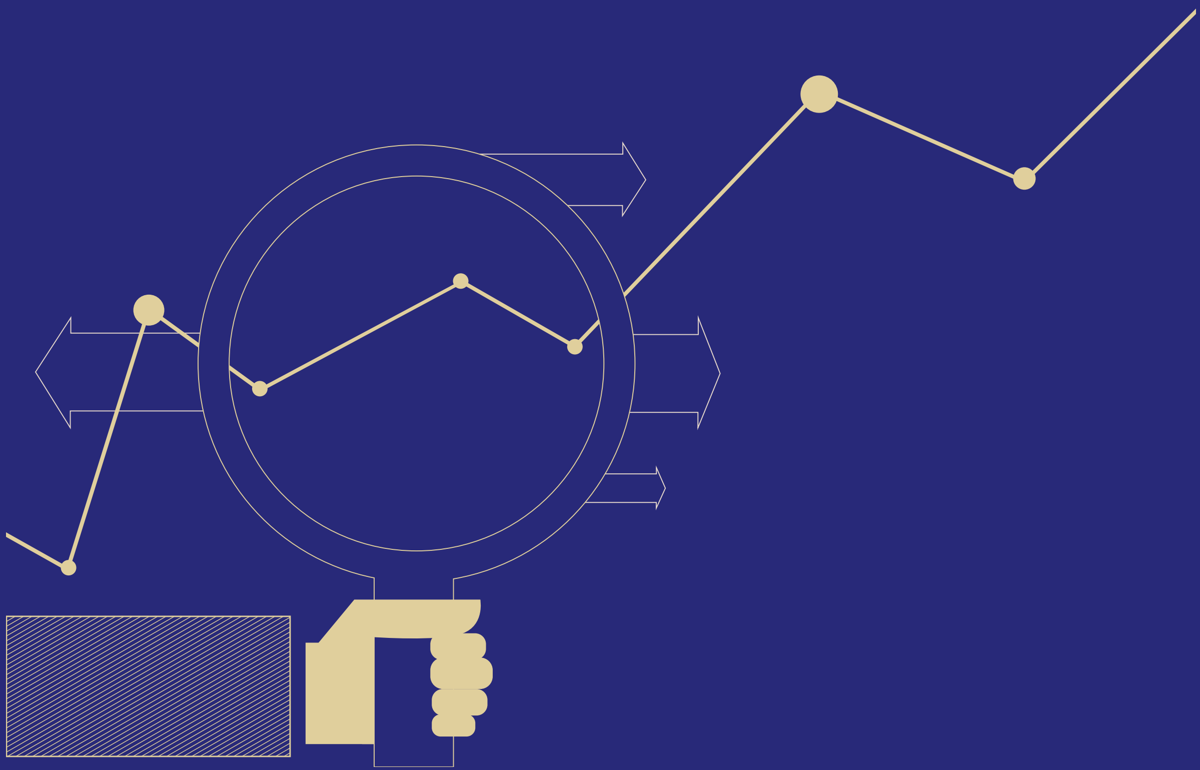
Finance
Presently, FMSB is operating slightly under budget and has around £2.7 million in reserves. In 2018, 38 invoices for Membership dues were issued, and all have now been settled.

Pro Bono Support

Pro bono resources have been provided to FMSB by Linklaters, KPMG, Oliver Wyman, PwC, Macfarlanes, Wachtel, Lipton, Rosen & Katz and EY. The Board and the Secretariat owe particular debts of gratitude to Michael Kent and Charlotte Johnsen as Legal Advisors to the Board, to Karim Haji of KPMG and to Catherine Brown of Oliver Wyman.

Overview

Clear progress



FMSB's progress has been clear and rapid. At the close of the reporting cycle, FMSB had addressed over half of the issues identified in its initial Horizon Scan.

OVERVIEW

Our mission is to enhance standards of behaviour in FICC markets by developing clear standards and guidelines on conduct which fill the gap between high level principles and detailed regulation.

A major focus of FMSB's work and its last Annual Report for the year to 31 July 2017 was diagnostic. The FEMR and earlier consultation, including input from the Market Practitioner Panel, identified a range of issues affecting the operation of fair and effective FICC markets. In addition, the initial FMSB Horizon Scan identified other potential areas to address.

In total, these exercises identified some 72 potential topics for the Board to consider.

These included generic issues with industry-wide applicability, such as best practice in FICC market governance and controls, and conduct issues arising in e-commerce environments, thematic issues relating to recurring misconduct patterns across asset classes, individual issues arising from unwelcome opacity in particular markets (such as commodity binary options and reference price transactions) and risk mitigation issues relating to conduct oversight methodologies (including surveillance techniques, training, and suspicious transactions and order reporting).

Our Strategy

1	2	3
Identify issues in the FEMR	**Analyse misconduct in Behavioural Cluster Analysis**	**Annual review and Horizon Scanning**
All issues identified by the Market Practitioner Panel (2014) and FEMR (2015).	Analysis of 390 global cases of market misconduct from 1792 to 2017.	Horizon Scan performed by FMSB. Annual review by FMSB Board and prioritisation.

Outcomes

Many of the 27 identified FEMR issues have been addressed by published FMSB papers.	FMSB published its BCA research which was positively received by market participants and regulators.	A number of the 20 Horizon Scan issues have been addressed in FMSB Standards and Statements of Good Practice.
FEMR issues	**BCA issues**	**Horizon Scan issues**
27	25	20

72 **FMSB workplan**
Excluding overlaps and synergies, total current estimated FMSB issues to address.

"Having been involved with FMSB from its inception, as a Board Member and Committee Chair, it is highly encouraging to see the organisation grow rapidly to maturity. FMSB's Standards and Statements of Good Practice play an important role in clarifying key areas of market practice."

Nat Tyce
Co-Head Macro Products, Barclays and FMSB Board Member and former Chair of the FMSB Rates Sub-Committee

"FMSB's Conduct & Ethics Sub-Committee brings together front office control officers, compliance officers, risk professionals and chief operating officers. This multi-disciplinary group has become a key forum for sharing best practice for control and oversight functions."

Darren Jarvis
Global Head of Business Controls and Supervision for the Markets Division, Citigroup Global Markets Limited and Chair of the FMSB Conduct & Ethics Sub-Committee

Scoping the Challenge

Category	Issue
Generic	Market Relationships: clarity of relationships and of responsibilities when acting as principal at the same time as handling client instructions; clarity of trading relationships between dealers and end-users. Technology: conduct issues arising in e-trading and pre/post-trading platforms. Suitability: lack of detailed market-wide standards. Governance and Controls: best practice in FICC governance and business controls. Training and Qualifications: guidance on minimum standards of UK training and qualifications.
Thematic	Behavioural Clusters: 25 behavioural clusters characterised by seven groups of behaviour: Price Manipulation, Circular Trading, Collusion & Information Sharing, Inside Information, Reference Price Influence, Improper Order Handling and Misleading Customers. Internal and External Communications – Order Flow Information – Market Colour – Last Look (non-FX Markets) – Conduct Examples and Patterns.
Idiosyncratic	Auctions – Payments For Order Flow – Hedging Practices – Internalisation – Loan Market Information – Best Execution: Illiquid Markets – Asset and Liability Management – Order Book Disclosure to Secondary Desks – Physical Commodities Markets – Research – Non-Public Information.
Mitigation	Training – Surveillance – Three Lines of Defence – Suspicious Transaction and Order Reports ("STORs") – PA Dealing – Conduct Metrics – Whistleblowing.

Overview

It is not necessary to produce a Standard for each topic. There are natural synergies between different practice areas which allow for more effective and coordinated approaches to producing Standards and guidelines. Examples include the Board's work on Information and Confidentiality and the development of FMSB's BCA. This has allowed FMSB to complete its work on 38 of the topics identified in the initial Horizon Scan. To date, just over half of the initial work programme has been completed.

In particular, we have been identifying repeat patterns of market misconduct – the BCA mentioned above. The FEMR requested that FMSB undertake a number of actions, including drawing up real-life case studies of examples of poor market behaviour. Market participants are asked to identify the causes of misconduct and apply those lessons elsewhere. We use the experience of other markets, jurisdictions and examples of misconduct to reinforce collective memory by identifying and explaining bad practice.

There has been significant progress, but a number of issues remain and other areas have been raised for the Board to consider. Of these, a number concern potential problems in e-commerce as this is increasingly adopted by the market (see page 14). The Board has already made progress through the publication of its Transparency Draft Statement of Good Practice on Algorithmic Trading and its continuing work on trading platforms and on conduct aberrations in e-commerce markets.

