'Halting the wholesale markets breach, reform and repeat cycle: addressing conduct risk through practitioner-led standards'

Speech given by Martin Pluves, FMSB CEO at the 5th Annual Culture and Conduct Forum for the Financial Services Industry organised by City & Financial Global, London
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Thank you to City and Financial Global for organising today's event, for giving me the opportunity to speak, and congratulations on putting together such a thought-provoking agenda with such a high calibre of individuals on the panels and presentations.

By way of introduction, I'm Martin Pluves and this is day ten for me in the role of Chief Executive of the FICC Markets Standards Board.

Our mission at FMSB, in fact our obligation to our members is to support them in improving conduct and standards of behaviour in the wholesale fixed income, currencies and commodities markets.

I'm going to speak for ten minutes or so to share my perspective on some of the vulnerabilities and challenges that we face in wholesale markets, and then I will be happy to take questions from the floor.

Most of my experience has been in wholesale markets and market infrastructure. Initially as a management consultant for 14 years specialising in technology and financial services infrastructure, and then ten years with the London Clearing House, latterly as CEO of the UK CCP[1].

In fact, I have spent the vast majority of my working life looking at how participants in wholesale financial markets come together to develop solutions that stimulate liquidity, drive efficiency, promote transparency, and which underpin the stability of the financial system. I've worked in commodities and equities exchanges, multilateral trading facilities (MTFs), payment systems, and CCPs. These organisations have all shared a common fundamental - they are all run for members, bringing together a breadth of buy-side, sell-side, corporates and service providers to deliver common goals or achieving a common good. FMSB is no different.

Before going any further, I should add that these are my own views and opinions and do not represent the views of the Standards Board, its members or the competent authorities. I would ask you also to please haircut these views given my recency in the role. I reserve the right therefore to return to you at this event next year (if invited back) with an entirely different set of perspectives perhaps to those that I express today – depending on what I learn in the weeks and months to come.

I have one thought to share with you today, and it is this...

If we are really to make progress building trust in wholesale financial markets we need to find an effective way to interrupt the cycle of misconduct that does such lasting harm breaking the social contract between the finance industry and the public we ultimately serve. For this to happen the drive must come from market practitioners and must be driven from the top of the house. It must come from within the system and be led by the influential core participants in market trading. It is the market participants themselves

[1] Central Counterparty Clearing House.

who hold the key to regaining long-term trust in financial markets and the regulators, policy makers, and supervisors cannot do this alone.

Here in the UK there has long been a reactionary protocol for placing road traffic hazard warning signs on highways. When there has been a serious road accident or a pattern of incidents then steps are taken to place an appropriate warning sign to alert road users to the historically observed risks that may lay ahead. This is of course a rear-view mirror reaction.

When we see a red triangle with a picture of a leaping deer or black and white chevron signs around a tight corner – unfortunately, the decision to deploy those signs did not result from some pro-active Monte Carlo scenario-based risk assessment into the migration patterns of wild muntjacs deer or sophisticated quantitative modelling of road curvature, camber, air-flow density and friction coefficients.

It means simply something went wrong here before. If speed of traffic was a factor in the accident then the warning signs will likely be accompanied by some more direct legislative measures; a reduction in the speed limit or adding guard rails or speed bumps. It's arguable that all this is well and good but really what we need to do is ensure that the driver - the practitioner - is themselves attuned to the potential risks, that they remain sensitised to the key judgements and decisions they make that if not approached with care can turn those risks into a life-changing event.

There are some striking parallels here with how we respond to market abuse and misconduct in financial markets using regulatory measures.

The regulatory reaction to market conduct issues and financial crises aren't wrong. In fact it is vital that these issues be addressed by an evolving regulatory framework but this rear-view approach alone, without private sector and practitioner expertise isn't going to stop future incidents occurring, and quite simply doesn't prevent repeats of the same incident happening again and again albeit perhaps under slightly different circumstances.

