

In Focus

Financial Markets Standards Board: A Change Agent at the Heart of Wholesale Financial Markets

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The need to bring people to the table to agree a way forward, virtually or in person, has never been more important. It's what Financial Markets Standards Board (FMSB) has been doing for the wholesale fixed income, currencies and commodities markets since its inception in 2015. Collaboration, education and internationalisation are the watchwords of this unique body that looks not only at misconduct but the behaviours that drive it — and ways to interrupt history repeating itself.

What is FMSB?

Step back to 2015 and the UK's Fair and Effective Markets Review (FEMR) describing a 'regulatory void' between high-level principles and granular operational rules which needed to be filled with clearer guidance for market participants.¹ It also noted the opportunity to address conduct risks arising in unregulated markets. To achieve this, FICC Markets Standards Board Limited (FMSB) was created: a private sector, market-led organisation.² The name was updated in Q2 2022 to replace FICC with 'Financial' to reflect the changing market.

A central recommendation of the Fair and Effective Markets Review was that the participants in the wholesale fixed income, currencies and commodities (FICC) markets should take more responsibility for raising standards of behaviour and improving the quality, clarity and market-wide understanding of trading practices within these markets.

The Review called directly on the senior leadership of FICC market participants to create FMSB, with participation to be drawn from a broad cross-section of global and domestic firms and end-users at the most senior levels and involving regular dialogue with regulators and other key stakeholders.

Overarching objectives

In addition to immediate tasks related to the identified deficiencies with Libor and the foreign exchange market, higher-level objectives given to FMSB at creation were:

- forward-looking identification of emerging risks,
- addressing areas of uncertainty in specific trading practices,
- adherence to standards, including by way of governance requirements, and

- contributing to international convergence of market standards.

Since launch, FMSB has established a vibrant, highly participative membership and formed specialist committees and working groups by topic. These industry experts debate issues and develop Standards and Statements of Good Practice and undertake Spotlight Reviews. These are made available to all in the global community of market participants and regulatory authorities.³ FMSB has no enforcement powers but members formally agree to be bound by the Standards that they help create.

Setting Standards

Analysis, sharing best practice and standard setting result in three types of publication:

- **Spotlight Reviews:** are a deep dive into a specific topic that seeks to illuminate emerging issues in FICC markets, considering challenges market participants face as well as possible mitigants. The Reviews may inform future areas of structured work.
- **Statements of Good Practice:** Set out clear expectations and guidance on good practice in relation to broader areas of uncertainty in wholesale financial markets.
- **Standards:** Set out Core Principles and accompanying guidance on the most important aspects of practice where ambiguity risks undermining the transparency, fairness and effectiveness of markets. The Membership not only agrees to abide by these standards but also attests that they have done so annually.

Membership Growth

While initially established in the United Kingdom, the FEMR report made it clear that global markets need global standards, and it was always the intent to structure FMSB as a fully global initiative in terms of scope and membership. To that end, it continues to forge collaborative links with regulators, similar standard setting bodies and key market stakeholders around the world.

The breadth of FMSB's membership is a strength and one of its key differentiators. Membership comprises banks and liquidity providers representing about 80% of global FICC revenues; Exchanges, Central Counterparties (CCPs), and market infrastructure providers variously representing 30-60% of EMEA volumes; Asset Managers and Hedge Funds representing AUM >\$10 trillion; Corporate members that exceed \$100 billion in annual issuance; as well as Partner members being other standard setters or industry stakeholders.

FMSB's success derives from high levels of engagement from this group, as subject matter experts drawn from the membership do the work of establishing Standards, creating Statements of Good Practice and conducting Spotlight Reviews. This is central to the process of setting authoritative standards that are 'owned' by the industry. The Membership is supported by a legal entity Board, an active Advisory Council and Standards Board and a small but expert Secretariat.

FMSB has a clear sense of purpose:

By improving their transparency, fairness and effectiveness, FMSB seeks to support well-functioning, trusted global wholesale financial markets that in turn support sustainable economic growth for governments, corporations and investors.

FMSB has become a leading agent for change at the heart of the global financial services ecosystem.

MYLES MCGUINNESS
FMSB CEO

Producing guidelines, practical case studies and other materials that promote the delivery of transparent, fair and effective trading practices serves to increase trust in wholesale financial markets.⁴

In addition to its unambiguous purpose, FMSB has a number of distinctive characteristics that supports continuing membership growth including:

- absence of lobbying;
- a global vision with exclusive focus on wholesale markets;
- breadth of expertise of existing membership;
- being a practitioner-led group in terms of priorities, due diligence and effectiveness; and
- close relationships with regulatory authorities.