In addition, the Board has started to examine conflicts of interest in market operations on the public side of firm Chinese walls, on the use of mobile devices and on an exercise to project the findings of BCA to new, e-commerce trading environments to assess and address possible conduct risks here. A full listing of work completed and work in progress is set out on pages 16 to 20.

Patterns and Categories

Patterns and Categories
Our review has identified 25 patterns which can be further grouped into seven broad categories of behaviour:

Price Manipulation
- Spoofing/Layering
- New issue/M&A Support
- Ramping
- Squeeze/Corner
- Bull/Bear Raids

Circular Trading
- Wash Trades
- Matched Trades
- Money Press & Compensation Trades
- Parking/Warehousing

Collusion & Information Sharing
- Pools
- Information Disclosure

Inside Information
- Insider Dealing
- Soundings
- Research

Reference Price Influence
- Benchmarks
- Closing Prices
- Reference Prices
- Portfolio Prices
- Barriers

Improper Order Handling
- Front Running
- Cherry Picking & Partial Fills
- Stop Losses & Limits

Misleading Customers
- Guarantees
- Window Dressing
- Misrepresentation

FMSB

Scoping the Challenge: E-Commerce

Strategic framework element	Potential topic	Example detail
Sales and Trading	**Order Types**	Proliferation: clarity and utilisation. Is this a legitimate "competitive advantage" or a source of problems?
	Voice Support for Screen-Based Trading	Protocols for voice trades transacted near to, on or off a platform. Should they be posted on the screen? Are there issues as to perception of volume and liquidity on the screen?
	Best Execution in Fixed Income	Good practice principles and practices to avoid; Time stamping.
Policies and Procedures	**Software Change Management and Control**	System development life-cycle disciplines; Change management; Code age and quality, documentation and repositories; Preventative and detective controls over the use of trading and development environments; Systems calibration and testing.
Supervision and Conduct Metrics	**Integration with Risk Data Infrastructure**	Risk data infrastructure and trading software; Intraday control of market and credit risk limits; Order handling and effective time stamps.
	Conduct of Algorithmic Trading	Unauthorised trading; Flash orders; Latency arbitrage; Spoofing/Layering; Dark pools and lit market arbitrage; Pinging; Momentum ignition; Direct Market Access algorithms.
Market Infrastructure	**Exchange Mechanisms**	Calibration of circuit breakers (and other risk management tools – speed bumps etc.); Incentive structures and rebates.
	Systemic Risks to Market Liquidity	"Flash" crashes; Best bid behind/best order behind; Market maker protocols; Cross-market and venue impacts of adverse conduct and events; Correlated markets; Impact of different e-market structures (CLOB, RFQ, matching engine) in the same asset class.
	Market Mechanisms	Fair outcomes for CLOBs, matching engines etc.
Organisation and Responsibilities	**Governance Questions**	Bank/Venue partnerships and joint ventures; Conflicts and Chinese walls issues with e.g. centralised IT departments, data hubs and warehouses; Access to Indication of Interest, order and trade information.
Segregation of Duties/ Information	**Big Data**	How is this appropriately used, by whom and in what circumstances?

Identified topics

The FMSB Strategy identified 72 potential topics and issues of wholesale FICC market structure and practice for examination. FMSB started the period having published three Standards and two Statements of Good Practice. Having published two further Statements of Good Practice and one Standard together with five Transparency Draft Standards and Statements of Good Practice, two research papers and a database, the Board has now reviewed and actioned 53% of the matters identified in the initial Horizon Scan.

72 TOPICS IDENTIFIED

Mobilisation

Over 330 senior practitioners across markets and market disciplines are mobilised and engaged in the production of FMSB Standards and Statements of Good Practice. These are produced by FMSB cross-sectoral Committees and Working Groups, each of which follows a rigorous production, review and transparency process.

330 SENIOR PRACTITIONERS

Distribution

FMSB Standards and Guidelines are distributed to 90 international legislators, regulators and other bodies.

90 INTERNATIONAL LEGISLATORS, REGULATORS AND OTHER BODIES

"The Fair and Effective Markets Review noted the need to respond more rapidly to new market structures and trading patterns. e-commerce is the future of FICC markets and is evolving at a rapid pace. FMSB's Electronic Trading and Technology Working Groups seek to provide places where practitioners can discuss any vulnerabilities that may emerge as well as existing practice."

Zar Amrolia Co-CEO, XTX Markets and FMSB Board and Advisory Council Member

FMSB PUBLICATIONS

Final Standards

Publication Name	Description	Date of Initial Release	Date of Final Release
Reference Price Transactions standard of the Fixed Income markets	This Standard describes the characteristics of Reference Price Transactions (defined as a commitment to transact in the future at a price defined by a relationship with the price of some other instrument). It provides for the management of conflicts of interest among market participants, clarifies the key mechanics of Reference Price Transactions, and defines dealer and client hedging activity and dealer processes, record keeping and surveillance.	**30-Jun-16**	**21-Nov-16**
Binary Options standard for the Commodities markets	Binary options, in common with other types of barrier options, exhibit a discontinuous payoff profile when the strike level is breached, which is exacerbated near to option expiry. This discontinuity creates a conflict of interest between the buyer and seller, who can have substantial economic interests in the underlying market settling on "their" side of the strike level. This Standard notes that dealers should have clear policies to ensure fair and transparent outcomes for clients; also, that dealers should ensure that their clients are aware of the mechanics of binary options, the inherent conflicts of interest and the need for substantial trading activity by the dealer close to maturity that can impact pricing. Bona fide hedging of the dealer's position is permitted but should be undertaken so as not to intentionally move the market, and binary options should not be used to disrupt markets.	**22-Jul-16**	**21-Nov-16**
New Issue Process standard for the Fixed Income markets	Lack of clarity around differing practices in the fixed income new issue process can lead to confusion between stakeholders as to what will happen during a particular issuance. This Standard aims to bring clarity to where differences may exist and the disclosure and practices to mitigate them. Among the attributes of the Standard are that allocation policies should be made available to issuers and in at least summary form to all market participants; that lead banks should take account of issuers' allocation preferences prior to book opening; that lead banks should have policies on market soundings and investor roadshows, and participation in each; that book disclosure should be agreed with the issuer and not be misleading; and that investor orders should be a true representation of their demand.	**18-Nov-16**	**02-May-17**
Risk Management Transactions for New Issuance standard for the Fixed Income markets	Bond issuers and their bankers often "lock in" the cost of a new issue by executing Risk Management Transactions ("RMTs"), and investors often execute similar trades to either asset swap or switch from existing holdings. There is an inherent risk of conflict created when hedging by the buy side and sell side, each of which may influence the reference rate. This Standard notes: that reference rates should be objectively selected to meet the needs of the issuer, and should be observable and transparent; that conflicts in the formation of the re-offer yield and hedging activity should be handled fairly for all participants; that RMTs should be for hedging purposes only and not executed in a way designed to influence the reference rate; and that key mechanics of the RMT and its possible timing window should be disclosed to clients.	**25-Oct-17**	**03-Jul-18**

Final Standards

Publication Name	Description	Date of Initial Release	Date of Final Release
Secondary Market Trading Error Compensation Standard for the Fixed Income, Currencies and Commodities Markets	There remains a lack of clarity in some parts of the market around what is, and what is not, an appropriate mechanism for paying compensation for trading errors. The Standard does not address the situations that may lead to the payment of compensation. This Standard sets out expected behaviours if it is agreed that compensation is to be paid for an error: that it should be paid by direct payment between the parties' bank accounts, by a reduction in brokerage or by some other means that does not involve a transfer of securities or otherwise create a false market (volume, liquidity, price etc.) The Standard also notes that firms should have documented policies and procedures in place relating to the handling of such compensation payments.	20-Mar-18	28-Jan-19