A world with unpredictable political tides, ever faster development and delivery of new technology, and trading practices and products evolving so quickly, creates dynamic shifts in behaviour, incentives and risk profiles. We simply cannot rely on legislative frameworks and regulatory rules alone to respond fully and fast enough to address the conduct issues that arise.

Financial Crises are nothing new and neither is the principles-based approach to conduct. Rewind for a moment. In 33AD, a dramatic financial crisis unfolded at the heart of the Roman Empire under the leadership of Tiberius. Money shortage meant credit lines had tightened, liquidity had evaporated overnight, and the system had frozen. There followed a desperate economic strategy of quantitative easing to kick start the economy and reboot activity.

In roughly that same period of history, somewhere between 30AD and 33AD in one of Tiberius's occupied outposts in Jerusalem a jewish rabbi named Jesus was crucified following his three-year campaign to launch a new principles-based approach, to reform conduct and behaviour.

Indeed, I stand here before you today more confident touching on religion than I do on politics...take from that what you will.

But seriously, these issues of financial crisis and conduct and culture risk are indeed nothing new. In fact they repeat again and again over our recorded history. Only the circumstances change. The mechanisms of abuse change. The role of technology changes. Culture and the attitudes of society change. Political lines are redrawn and cycles of regulation ebb and flow. But ultimately the pattern of market abuse, of misconduct or market manipulation, and of abuse of customer trust continue, seemingly unabated.

FMSB recently completed a study into patterns of misconduct - not quite going back to 33AD but which did include reviewing a case in 1814 of illegal government bond price manipulation in London through the spreading of false rumours that the French had been beaten in battle and Napoleon Bonaparte had been overthrown and killed in the process. The aim was to drive market sentiment before selling paper at an artificially inflated price.

Our study looks at much more recent cases including in 2017, numerous cases of LIBOR[2] and ISDAFix abuse. We identify in this study that through the ages there are some 25 identifiable and repeating patterns of misconduct which group into 7 clear categories of behaviour. I have 15 copies of the book here with me today and we can send you one if you contact us at FMSB and request a copy[3].

Historically, each high-profile breach of trust has led to new legislative measures and regulation but has not ceased the cycle of repeat behaviour. In fact, the exact same law applied in 1814 in the historic case of ‘Bonaparte Death Fake News’ was applied in the case of Tom Hayes in 2012 for LIBOR Yen manipulation.

A different and more effective approach is clearly needed, but what?

At FMSB we believe this comes from within the community of expert market practitioners not from regulation alone. We facilitate this community in taking a proactive approach to the assessment of vulnerabilities in today’s market practice. Only the practitioners on the front line, the banks, real money buy-side, producers and consumers, technologists and trade venues are positioned to spot the risks and implement standards to tackle future risk of abuse arising. And it is for this purpose that FMSB was formed following the Fair and Effective Markets review by the Bank of England[4] under instruction of the Chancellor of the Exchequer in 2015.

This is a first order issue which London is addressing and which I am certain is impacting and benefiting markets the world over. If you are not already doing so then I would encourage those gathered in this room today to seek to understand how your firm is engaged with FMSB and how it is contributing to, and benefiting from, developing pro-active, forward-looking standards and statements of good practice, to bring about change and rebuild trust[5].

I hope you would agree that in today’s fast-moving world, more than ever, it is the private sector - the practitioners - who must play a central and leading role if we are to cease the cycle of ‘Breach – Reform – Repeat’ and achieve the long-term goal of regaining trust in wholesale markets.

Thank you very much for your attention – I’m happy to take any questions.

[2] London Inter-Bank Offered Rate.
[3] Please send your full postal address in your request to secretariat@fmsb.com.
[4] https://www.bankofengland.co.uk/markets/fair-and-effective-markets.
[5] Find out more about the FMSB on our website fmsb.com, and follow us on Twitter at @FMSB_UK.