Growing International Focus on Conduct Standards

*Viewpoint*

The Chair of the UK’s FICC Markets Standards Board (FMSB), Mark Yallop, visited AFMA during May and had constructive meetings with AFMA’s Board and with members of the Market Governance and Professionalism Committees. AFMA and the FMSB share a common interest in promoting good practice in the FICC markets, so this provided for many interesting points of discussion.

Australia is comparatively well-advanced in its approach to the setting and management of industry standards for the institutional OTC markets. The principal components are AFMA’s Market Conventions, Code of Conduct and Industry Standards.

The FMSB is an independent body set up by market practitioners in 2015 to improve standards of conduct in wholesale FICC markets in response to the Fair and Effective Markets Review. It has quickly established an influential presence in the UK’s wholesale FICC markets and aims to bring transparency to grey areas by identifying emerging vulnerabilities, clarifying and documenting practice and agreeing standards to improve conduct and market behaviour. Ensuring that wholesale FICC markets are transparent, fair and effective is at the heart of the FMSB’s mission, which is a shared objective with AFMA.

Setting up the FMSB was one of the main recommendations to emerge from the Fair and Effective Markets Review, which was conducted by HM Treasury, the Bank of England and the Financial Conduct Authority.

FMSB aims to fill the “void” between high level principles and low level operational rules with clearer guidance for market participants. FMSB has 4 key strategic goals to meet in serving its mandate:

1. Analyse and report on emerging FICC market conduct vulnerabilities;
2. Address areas of uncertainty in specific trading practices;
3. Promote adherence to Standards;
4. Contributing to international convergence of Standards.

FMSB has so far published 13 Standards or Statements of Good Practice and original research on historical causes of misconduct.

AFMA has a broader operating framework and scope of activity than FMSB and a longer role in providing guidance on industry practice. However, the FMSB has a specialist capability and draws on the scale and needs of the London market. Hence, FMSB’s work serves as a useful reference point for AFMA’s work in this area and we proactively reached out to the Board to establish a dialogue with it.

The discussions with Mr Yallop confirmed the great value of industry standards that outline the norms of proper conduct in financial markets. There was an exchange of views on a range of matters of interest to AFMA member firms including, for example, changing market structures, IT based trading systems and electronification of markets present new challenges in the design of standard business practices to ensure fair and effective markets. These are matters that both FMSB and AFMA will need to address over time in their respective markets.

My Yallop outlined FMSB’s aim to contribute to the global convergence of standards, which from AFMA’s perspective is a sound objective though it does face some practical challenges. The FX Global Code provides the best example of a global standard but in practice FICC markets generally are more heterogeneous in nature than the FX market. While the global convergence process is thus more difficult, it is nonetheless possible to achieve beneficial outcomes for market participants.

For example, AFMA Committees are now routinely asked to consider if FMSB guidance, or similar guidance, that is being developed might be usefully adopted, or adapted, by AFMA for the Australia’s financial market place. If AFMA substantively incorporates the principles set out in an international standard into an AFMA conduct standard, then the latter should give practical guidance on the application of those principles in the Australian context, such as by including relevant examples drawn from the local market place. This is how the recently issued *AFMA Swaps Reference Price Transactions Guidelines* work. They are consistent with the relevant FMSB standard but they are more market specific, take account of ASIC’s views and provide localised practical examples.

Another area where AFMA will observe FMSB’s future work is in relation to its development of metrics to demonstrate the practical effectiveness of industry standards in supporting financial markets such that they operate in accordance with stakeholder expectations. AFMA’s Professionalism Committee recently amended our conduct standards development policy to include a requirement to incorporate metrics into the management plan for a standard that might be used to determine its effectiveness, where this is feasible.

FMSB also has interest in the development of industry training to support the adoption of good practice in FICC markets internationally. The AFMA Accreditation program for individuals fills this need in the Australian market and the enhanced conduct training competent that we have introduced through the *Professionalism: Conduct & Ethics* course is evidently leading edge training for accreditation in international terms. AFMA’s program is being further developed to improve its flexibility in recognising training provided by other bodies, which could be beneficial in the context of FMSB global objectives in this area.

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