Statements of Good Practice

Publication Name	Description	Date of Initial Release	Date of Final Release
Surveillance Core Principles for FICC Market Participants: Statement of Good Practice for Surveillance in Foreign Exchange Markets	The FEMR set out a number of areas where firms needed to improve, including '…substantial further development of firms' misconduct surveillance…to deliver fully effective oversight of FICC markets…' This Statement of Good Practice defines the scope of post-trade surveillance tools to help detect and mitigate insider dealing, manipulation and other misconduct risks, details the need for firms to conduct risk assessments covering types of trading, products, counterparties and ongoing Horizon Scanning, defines the inventory of risk types, defines appropriate governance and oversight (independent of front office etc.) and Quality Assurance Framework, and explores data retention policies.	n/a	08-Dec-16
Statement of Good Practice for FICC Market Participants: Conduct Training	The FEMR recommended additional work to evaluate conduct training and qualifications needed for participants in the FICC markets. This Statement of Good Practice gives guidance on expected minimum standards of training and qualifications for FICC market personnel in the UK, including a requirement for continuing professional development.	n/a	08-Dec-16
Monitoring of written electronic communications Statement of Good Practice for FICC Market Participants	Firms allow their staff to use a variety of firm-owned and personal devices for electronic communication. The range of application software used and the segregation of personal communications is complex. This Statement of Good Practice defines a suitable level and scope of surveillance of such communication channels. It outlines practice for the surveillance of written electronic communications on firm-owned devices, and "bring your own devices" when using applications and software approved by the firm for the conduct of business activity on such devices. Personal communications which occur on firm devices may fall into the scope of monitoring by virtue of the communication channel.	n/a	15-Sep-17

Statements of Good Practice

Publication Name	Description	Date of Initial Release	Date of Final Release
Front Office Supervision Statement of Good Practice for FICC Market Participants	Front office supervision is the first line of defence against misconduct in any firm. This Statement of Good Practice defines what form that supervision should take. It indicates that activities should be supervised, delegation and cover authority should be defined and responsibility clearly allocated; that firms should ensure supervisors are competent, experienced and trained; and that escalation procedures, supervision lines and control framework should be clear and defined. Scopes should be manageable and, where supervisors are not locally situated, appropriate arrangements should be defined.	n/a	15-Sep-17
Suspicious Transaction and Order Reporting Statement of Good Practice for FICC Market Participants	This Statement of Good Practice covers the circumstances in which Suspicious Transaction and Order Reports ("STORs") should be made, and how the reports should be monitored and escalated. It notes that firms should have properly trained staff, an organisational structure and appropriate surveillance systems that permit proper detection, monitoring and reporting of suspicions; that roles and responsibilities should be defined, including across the lines of defence; that regular training on what to look out for and how to escalate should be given; that systems should be regularly calibrated and updated; and that alerts should be processed and investigated in a timely and diligent manner.	04-May-18	15-Jan-19
Information & Confidentiality for the Fixed Income and Commodities markets Statement of Good Practice	Recent legislative changes have made it increasingly unclear what, if anything, market participants can say to each other. Lack of information flow can adversely affect price formation. This Statement of Good Practice aims to offer clarity on what can be said. It notes that market participants should communicate clearly and appropriately and limit disclosure of confidential information; that communication of market colour is permitted but should avoid confidential information; that confidential information should not be shared within a firm except to persons with a valid reason to receive it; and that confidential information should only be shared with third parties if explicitly permitted or to the extent strictly required to facilitate a client order.	01-Jun-18	Not released as a final document yet
Algorithmic Trading In FICC Markets Statement of Good Practice for FICC Market Participants	As algorithmic trading becomes more common, market participants seek guidance on how algorithms should be documented, managed, implemented and tested. This Statement of Good Practice 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. It notes that firms engaged in algorithmic trading should put in place adequate and effective structures and mechanisms to provide for appropriate oversight, supervision and controls; that appropriate pre-and post-trade controls should be in operation; and that a formal risk management function independent of the front office should determine appropriate levels for pre-trade risk controls as well as to monitor the financial exposure and non-financial risks associated with algorithmic trading.	11-Jul-18	Not released as a final document yet

Statements of Good Practice

Publication Name	Description	Date of Initial Release	Date of Final Release
Conduct Risk in Market Transactions Statement of Good Practice for FICC Market participants	Behavioural malpractice repeats despite the publication of new laws and regulations. Conventional thinking suggests that the variety of behaviours is infinitely varied. The FMSB BCA challenges this concept. Of the 390 cases of misconduct identified, all can be grouped into 25 repeating patterns of behaviour. This Statement of Good Practice identifies a taxonomy of known cases of financial malpractice, shows that patterns of conduct are independent of market, product, geography or legal framework, and allows institutions to question whether their control framework is sufficient to capture all types of conduct in the taxonomy that might occur in their activities.	**27-Jul-18**	**Not released as a final document yet**

Other Publications

Publication Name	Description	Date of Initial Release	Date of Final Release
Behavioural Cluster Analysis – Misconduct Patterns in Financial Markets	This publication identifies the 25 core patterns of behaviour which occur most frequently in market misconduct cases. For the purposes of this document, behavioural clusters have been grouped into 13 sections. Each section provides descriptions of the relevant behavioural patterns, variants on the patterns where evident, selected case studies and additional reference sources.	**27-Jul-18**	**27-Jul-18**
Misconduct Patterns in Financial Markets – Selected Case Studies	FMSB has provided a selection of case studies drawn from BCA for use in firm training exercises.	**27-Jul-18**	**27-Jul-18**
Database – Market Abuse and Manipulation: Historical Cases	FMSB has provided a searchable database of 390 conduct cases from 1792 to 2017 which illustrate BCA behavioural patterns. This is designed as a reference tool for firms.	**27-Jul-18**	**27-Jul-18**

Work in Progress

Publication Name	Description
Standard for the execution of Large Trades in FICC Markets	This document will set out expected behaviours of all market participants that are designed to improve the practice and awareness regarding the procedures and standards of conduct appropriate for the execution of Large Trades as defined. Core Principles in this paper are designed to enhance the transparency, fairness and effectiveness in the execution of Large Trades, and to reduce the risk of creating a disorderly market.
Statement of Good Practice for Trading Platforms for the Fixed Income, Currencies and Commodities Markets	This Statement of Good Practice aims to describe the best practice standards and disclosures that Trading Platforms should make available to their participants and prospective participants, so that all parties are clear as to how the platform operates, and the obligations they are subject to in order to minimise disputes.
Precious Metals Fixes	This Statement of Good Practice aims to describe best practice in relation to precious metals fixes and oversight procedures.
Three Lines of Defence Model – Evolution	This document will set out changes in the balance between the "three lines of defence" (front office, risk management and compliance, and internal audit) which firms have implemented following the conduct crisis. Importantly, firms have now developed embedded controls within the first line of defence to provide proximate and expert pre-emptive capability.

Thematic Work

Publication Name	Description
Reference Prices	Cross-committee work will be undertaken relating to the application of principles for benchmarks to new issue reference prices.
BCA & New Market Structures	This Working Group of the Conduct & Ethics Sub-Committee will consider the vulnerability of new market structure to BCA clusters to provide pre-emptive insight.
Conduct Metrics	This Working Group of the Conduct & Ethics Sub-Committee will explore the development of conduct metrics for use in firm oversight and management information.
Front Office Conflicts of Interest	This Working Group of the Conduct & Ethics Sub-Committee will examine matters relating to front office conflicts of interest (namely conflicts of interest which may arise on the public side of firm Chinese walls).

STRATEGIC FRAMEWORK

Developing a systematic approach to Standards

Introduction

FMSB was established to raise standards in wholesale FICC markets and make them more transparent, fair and effective.

Last year's Annual Report set out the four strategic goals we had set ourselves:

1. to analyse and report on emerging FICC market conduct vulnerabilities;
2. to address areas of uncertainty in specific trading practices;
3. to promote adherence to Standards; and
4. to contribute to the international convergence of Standards.

Since the launch of FMSB, 13 Standards and Statements of Good Practice have been produced. The focus to date has been on addressing vulnerabilities and areas of uncertainty identified as priorities in the initial FMSB Horizon Scan which sought to identify our main priorities.

Standards have been largely produced on a market or asset class specific basis and aim to define acceptable or unacceptable behaviour regarding specific market practices. Statements of Good Practice are more concerned with overarching, more thematic control and oversight issues.

This approach has enabled FMSB to make good progress towards its second strategic goal of addressing areas of uncertainty in specific trading practices. As noted elsewhere, we have addressed more than half of the agenda of matters indicated by that initial Horizon Scan. In 2019, FMSB intends to return to its first strategic goal – analysing and reporting on those emerging FICC market conduct vulnerabilities – and look again at the way we develop Standards and other guidance on key topics, taking into account broader cross-asset class trends and the continuing evolution of FICC market structure.

