



# How fair and effective are the fixed income, foreign exchange and commodities markets?

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*To encourage the free and frank exchange of views during this meeting, the FEMR Secretariat requests that all participants respect that this is a private event and ensure that communications regarding the content of this meeting are restricted to each participant's respective institution.*

# The consultation document

- Consultation organised around four key themes:
  - What ‘fair and effective’ means for FICC markets
  - Areas where the fairness and effectiveness of FICC markets may currently be deficient
  - Extent to which regulatory, organisational and technological changes post-crisis may address deficiencies in fairness and effectiveness
  - Further steps to help boost fairness and effectiveness in particular FICC markets



# 'Fair and effective' in FICC

- Characteristics of **effective** markets
  - i. Allow end-users, borrowers and end-investors to undertake transactions, including risk transfer and the channelling of savings to investment, in a predictable way.
  - ii. Allow market participants to trade at competitive prices, set through a price discovery process reflecting the current and expected balance of supply and demand.
- Characteristics of **fair** markets
  - i. Clear and consistently applied standards of market practice – market participants know what these are and have confidence that other participants will observe them.
  - ii. Sufficient transparency for market participants to have common access to information and to verify that codes and rules are being applied consistently.
  - iii. Open access for all, either directly or through open, competitive and well-regulated system of intermediation.
  - iv. Competition on the basis of merit, reflecting equality of opportunity rather than equality of outcome.
  - v. Participants behave with integrity and can be confident that they will not be subject to fraud, deception, misrepresentation, manipulation or coercion.

# Framework for evaluating 'fair and effective'

	Potential source of vulnerability	Possible responses by			
		Market	Firm	Individual	Regulators/ Legislators
<b>Structure</b>	Market microstructure				
	Competition and market discipline				
	Benchmarks				
<b>Conduct</b>	Standards of market practice				
	Responsibilities, governance and incentives				
	Surveillance and penalties				

# Specific issues in FICC markets - Structure

Market microstructure	<p>The Review considers whether structural features in specific markets may enhance or diminish fairness and effectiveness. For example:</p> <ul style="list-style-type: none"><li>• <i>Fixed income</i> – can corporate bond issuance be more standardised? Can new-issuance process be more transparent?</li><li>• <i>FX</i> – lessons learned from recent fx cases? Do structural vulnerabilities exist?</li><li>• What are the implications of increased internalisation?</li><li>• <i>Commodities</i> – is more transparency needed in OTC commodity derivatives markets?</li></ul>
Competition and market discipline	<p>The Review asks if current competitive structures are vulnerable to misconduct, and whether better market discipline is a/the solution. For example:</p> <ul style="list-style-type: none"><li>• Where do potential conflicts of interest arise in FICC markets?</li><li>• Where could technological innovation improve competitiveness?</li></ul>
Benchmarks	<p>Having recommended additional UK benchmarks to be brought within scope of regulation, the Review asks what further industry/regulatory action is needed, especially at international level.</p> <ul style="list-style-type: none"><li>• What additional changes could be made in the design, construction and governance of benchmarks?</li></ul>

# Specific issues in FICC markets - Conduct

Standards of market practice	<p>The Review asks if standards of market practice are sufficiently clear, consistent and understood by participants so as to bolster fairness and effectiveness. In particular:</p> <ul style="list-style-type: none"><li>• If there are real uncertainties, how should these be addressed?</li><li>• What role can market codes of practice play?</li><li>• Should there be professional qualifications for individuals?</li><li>• Are there any financial instruments that should be brought more fully into the scope of regulation?</li></ul>
Responsibilities, governance and incentives	<p>The Review considers how standards can be embedded in firms through governance and incentives. For example:</p> <ul style="list-style-type: none"><li>• Can performance assessment and remuneration structures be used more effectively to incentivise good conduct?</li><li>• What role can firms play in changing their attitudes to hiring, promotion and advancement?</li></ul>
Surveillance and penalties	<p>The Review considers what further measures are needed, at firm, market and regulatory level, to detect and punish misconduct. For example:</p> <ul style="list-style-type: none"><li>• Could more be done to encourage whistle-blowing?</li><li>• Could firms do more to punish malpractice, e.g. by shifting business away?</li><li>• Is there a need to widen criminal sanctions for misconduct?</li></ul>