True to its mandate

FMSB's strategy for 2022-24 remains anchored to serving the original objectives set out in FEMR, which remain as relevant today as they were in 2015. Current strategy therefore focuses on three themes:

- collaboration — finding more ways to collaborate selectively with standard-setting bodies and regulatory authorities to augment the impact and reach of FMSB's work as well as enlivening a more forward-looking approach to risk identification and mitigation.
- internationalisation — expanding the effective international reach of FMSB, not just through private sector participation, but also by expanding new and existing relationships with regulators that have country or product-specific mandates; and

Unique facets

FMSB is a privately funded non-profit global standard setting body; it is not a regulator or an industry lobby group. There are many theoretical advantages to a structure which is practitioner led in the effort to strengthen conduct and effectiveness in existing and evolving markets. These include:

1. Market participants are naturally closest to the latest developments with access to cutting edge expertise giving them informational advantages to assist in developing high quality standards;
2. Active participation in the standard setting process can foster willingness to observe those standards and promote adherence among peers and market counterparties;
3. Promotion of market efficiency is the priority, versus supervisory strategies that may be driven by other, wider priorities and short-term political influences;
4. Transcendence of national borders can be done more easily than public authorities anchored to local jurisdictions;
5. Market-led initiatives can react more quickly than authorities with finite or purpose-specific resources and other priorities; and
6. Gaps can be closed that might otherwise remain unaddressed as a result of overstretched public budgets.

- membership — maintaining and actively growing the level of participation from a broad cross-section of firms, end-users and stakeholders.

The effectiveness of this strategy is based on the premise that FMSB continues to produce high quality, impactful publications.

Memorandum of Understanding

One regulatory initiative, completed in 2021, was the creation of a Memorandum of Understanding [MOU] with the Bank of England and the Financial Conduct Authority on roles and expectations.⁵ The MOU is of symbolic significance and underlines FMSB's close regulatory ties. Key tenets of the MOU are active discussion of our strategy and priority setting at the formative stage as well as arrangements for the authorities to provide input into our standards.

We all know the wholesale markets are international by their very nature, and we would welcome opportunities to explore similar arrangements with other regulators and standard-setting bodies.

FMSB's impact

We have been busy! Since its inception, FMSB has published 9 Standards, 11 Statements of Good Practice (including Transparency Drafts) and 10 Spotlight Reviews.

Clarifying Trading Practices 2015-2020

Early efforts focused on clarifying trading practices that were associated with post-crisis misconduct, notably related to foreign exchange and Libor.

These contributions cover topics such as reference prices, the new issue process for the fixed income markets, surveillance in foreign exchange markets, monitoring of electronic communications, conduct risks associated with the execution of large trades and conflicts of interest.

Responding to Events 2020-2021

LIBOR cessation and the need for risk management frameworks around hybrid working are two of the more significant recent challenges that financial market participants have faced. FMSB has published Spotlight Reviews to assist firms in identifying and mitigating conduct risks associated with the LIBOR transition as well as on work of the Sterling RFR Working Group to set a Standard for the use of Term SONIA. Similarly, having published a remote working risk register complete with key mitigants, FMSB followed up with a Spotlight Review to support firms in addressing risks caused by the broader dynamism around the pivot to hybrid working.

Human behaviour sits at the heart of all these events, and FMSB also includes this and wider issues applicable across financial organisations. A significant early contribution was an incisive analysis finding recognisable patterns in misbehaviour that took place hundreds of years ago, which also occur in today's world. Importantly, these patterns have transitioned across to ultra-high-speed and technologically advanced markets. This behavioural risk analysis is being updated for release in H1 2022. Such leading-edge output reflects the commitment and drive of the FMSB Board, the Advisory Council and the Standards Board, but also the high level of engagement and expertise of well over a dozen working groups comprised of over 300 individuals drawn from the most senior levels of active market participation as well as academia and legal services.

Behaviour-pattern Conduct Analysis — 2022 Update

Imagine that you have clear insight into a market that will have a spike in demand for a particular product. If you could build sufficient inventory, or otherwise gain control of that product, then you could control or significantly influence the price in your favour. This is called ‘cornering the market’. It has played out many times over the years and now it can even be attempted in today’s high-speed electronic markets.

But this story, and many other forms of market abuse, go back a long way...

During 600 BC, Thales, a philosopher and astrologist, predicted that the next year’s olive harvest would be more bountiful than usual, meaning that the right to use olive presses (used to convert olives into oil) would be selling for a higher rate. Thales then took whatever little money he had and went to all the owners of the

olive presses and made a small deposit with each of them to use their presses exclusively during the harvest time. When the harvest really did produce a bumper crop Thales, having cornered the market, made a killing by charging the other merchants whatever he wanted for the use of olive presses.

In 2018 we published a comprehensive report charting the course of misconduct and manipulation of wholesale financial markets from the earliest days of modern capital markets. In our update this year we have added new cases and summarised 19 types of misconduct used to manipulate or distort markets that can explain all the activity we have studied over the past 232 years. These 19 types of misconduct are logically grouped into six simple behaviours summarised below. It is important to note that these misbehaviours appear across any product or geographic location and have been adapted to work in high-frequency trading and within complex algorithms.