The Strategic Framework

In doing this we will attempt to look through a number of "lenses" at future market evolution and potential risks to fairness and effectiveness, including:

— Evolution in the Structure of FICC Markets. Examination of how FICC markets are likely to evolve over the medium term and how new forms of conduct risk may emerge. Examples of market evolution include further moves towards more electronic trading, the transition from LIBOR to other benchmarks, the development of crypto-currencies, shifts in supply or demand side structure, changes to the investor base or liquidity providers or emerging information asymmetries.

— Structural Drivers of Conduct Risk. Consideration of the structural factors or conditions that may have contributed to certain examples of conduct events over time or which indicate a potential increase in risk. Examples might include pricing power, market concentration, significant increases in volume or profitability, degree of regulatory coverage, liquidity or cyclicality.

— Process and Functional Vulnerability. Examination of vulnerabilities in the trade lifecycle or market value chain before transactions take place (in primary and secondary markets, for different clients profiles, order types and transaction management etc.), through to post-trade processes (valuation, settlement, clearing, compression, custody).

Using this framework, we will carry out a further Horizon Scanning exercise in 2019 and use this to draw up an overall map of key themes to inform work in the future.

Scope of Applicability

In applying this framework, we want to consider three key dimensions in which markets may be vulnerable:

Asset class dimension	Activity dimension	Behavioural dimension
The manifestation of risk based on the instruments themselves, and their inherent characteristics	A systematic examination of functional activities throughout the value chain in FICC markets	Reflecting the findings of the BCA and the types of misconduct to be scanned for
e.g. Rates, FX, Credit, Commodities	e.g. Pricing & Mark-up, Benchmark, Valuation	e.g. Wash trades, Squeezes, Insider Dealing etc.

In this way we hope to establish a comprehensive, strategic view of existing Standards/Statements of Good Practice coverage and how FMSB should set priorities for future work, and where mitigating elements such as policies, disclosures and surveillance methodologies and conduct metrics, training and culture will be most effective.

THE FMSB EVENT: TWO YEARS ON FROM THE FAIR AND EFFECTIVE MARKETS REVIEW

On 29 November 2017 FMSB hosted a half day seminar in London, “FMSB: Two Years On From the Fair and Effective Markets Review”. This brought together a wide range of industry participants to discuss our work and to look at potential future conduct vulnerabilities in the FICC markets. The event, at Bloomberg’s then London headquarters, was the first such in our history.

It was attended by more than 200 representatives from the market, both our Members and others, from UK and international regulatory bodies and from professional and industry interest groups.

Three panels looked at market led change and how standards are developed and used. We talked about emerging vulnerabilities in wholesale markets and the relationship between e-commerce and regulatory change.

We were delighted that Mark Carney, Governor of the Bank of England, and Andrew Bailey, Chief Executive Officer of the FCA, could attend and give keynote speeches which showed how our work relates to the work done by others as a result of the conduct crisis in FICC markets.

Mark Carney, Governor of the Bank of England

Excerpts from "Turning back the Tide"[1]

The Problem

Though markets are generally a force for good, markets can go wrong. Left unattended, they are prone to instability, excess and abuse. Following the global financial crisis, a series of scandals ranging from mis-selling to manipulation undermined trust in banking, in the financial system and, to some degree, in markets themselves.

In FICC markets, misconduct was revealed on a scale that impaired their ability to function fairly and effectively. The economic consequences have been enormous. Global banks' misconduct costs have exceeded $320 billion, capital that could otherwise have supported around $5 trillion of lending to households and businesses.

More worrying still, an industry of the scale, importance and complexity of finance needs social capital as well as economic capital in order to operate, innovate and grow. Repeated episodes of misconduct have called the social licence of finance into question. In a system where trust is fundamental, it ought to be of grave concern that only 20% of UK citizens now think that banks are well run, compared to 90% in the 1980s.

The scale of the challenge of restoring trust is thrown into sharp relief by the FMSB's comprehensive review of misconduct over the past two centuries. The history of financial fraud has rhymed all too frequently.

Potential Solutions

In the cycle of scandal, response, integrity, drift, and renewed scandal, potential solutions have oscillated between the extremes of Self-Regulation and Total Regulation. Recent difficulties illustrate the problems with each of these approaches.

By undervaluing the importance of hard and soft infrastructure to the functioning of real markets, light touch regulation led directly to the financial crisis. Multiple factors contributed to a tide of ethical drift in FICC markets. Market standards were poorly understood, often ignored and always lacked teeth. Too many participants neither felt responsible for the system nor recognised the full impact of their actions. Bad behaviour went unchecked, proliferated and eventually became the norm.

Given the economic and social consequences of the ensuing disaster, it is right that regulators proscribe certain behaviours and set out their high-level expectations. Yet, authorities cannot regulate for every circumstance, watch every transaction, or anticipate every market innovation. Total regulation is bound to fail because it promotes a culture of complying with the letter of the law, not its spirit, and because authorities inevitably lag developments in fast-changing markets.

But it doesn't have to be this way.

A more comprehensive and dynamic solution combines public regulation with private standards and then buttresses them with a series of hard incentives which materially increase individual understanding and accountability. Market standards can be effective if they:

— articulate clearly the market's collective view of best practice, with worked practical examples to clarify grey areas;

— are grounded in, and are reinforced by, relevant regulatory frameworks and requirements;

— are kept current; and

— are given teeth by incentives that foster adoption and adherence.

An Early Assessment of the FMSB's work

So how is the FMSB doing in establishing common standards of market practice that are well understood, widely followed and dynamically relevant?

The FMSB is already making an important contribution. Drawing on the expertise of its members, the FMSB has finalised standards that codify best practice with respect to: reference price transactions, commodity binary options, and new bond issues. A standard on risk management transactions for new bond issues is nearly final, and an earlier draft standard on FX stop-loss orders has been absorbed into the FX Global Code.

In each case, potential conflicts of interest are mapped to high-level principles designed to mitigate them. For reference price transactions, emphasis is placed on transparency with clients on mechanics and potential conflicts, and on mitigating the risk that the wider transactions of dealers could be market moving. The draft standard on risk management for new bond issuances sets out principles to mitigate risks around selection and formation of reference rates. The FMSB's Statements of Good Practice, such as for surveillance of FX markets, provide more detailed guidance and worked examples to help set expectations.

The FMSB is also scanning the horizon for future misconduct risks, including through its innovative Behavioural Cluster Analysis. Rightly, given rapid changes in underlying market structure, this process has prioritised work on vulnerabilities arising from fast automated markets.

[1] The full speech is published at https://www.bankofengland.co.uk/speech/2017/mark-carney-speech-at-the-fmsb

Will These Standards and Codes Make a Difference?

We know from history that codes are of little use if nobody reads, follows or enforces them. Why should the FMSB's efforts be expected to help reverse the tide of ethical drift? Indeed, given the long history of misconduct, aren't such efforts akin to King Canute rebuking the waves?[2]

I'm more optimistic that the tide will turn because the FMSB is part of a much broader effort by UK authorities and market participants. Together, we have created a comprehensive and mutually reinforcing set of measures that strengthen the hard and soft market infrastructure. The resulting incentives give FMSB standards moral force and practical consequence.

First, in the FMSB's core work, the best in the market are taking responsibility for identifying and codifying best practice, in a way that complements and reinforces existing regulation. The FMSB now convenes senior participants from fifty global issuers, underwriters, asset managers, exchanges, custodians and investment banks. The breadth and engagement of the membership gives its standards credibility and creates peer pressure within the industry to promote adherence.

Second, peer pressure within firms should reinforce standards and, more generally, the commitment to real markets. Most banks have codes of ethics or business principles. These are necessary but not sufficient, not least because it isn't reasonable to expect every trader to absorb their meaning or to translate them readily into live situations. But it is reasonable to expect them to use FMSB guidance to help recognise the differences between a real market and a rigged one. And it is essential that business cultures encourage everyone to call out market abuse when it occurs.

Third, buy side pressure for proper behaviour is made easier by clear, practical standards. This is formalised in the example of the FX Global Code, where major central banks including the Bank of England have confirmed that they intend to adhere to the principles of the Code, and that they also expect the same of their regular FX counterparties. Similarly, the Bank of England will adhere to the UK Money Markets Code and Precious Metals Code and will expect the same of its market counterparties.

Fourth, the combination of new arrangements for compensation, the expectations of the Senior Managers Regime ("SMR"), regulation and market standards are mutually reinforcing. In the UK, a significant proportion of the variable compensation of key decision-makers must now be deferred for a period of seven years to ensure it can be clawed back over the time scales it generally takes for conduct issues to come to light.

The SMR gives teeth to voluntary codes by incentivising firms to develop, adopt and embed them. By requiring identification of the most senior decision makers of banks, insurers and major investment firms, and setting requirements on them, the SMR re-establishes the link between seniority and accountability, strengthens individual accountability, and reinforces collective responsibility.

Reasserting London's Leadership of Real Markets

To conclude, two years on from FEMR, by working together, we are making enormous progress. We are moving from markets that collapse when there is a shock from abroad to markets that are resilient. From markets where transactions occur in chat rooms to markets that are professional and open. From markets where few were accountable for anything to markets where everyone is responsible for their actions. The FMSB is playing an essential role in this transformation. When your standards are combined with more robust regulatory requirements, new compensation arrangements and the Senior Managers Regime, we are achieving what Canute could not. The tide of misconduct is going out, revealing the real markets working for the good of the people of the United Kingdom and the world.

[2] Canute, King of Denmark, England and Norway, 995-1035, reputedly set his throne by the sea shore and commanded the incoming tide to halt and not wet his feet and robes. Yet "continuing to rise as usual [the tide] dashed over his feet and legs without respect to his royal person. Then the king leapt backwards, saying: 'Let all men know how empty and worthless is the power of kings, for there is none worthy of the name, but He whom heaven, earth, and sea obey by eternal laws.'"
Henry of Huntingdon, The Chronicle, P199.

The FMSB Event: Two Years on from the Fair and Effective Markets Review

Andrew Bailey, Chief Executive Officer, FCA

Excerpts from the transcript of his speech delivered at The FMSB Event

I want to start with two fairly big picture points. The first, in my view, is that the UK benefits as a financial centre because of the common law characteristics of the English legal system. I would say that New York is a very big financial centre too because it also has that feature of a common law legal system. It is often cited in the case of London that that's why it has become such an important international financial centre. And although I am a non-lawyer I should say, I do think there is merit to this argument.

I think there are important points that you can trace through to underline this argument because common law systems allow statutory objectives to be interpreted against a framework of pre-existing cases of common law; and the application of statutory objectives – and that's what we do at the FCA – can then evolve to meet changing needs, but can do so predictably because judgements are made against past precedent.

And statutory objectives such as the market integrity objective that we have at the FCA can be interpreted as the facts and the evidence of change, but against a background of consistent overarching principles. And that of course is most helpful where the real world evolves very quickly and of course wholesale markets are a very good obvious example of a world where things do evolve very quickly. So it's probably no surprise in my view that wholesale markets tend to thrive in a common law system and that such a context, naturally it seems to me, lends itself to incorporating industry standards that are grounded in clear principles that reflect the public interest in market integrity. They are able, because this is one of great strengths of standards – if not the greatest strength – to evolve and develop and adapt relatively rapidly. So that's the first big picture point.

The second big picture point is that the UK system of financial regulation is based around what we tend to call the "regulatory perimeter", as defined by the Regulatory Activities Order which flows from our legislation Financial Services and Markets Act.

It's sometimes assumed that if a firm falls within our regulations we must be directly overseeing everything that it does. My answer to that is "no" and "yes" – it's not quite that straightforward. I want to try and explain briefly why.

The Activities Order, or the RAO as it's known, defines the activities that we regulate. In other words, it allows rules to be made to achieve our statutory objectives and thus for us to supervise against those rules, and firms are given permission to carry on those activities. They're required at all times to meet our threshold conditions for authorisation and their senior management must likewise must be fit and proper to do so. In broad terms, the legislation provides relatively comprehensive coverage of retail banking whereas in wholesale we have more of a hybrid between the regulated and the unregulated activities. Now, fairly obviously, that hybrid creates a space for industry standards. And for a long time in London markets there have been industry standards. They were sometimes called codes. In passing, I should say that while I think it perhaps can be seen as a matter of semantics, I actually think it's an important signal that you have adopted the word "Standards" because I think that does convey important meaning in the word itself.

So, having made those two big picture framing points about common law and the regulatory perimeter, let us come on to a little bit of recent history.

As I said earlier, we have had a crisis in financial conduct. Of course, it was not limited to this country by any means and it is also important to be clear that this crisis of conduct has not been limited to being inside or outside the regulatory perimeter. It has been on both sides. Payment protection insurance is clearly inside the perimeter; FX market misconduct has been outside the perimeter. So there is no outright winner in terms of the better approach on the perimeter drawing on past regulatory arrangements. I think we have to be quite humble about that, frankly. But what we have seen is a substantial overhaul, in the wake of that crisis, across the board, both inside and outside the perimeter.

It's out of that that FMSB has come to be born. Now, an important part of that overhaul, that total overhaul if you like, has been the so called Senior Managers and Certification Regime. That was put in place as a result of the Parliamentary Commission on Banking Standards. This is important in this landscape because, very helpfully in my view, the new regime, the Senior Managers Regime, puts the emphasis on individual responsibility of senior managers of firms. And the power of that arrangement lies in its simplicity: about taking responsibility seriously – being accountable for it.

But interestingly, and this is where it becomes a little more complex, the Senior Managers Regime does not stop at the regulatory perimeter – it is a whole firm concept. And that in my view is right because responsibility should not be limited as a principle and should guide conduct. To put it simply, you can't behave yourself inside the perimeter and "let it all hang out" outside the perimeter – that's not really a sustainable way of going about things. But obviously, by creating that whole firm regime in terms of responsibility, it does create an issue for us as the regulator about how we judge conduct outside the perimeter if we don't have rules setting detailed standards for that conduct. There is a role for well constructed standards that we can endorse and use to put the SMR into practice.

The FMSB Event: Two Years on from the Fair and Effective Markets Review

The event included three panels, as noted below:

Panel 1

Market Led Change: How Standards are Developed – How Standards are Used

Moderator:
Marc Bailey
Managing Director, Sucden Financial Limited

Panellists:
Jonathan Brown
Head of Lending and Portfolio Management, EMEA, Barclays

Brad Crombie
Global Head of Fixed Income, Standard Life Aberdeen

Serge Gwynne
Partner, Oliver Wyman

Vandita Pant
Group Treasurer and Head of Europe, BHP

Panel 2

Emerging Vulnerabilities in Wholesale Markets

Moderator:
Jonathan Holt
Head of Financial Services, KPMG

Panellists:
James Kemp
Managing Director, Global Financial Markets Association

Scott O'Malia
CEO, International Swaps and Derivatives Association

Dave Ramsden
Deputy Governor for Markets and Banking, Bank of England

Mahnaz Safa
Head of Markets Europe and America, ANZ

Panel 3

The Intersection of E-Commerce and Regulatory Change

Moderator:
Stuart Wexler
Group General Counsel, NEX Group PLC

Panellists:
Zar Amrolia
Co-CEO, XTX Markets

Enrico Bruni
Head of Europe & Asia, Tradeweb

Brian Oliver
Head of FICC Sales and Relationship Management, Europe and Asia, Citadel Securities

Chris Purves
Co-Head, Global FRC Trading, UBS

GUIDING MARKETS TOWARDS BETTER BEHAVIOUR

Effecting Change

As part of our work at FMSB we look at how conduct and behavioural problems evolve in the global wholesale FICC markets we cover. Naturally, regulators set down prescriptive rules that forbid certain acts of which they disapprove, and these are often accompanied by high level regulatory principles to guide the interpretation of those rules. But sometimes it can be more effective to encourage people to behave better by challenging accepted thinking and norms of behaviour.

The Persistence of Wrong-Doing

Despite those laws, rules and sanctions, people in markets continue to misbehave. They do so despite an ever longer rulebook designed to stop them doing so, and despite punishment meted out to their peers who are caught breaking those rules. There is an old saying in law enforcement: "You can make robbing banks illegal, but you can't stop people robbing banks."

Behavioural Analysis

Behavioural science brings together various disciplines, including psychology and anthropology, to understand human behaviour. It suggests that while laws, rules and sanctions on their own may not be enough to change behaviour, there are other ways to achieve change as well. Governments and policy makers, including the UK FCA and other international regulators, now make extensive use of behavioural science.

The Nudge Unit

In 2010 the Behavioural Insights Team was created by 10 Downing Street to advise government on how to change a wide range of unacceptable or inadvisable behaviours in health, crime, public services or elsewhere by, in its own words, "enabling people to make better choices for themselves". The team is now better known as the Nudge Unit and its example is followed elsewhere. We believe a similar approach is appropriate in financial markets.[1]

A Binary Debate

Neither the normative nor the behavioural approach is necessarily the right or the whole answer. While they are often presented as mutually exclusive, it may be more valuable to see whether they can be used in tandem to explain why people behave the way they do, and to develop ways to change behaviour.