1. Price manipulation	2. Circular trading	3. Misuse of inside information
<ul style="list-style-type: none"> • Spoofing/layering • Ramping • Pools • Corners/squeezes • Bull/bear raids 	<ul style="list-style-type: none"> • Wash and matched trades • Money pass and compensation trades • Parking 	<ul style="list-style-type: none"> • Insider dealing • Unlawful information disclosure
4. Reference price influence	5. Improper order handling	6. Misleading customers and/or markets
<ul style="list-style-type: none"> • Manipulation of submission-based fixes • Manipulation of transaction-based fixes • Portfolio price manipulation / window dressing • Triggering or protecting barriers 	<ul style="list-style-type: none"> • Disclosure of client order information • Front running • Cherry picking • Triggering or protecting stop losses and limits 	<ul style="list-style-type: none"> • Disseminating inaccurate or false information to clients or markets

It is important for firms to consider the history of misconduct as the infractions do repeat, as do the behavioural attributes and the context or conditions that become enablers.⁶

Future activity and focus on emerging risk

Attention has now shifted to identifying and addressing emerging risks consistent with the original mandate from FEMR. The identification effort reflects a synthesis of the collaborative engagement with the membership, reviewing strategic trends, assessing recent market events, gathering expert practitioner input and taking note of key new regulatory initiatives globally.

The wide range of potential further work and publication topics includes:

ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG)

The high degree of noise around ESG risks and mitigation efforts elevates the need for resolution around key principles. The development of risk management frameworks and incisive metrics for ESG is now an essential topic for boards. Carbon markets may well emerge as a driving force in risk mitigation and need coordinated attention.

OPERATIONAL RESILIENCE

Whole-firm or venue-level resilience or risk of extended outages is a growing concern. The challenges and opportunities associated with evolving hybrid working models are not fully addressed. Business model and technology changes can drive higher efficiencies, for example, in post-trade processes, but can also drive unintended consequences and become disruptive.

DIGITISATION / ELECTRONIFICATION OF MARKETS

Whole market segments can rapidly shift almost entirely to electronic trading. New platforms may find themselves neighbours with entirely new segments such as wholesale crypto markets. The risk management frameworks around algorithmic models for trading or support processes are complex.

The majority of FMSB publications to date focus on issues pertaining to market fairness. Addressing 'effectiveness' in financial markets is becoming increasingly important. This could include building on the recommendations of the Bank of England's Post-Trade Taskforce to drive process efficiencies. We could also investigate opportunities with other authorities for practitioner-led standards to fill regulatory gaps. A UK example is seen in the follow-up on the Wholesale Markets Review and Future Regulatory Reform agenda.

These topics have emerged from trends and events across the global industry, as well as from discussions held among FMSB membership, regulators and other stakeholders.

BREXIT

UK and global financial centres are still in the process of responding to the market, legal and infrastructure impact of Brexit. This presents opportunities to contribute both internationally and domestically:

- **Internationally:** FMSB has shown that it can deliver consistent conduct standards governing wholesale market business. This is all the more important in a world where technical regulatory

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standards may diverge. Why, for example, should large trades be processed differently in one market versus another?

- **Domestically:** The UK Treasury is consulting on the Future Regulatory Framework and there is ongoing work to consider the role of the UK in wholesale markets. This may result in a re-orientation of domestic financial regulation potentially presenting opportunities for the industry to lead on certain developments and fill gaps that cannot be addressed expeditiously by overstretched public budgets.

Striking a balance

By its strong start, FMSB has demonstrated an ability to channel the power of industry-led solutions in collaboration with regulators and international standard setters to support the development of fair and effective markets without a constant need for more restrictive regulation.

After dealing with the pre-identified problems related to foreign exchange and Libor (2015-19), and quickly responding to urgent market events (2020-21), FMSB is now shifting to focus on emerging issues and is well-poised to contribute.

The wholesale financial markets are changing in rapid and complex ways due to technological advances, new products and business models, hybrid operating

models, and the sheer scale of challenges such as ESG, climate change and data not to mention the impact of major geo-political events. FMSB is well placed at the heart of the wholesale financial services ecosystem to continue as a key agent for change. If your organisation has an interest in our work, please contact us.

The global FMSB membership is actively growing. If your organisation has an interest in our work, we invite you to look at our web site and Annual Report and to contact us about how you could get involved as a Full, Associate or Partner Member. We also look forward to welcoming a number of additional global, national or product-specific regulators to our collaborative efforts.

Edward D. (Ted) MacDonald is a member of the FMSB Secretariat, is an accredited mediator and maintains active links with Ivey Business School and its Leader Character programme. As a financial services practitioner, he has held senior roles in business origination, risk management, board-level governance, and more recently, regulation.

Christopher Rich is FMSB's General Counsel and has overall responsibility for all FMSB Working Groups and their publications including Standards, Statements of Good Practice and Spotlight Reviews.

ENDNOTES

- 1 Fair and Effective Markets Review: [Fair and Effective Markets Review published | FCA](#)
- 2 FMSB Website: [FMSB.com](#)
- 3 FMSB Annual Report: [Standards & Publications](#)
- 4 FMSB Standards & Publications: [Standards & Publications](#)
- 5 MOU — Bank of England, Financial Conduct Authority & FMSB: [20211109_FMSB-MoU_FINAL.pdf](#)
- 6 Behaviour-pattern Conduct Analysis May 2022: [BCA](#)