[1] For example, the Behavioural Economics Team of the Australian Government ("BETA"); see Karl Purcell, Applying Behavioural Economics in Irish Policy (Irish Government Economic & Evaluation Service, Department of Public Expenditure and Reform Staff Paper, 2016) and OECD, Behavioural Insights and Public Policy: Lessons from Around the World (Paris: OECD Publishing, 2017), which surveys work in this field by 60 public bodies from 23 jurisdictions in the areas of, inter alia, consumer protection, education, the environment, health and safety and financial products.

The Normative Approach

Under the so-called normative approach, people are seen as individuals with fixed preferences. They are deemed rational and logical, working to get the best of the consequences of their actions for themselves, and are capable of complex analysis to bring this about. Incentives and sanctions affect their decisions and can change behaviour as they assess risk and decide what outcome is best for them. Altruism has no place in this world as it does not gain the selfless actor anything. Governing behaviour is down to those incentives and sanctions. The stick, not the carrot, determines outcomes.

The Behavioural Approach

By contrast, behavioural economists assert that behaviour is heavily influenced by groups. Where our actions conflict with our own and others' expectations of our behaviour, we can change our values and attitudes to justify our actions – rather than changing the actions. People are not necessarily good at analysing and assessing the outcome of their actions. They form habits according to earlier events and their routine. Incentives, disincentives and sanctions may even make them behave badly. Rules may just drive bad or obstinate behaviour. People are generally loss averse; they will make more effort to avoid a loss than to obtain a benefit. They can be motivated in different ways – the carrot is as relevant as the stick.

Driven by the Money?

The normative, sanctions-driven approach is ingrained in financial services regulation. There is an assumption, when people working in a money-driven environment misbehave, that they do so for the money – they maximise their economic gain by breaking laws and rules. They compute the risk of getting caught and the scale of sanctions to determine a risk/reward trade-off which means they misbehave if they think they can get away with it. This analysis is attractive but probably overly simplistic. Considering the sheer number of enforcement cases that have taken place over time, it seems unlikely that all these miscreants only "did it for the money" and that no other, perhaps more complex, factors were at work.

> "At the time of the FX trading scandal, the field of business ethics primarily focused on compliance. This is hardly surprising as scholars in the field adopted the so-called 'normative' approach, which assumes individuals are rational, self-interested beings who are aware of the ethical dilemmas they face and understand the implications of unethical conduct (so-called *homo economicus*). This approach is compelling because it is both simple and intuitive – people understand the rules, and if they break them they do so knowingly, fully understanding the implications."
>
> **Gentilin, p. 2[2]**

[2] Dennis Gentilin, The Origins of Ethical Failures (New York: Routledge, 2016).

Laws, Rules and Persistence

If the normative approach is correct, and if laws and rules are the best way to dissuade people from misbehaving, the question remains: why do they continue to do so? Laws, rules and sanctions are necessary for a functioning society, but these are normative influences – they set out what ought to be done. Actual behaviour – what people actually do – is driven by more complex, informal mechanisms. These are known as "descriptive norms", which develop over time as people work together and a consensus emerges of how they will behave. Descriptive norms are consensual and not imposed from outside. They can persuade people to disregard the normative rules and set their own ethical standards – a sort of group-think which can in turn lead to widespread bad behaviour becoming accepted. Unfortunately, it is not hard to think of plenty of examples in the recent history of financial markets. Groups draw up their own "rulebook" which disregards formal regulation and the law.

For example, this conversation between a trader and broker during the LIBOR scandal was reported by the CFTC in 2013:

Trader: "You know, scratch my back, yeah, and all."
Broker: "Yeah oh definitely, yeah, play the rules."

Their rules, not the regulator's.

Conduct is Descriptive – But Not Described

Laws and rules establish the framework within which markets should operate. On the above analysis, it is tempting to describe laws and rules as normative, providing guidance on what ought to be done. There is a complication, though. While laws and rules may mean that certain conduct is allowed or not, they do not set out what that conduct actually is – they do not set out market conduct and practice. Therefore, conduct in markets is descriptive – but it is not described.

A New Approach and the Need for Standards

The new, post-crisis regulatory approach is attempting to align behaviour, conduct, governance and culture. Culture is said to be "the way we do things around here", a remark generally sourced to the management guru Edgar Schein, who specialises in the behaviour of organisations. So, for markets, it is necessary to describe what those "things" are – and those "things" are not laws or rules. They are the everyday practices which emerge and evolve in the day-to-day business and interactions between people in the markets. This should allow a detailed guide to what practice actually is and not just what practice ought to be.

KEY PRINCIPLES

Behavioural scientists identify a number of key principles which challenge the assumptions of the rules-driven, normative approach. It is worth considering these in the light of recent misconduct in the market. There are many such events in which misconduct is driven by monetary advantage. There are also cases which indicate other reasons for the behaviour in question.

Behavioural drivers

GROUPS

Group norms more powerful than "rules"

PARTICIPATION AND COMMITMENT

Support embedded change

SELF-EXPECTATION

People change values to justify actions

HABIT AND REGULARITY

Can generate the "slippery slope"

COMPUTATION

People are bad at evaluating future outcomes

MOTIVATION

Extrinsic factors can override intrinsic motivations

Groups

The Normative Approach

People carry out rational analysis of options to work out what is best for them as individuals, not groups. They decide independently what they want and have fixed preferences.

The Behavioural Approach

Identity comes from social groups. People learn by observing others and they follow their behaviour, particularly in new or uncertain situations. Groups and networks with high social capital, which are closely connected, will influence behaviour as will those in authority and who are respected – and not just as reflected in the hierarchy of the organisation.

Example

The FX scandal – Traders at banks shared valuable commercial information, not just within their organisations but with competitors at different banks and around the market.

So traders undertook activity detrimental to themselves or their employers to benefit their group of peers: for example, withholding the execution of their own orders where this was detrimental to the group.

"By agreeing not to buy or sell at certain times, the traders protected each other's trading positions by withholding supply of or demand for currency and suppressing competition in the FX markets."

(DoJ Press Release 20 May 2015)

Self-Expectation

The Normative Approach

People take fixed decisions and so their expectations and commitments are disregarded unless influenced by rules or sanctions.

The Behavioural Approach

People have expectations about their behaviour and expectations about the way others perceive their behaviour. So they are uncomfortable when their actions clash with those values and attitudes. When this arises, they may well change their values and attitudes to justify their actions rather than allow this to influence their actions.

Example

On a number of occasions between 24 January 2016 and 16 May 2016, Niehaus shared client confidential information which he had received during the course of his employment with both an acquaintance and a client of his firm. Some of the confidential information disclosed to the client related to one of its competitors. The information was disclosed using an instant messaging application (WhatsApp), not for the purpose of it being used by the recipients but because Niehaus wanted to impress them.

(FCA Final Notice – Niehaus, 2017)

"...If you're known as a grass to traders, you're not going to do very well in terms of how many people want to talk to you..."

(FCA Final Notice – ICAP (LIBOR), 2013)

Computation

The Normative Approach

People compute the odds logically and rationally to maximise benefits to themselves. They decide carefully what the most advantageous outcome might be and have or get all necessary information to do this.

The Behavioural Approach

People are not always expert at computation, underestimate the outcome of their actions and are heavily influenced by the way those possible outcomes are presented. They can also develop "tunnel vision" when targets or sanctions are set and do not assess them properly. The sanctions may be so severe and the rewards so minimal that it makes no rational sense to commit the offence.

Example

Sanctions can be severe so why does the rational computation of risk and reward not work?

For example, an individual was banned from the industry for rail fare evasion on a number of occasions. At the start of his journeys, he boarded the train without a ticket at a rural station with no ticket barriers, and then "tapped out" with his Oystercard travelcard and only paid the maximum fare of £7.20 rather than the required fare of £21.50.

(FCA Final Notice – Burrows, 2014)

It is difficult to see that this is the result of a rational computation of risk and reward.

Motivation

The Normative Approach

People are analytical and assess costs and benefits to maximise their utility. So rewards and sanctions can incentivise them and change their behaviour. People may tend towards taking risks but are generally neutral as to whether they lose or gain.

The Behavioural Approach

People have an intrinsic bias towards acts that bring inherent but not obvious rewards, such as charity work. They want to behave well. They are also influenced by external pressures, such as financial gain. It is possible for the external to crowd out the intrinsic. Financial rewards, deadlines, targets and threats of sanction can do this and create a tunnel vision which requires goals to be attained at any cost. People are loss averse; they put more effort into avoiding a loss than they do into gaining a benefit.

There are plenty of examples in enforcement cases indicating financial reward as a driver of adverse behaviour. However, other motivations are relevant too.

Example

"Broker A: ...Alright, it's got [UNCLEAR] really, what it is, basically I got stuffed in something earlier in an IRS and it would have cost me about 40,000 to get out of it, yes. Geezer dug me out, as a favour back to him he's asked me, for one day today, he's got a couple of fixings coming. He wants to see if he can get LIBORs down a little bit. I've said I'll try and do what I can. Is there any way you might be able to set them a little bit lower today just to return the favour? It was a ****ing big, big, big giant stuffing that I got out of there."

(FCA Final Notice – Martins, 2014)

> "…research undertaken by Ann Tenbrunsel and David Messick that illustrated how the imposition of regulations and sanctions can cause people to frame a problem as one requiring a 'business' decision rather than an 'ethical' decision."
>
> **Gentilin, p.137[3]**

[3] Dennis Gentilin, The Origins of Ethical Failures (New York: Routledge, 2016).

Habit and Regularity

The Normative Approach

People take individual decisions to maximise their gains and do not engage in habit or routine.

The Behavioural Approach

The frequency and proximity of past behaviour influences current behaviour. Habits are resilient and if repeated or accompanied by strong rewards are harder to change. Behaviour, including unethical behaviour, evolves over time.

"…in the LIBOR rate-fixing scandal, employees at financial institutions were not providing unbiased estimates of the key benchmark rates on one day, and the following day coming to work and speaking openly over taped lines about manipulating those same benchmark rates. Typically, ethical failings begin with a minor transgression that in of itself may not appear unethical. The slippery slope illustrates how this initial transgression can erode over time, resulting in both individuals and organisations compromising their ethical standards."

Gentilin, p.30[4]

[4] Dennis Gentilin, The Origins of Ethical Failures (New York: Routledge, 2016).

Participation and Commitment

The Normative Approach

People make rationale choices based upon their preferences regardless of external persuasive factors. The more information available to them the better and the way in which that information presented is irrelevant.

The Behavioural Approach

Incentives can be demotivating and direct instruction, telling people what to do, can generate resistance. A more participatory and inclusive approaches can motivate people better and persuade them to change. Information overload can lead to inaction. Open and public commitments can be powerful even when not backed by sanctions.

"…when a whole group with high levels of social capital publicly makes a commitment, this is likely to be more influential on the individuals than when an individual makes the commitment himself/herself."

The New Economics Foundation paper, p.8[5]

[5] Emma Dawnay and Hetan Shah, Behavioural Economics: Seven Principles For Policy-Makers, The New Economics Foundation, 2005.

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Conduct Metrics Working Group	Darren Jarvis	Citigroup Global Markets Limited
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Bank of England	Andrew Hauser
Financial Conduct Authority	Edwin Schooling Latter

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How to Become an FMSB Member

FMSB Members represent all FICC market participants. Our current Membership includes corporate issuers, asset owners and asset managers, exchanges, custodians and intermediaries as well as commercial and investment banks. We would be pleased to discuss Membership with interested FICC market participants. Please contact the FMSB Secretariat at secretariat@fmsb.com or at +44 (0) 20 3961 6150 for further information. The contact address for FMSB is 125 Old Broad Street, London, EC2N 1AR.

FMSB PUBLICATIONS

	Publication Name	Type	Date of Initial Release	Dates of Comment Period	Date of Final Release
1	Reference Price Transactions standard of the Fixed Income markets	Standard	30-Jun-16	30-Jun-16 to 8-Sep-16	21-Nov-16
2	Binary Options standard for the Commodities markets	Standard	22-Jul-16	22-Jul-16 to 14-Oct-16	21-Nov-16
3	New Issue Process standard for the Fixed Income markets	Standard	18-Nov-16	18-Nov-16 to 17-Jan-17	02-May-17
4	Surveillance Core Principles for FICC Market Participants: Statement of Good Practice for Surveillance in Foreign Exchange Markets	Statement of Good Practice	n/a	n/a	08-Dec-16
5	Statement of Good Practice for FICC Market Participants: Conduct Training	Statement of Good Practice	n/a	n/a	08-Dec-16
6	Monitoring of written electronic communications Statement of Good Practice for FICC Market Participants	Statement of Good Practice	n/a	n/a	15-Sep-17
7	Front Office Supervision Statement of Good Practice for FICC Market Participants	Statement of Good Practice	n/a	n/a	15-Sep-17
8	Risk Management Transactions for New Issuance standard for the Fixed Income markets	Standard	25-Oct-17	25-Oct-17 to 20-Dec-17	03-Jul-18
9	Secondary Market Trading Error Compensation Standard	Standard	20-Mar-18	20-Mar-18 to 20-Jun-18	28-Jan-19
10	Suspicious Transaction and Order Reporting Statement of Good Practice for FICC Market Participants	Statement of Good Practice	04-May-18	04-May-18 to 03-Aug-18	15-Jan-19
11	Information & Confidentiality for the Fixed Income and Commodities markets Statement of Good Practice	Statement of Good Practice	01-Jun-18	01-Jun-18 to 31-Aug-18	*Not released as final document as yet*
12	Algorithmic Trading In FICC Markets Statement of Good Practice for FICC Market Participants	Statement of Good Practice	11-Jul-18	11-Jul-18 to 07-Sep-18	*Not released as final document as yet*
13	Behavioural Cluster Analysis – Misconduct Patterns in Financial Markets	Research	27-Jul-18	n/a	27-Jul-18
14	Misconduct Patterns in Financial Markets – Selected Case Studies	Research	27-Jul-18	n/a	27-Jul-18
15	Database – Market Abuse and Manipulation: Historical Cases	Database	27-Jul-18	n/a	27-Jul-18
16	Conduct Risk in Market Transactions Statement of Good Practice for FICC Market participants	Statement of Good Practice	27-Jul-18	27-Jul-18 to 26-Oct-18	*Not released as final document as yet*

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EY

Stuart Crotaz
Member of the 1st Line of Defence Working Group

Pierre Pourquery
Member of the 1st Line of Defence Working Group

Mark Selvarajan
Member of the Conduct & E-Commerce Working Group member

KPMG

Roger Acton
FMSB Secretariat Secondee (former) and a current member of the Conduct & Ethics Sub-Committee and several of the associated Working Groups

Andrew Davidson
Codes & Standards Convergence Sub-Committee member

Karim Haji
Partner Member of the FMSB Advisory Council and former member of the FMSB Board and of the Conduct & Ethics Sub-Committee. Karim contributed to the drafting of the Statement of Good Practice for the BCA publication as well as the Conduct Risk in Market Transactions Statement of Good Practice

Matthew Jarman
FMSB Secretariat Secondee (former)

Bill Michael
Former Partner Member of the FMSB Advisory Council

Callum Nasim
Member of the 1st Line of Defence Working Group

Lucas Ocelewicz
Member of the Electronic Trading and Technology Committee and of the Conduct & Ethics Sub-Committee. Lucas is also a member of both the Algo Governance and Conduct & E-Commerce Working Groups

Peter Rothwell
Partner Member of the FMSB Board

James Sedgwick
FMSB Secretariat Secondee

Macfarlanes LLP

Dan Lavender and **Laura Strickland Palmer** assisted with analysis of the FMSB BCA research and database

Oliver Wyman

Catherine Brown
Partner Member of the FMSB Standards Board, member of the Commodities Sub-Committee and member of the BCA Committee. Catherine contributed to the drafting of the BCA publication and to the Conduct Risk in Market Transactions Statement of Good Practice

Christian Edelmann
Partner Member the FMSB Advisory Council

Serge Gwynne
Former Partner Member of the FMSB Standards Board, former member Commodities Sub-Committee and former member for the BCA Committee. Serge contributed to the drafting of the BCA publication and to the Conduct Risk in Market Transactions Statement of Good Practice

Hiten Patel
Member of the Electronic Trading and Technology Committee and the Algo Governance Working Group

Nick Studer
Former Partner Member for the FMSB Advisory Council

Jennifer Tsim
Member of the Conduct & Ethics Sub-Committee

Marine Warsmann
FMSB Secretariat Secondee (former)

Linklaters

Michael Kent represents Linklaters on the Board and he and **Charlotte Johnsen** are the Legal Advisors to the Board. In addition, many Linklaters staff have been actively engaged in the review and production of FMSB Standards and Statements of Good Practice

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David B. Anders and **Ian Boczko** assisted with analysis of the FMSB BCA research and database

FMSB SECRETARIAT

FMSB Secretariat

1. Mark Yallop
Mark is an External Member of the Prudential Regulation Committee and of the Financial Market Infrastructure Board at the Bank of England and Chair of FMSB.

The Prudential Regulation Authority is responsible for ensuring the safety and soundness of the major UK-based banks and insurance companies and the UK financial system, and for the protection of depositors and policy holders. Prior to this, Mark was from March 2013 to September 2014 UK Group CEO for UBS, responsible for overseeing all UBS's Investment Banking, Wealth Management and Asset Management activities in the UK.

From 2005 to 2011 Mark was Group COO and main board Director at ICAP plc. During his time there he built the electronic markets and post-trade businesses of the firm, managed the Group's infrastructure and contributed significantly to the firm's growth and diversification of its business strategy. From 2009 to 2011 he also led a number of initiatives to develop industry and regulatory responses to the 2008 financial crisis.

From 1984 to 2004 Mark was at Morgan Grenfell and then Deutsche Bank, where he was one of the architects of its expansion in investment banking, built and ran, as Global Head, a number of trading and sales businesses, and served as Global Markets and Corporate and Investment Banking COO. From 2002 to 2004 he was Deutsche Bank AG Group COO, responsible for managing the Group's infrastructure and its business rationalisation programme.

Mark serves on the Board of OpenFin, the US technology firm, and is a Partner in Illuminate Financial Management, a fintech venture capital business. Previously, Mark served on the Board of the International Swaps and Derivatives Association ("ISDA") as well as numerous other financial services industry bodies and working groups, and on the Board of the Centre for Social Justice, the Create the Change campaign board for the Francis Crick Institute and chaired the Development Board for University College, Oxford.

Mark read Chemistry at University College, Oxford from 1978 to 1982.

2. Gerry Harvey
Gerry Harvey was the Chief Executive Officer of FMSB until January 2019. He was Group Head of Compliance for the ICAP Group from 2010 to 2015. Prior to ICAP he worked at a number of organisations, including the Global Banking and Markets Division of RBS, Nikko Europe, LIFFE and NatWest Markets. He is a qualified Solicitor and worked at Cadwalader, Wickersham and Taft and Milbank, Tweed, Hadley and McCloy in London.

3. David McClean
David has worked in the wholesale financial markets for over 30 years in London, New York and Tokyo. He has held senior trading roles in fixed income and treasury at various investment banks, including Nomura from 1999 to 2005 and UBS from 2005 to 2008; from 2009 to 2014 he worked in investment management, including being a partner at Ruffer LLP. He is a Chartered Financial Analyst and has provided expert opinion and consultancy services in several commercial disputes in the financial sector.

4. Craig Beevers
Craig has over 25 years of experience in the financial markets, on both the buy side and the wholesale sell side. He has experience of trading a variety of interest rate products and structuring a range of interest rate derivatives and other structured products, both as a trader and on the buy side for several major private equity funds. In addition, Craig has spent over 10 years of his career in risk management, including as head of global risk for Nikko Europe (now part of Citigroup).

Craig has provided a range of advisory and consultancy services to fund investors and expert testimony on several high profile commercial disputes in the financial markets.

5. Alison Parker
Alison joined FMSB in November 2018. As the Office Manager, she oversees the operations side of the business, supports the FMSB Secretariat and manages various projects.

Alison qualified as a Chartered Accountant while at Coopers & Lybrand before moving to Credit Suisse First Boston ("CSFB") where she became the Global Head of Compensation and Executive Compensation. After leaving CSFB, she undertook various freelance compensation consultancy roles, ran various private property businesses and was a partner in her family farming business.

6. Leslie Fasulo
Leslie joined FMSB in July 2016 and was the Office Manager until she moved on from FMSB in December 2018.

Previously Leslie worked at HSBC in business management for the Asset Management Technology Group. Prior to HSBC, Leslie was with Triton Partners, a European private equity firm, where she held a variety of operations related roles during her tenure.

Leslie is American and relocated to London over 10 years ago having previously lived and worked in Florida, Washington, Chicago and New York.

7. Hanna Mutawa
Hanna joined FMSB in May 2017 from W4i Investment Advisory Limited. At W4i she supported the company Directors and managed the office. Hanna has also held administrative and Human Resource positions at Hope Charity and at Shell Exploration and Production.

GLOSSARY

Bull/bear raid	The practice of taking a position in a security, publishing false information and closing the position once the security price has reacted to the information.
Cherry picking	The practice of executing a client order and withholding the allocation to the client pending assessment as to whether the execution is a winning or losing trade. If the price moves adversely, the trade is allocated to the client. If the price moves positively, the trade is taken by the firm or trader for his personal account.
CLOB	Central Limit Order Book. A CLOB is a transparent, anonymous system that matches bids and offers and enables participants to see market depth through the full stack of orders.
Closing prices	A closing price is a reference price – it is a benchmark against which positions are valued and can determine derivative strike prices etc. Marking (or "banging") the close involves deliberately buying or selling securities and/or derivatives contracts at the close of the market to alter the closing price of the security or derivatives contract or index. This can be undertaken using strategies such as wash trades.
Compensation trades	Wash trades between two parties to enable a cash payment to one party using the securities transaction as the medium to effect the payment.
Corner	A corner arises where a party attempts to achieve a dominant controlling position in a commodity, security or related derivatives to influence the price and to profit from that activity. This can be undertaken to move prices in an enviable direction or to prevent them moving adversely.
FICC markets	The Fixed Income, Currencies and Commodities markets.
Front running	This is the practice whereby dealers use advance information of orders requested by a client to place a similar order on their own behalf, knowing that the client's own dealing will influence the market.
Insider dealing	Using price sensitive privileged information that is not generally available to the market to deal ahead of a price movement expected once the information becomes public.
Layering	The practice of entering a sequence of orders at increasingly higher or lower prices to ramp or depress market prices. These can be spoof orders.
Matched trades	A form of wash trade between two different persons intermediated by a third party, typically a broker acting on behalf of one or more counterparties. The tactics may also involve sales and re-purchases by a party through two different brokers or two parties through a single broker.
New issue support	Attempts to support or increase the price of newly issued securities. This can arise in the case of underwriting sticks and failed distributions. It can be achieved by using CFD hedges on issued securities.
Parking	The sale of securities subject to an agreement or understanding that the securities will be re-purchased by the seller at a later time and at a price which means that the economic risk of the securities never transfers from the seller.
Pinging	Entering small orders into a market to try to ascertain information about large orders that exist in the market and using that information to then engage in manipulative trading activity.
Pool	A coordinated multi-party dealing ring. Pools involve concerted marketing campaigns and multiple collusive and pre-arranged transactions between the parties within the pool to give a false impression of market activity and/or to ramp prices and subsequently close positions at a profit.
Ramping	Artificially raising or depressing the market price of securities. A typical ramping scheme might involve the serial purchase of small lots at increasing prices prior to the sale of a large lot holding at the higher price.
Reference prices	Reference prices include exchange delivery settlement prices for financial and commodity derivatives and other financial and commodity benchmarks against which valuations and cashflows are determined. Reference price manipulation involves deliberately buying or selling securities and/or derivatives contracts at or around the time that the reference price is set in order to influence the price of the security or derivatives contract or index. This can be undertaken using strategies such as wash trades.
RFQ	Request for quote. RFQ is a protocol in which liquidity consumers query market makers to request prices on an order of a particular size, while disclosing their desired direction.
Spoofing	The practice of placing orders in the market with the intention to cancel these orders prior to their being filled. The practice is used to ramp prices and give false impressions of market depth.
Squeeze	A squeeze arises where a party does not seek dominance but attempts to gain control of sufficient amounts of a commodity or security to impact prices.
Wash trades	A typical wash trade involves the purchase and sale of securities in separate transactions that match in price, size and time of execution, and involves no change in beneficial ownership or transfer of risk. There are a number of variations in transaction patterns by which this outcome can be achieved.

Design and production
www.luminous.co.uk

Address: 125 Old Broad Street, London EC2N 1AR
Email: secretariat@fmsb.com
Tel: +44 (0) 20 3961 6150
www.fmsb.com
@FMSB_UK