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Fair and Effective Markets Review releases Final Report

The Fair and Effective Markets Review today published its Final Report, which sets out 21 recommendations to help restore trust in the wholesale Fixed Income, Currency and Commodity (FICC) markets. The Review was established by the Chancellor of the Exchequer and Governor of the Bank of England in June 2014 to help to restore trust in those markets in the wake of a number of recent high profile abuses.

FICC markets are critical to the operation of the global economy, impacting prices for anything from basic household necessities to the rates of interest at which firms can borrow. So it is vital that they work well, and in the best interests of everybody.

However, the scale of misconduct seen in recent years has both damaged public trust and impaired the effectiveness of these important markets. The lack of firm governance and controls, acceptable standards of market practice and a culture of impunity all contributed to a process of 'ethical drift', leading to huge fines, reputational damage, diversion of management resources and the reining in of productive risk taking. The Review's recommendations are aimed at restoring trust and fairness in FICC markets, while also boosting their overall effectiveness.

The Review is centred on four principles. First, individuals must be held to account for their own conduct. Second, firms must take greater collective responsibility for market practices. Third, regulators should close gaps in regulatory coverage and broaden the regime holding senior management to account. And, fourth, given the global nature of these markets, coordinated international action should be taken wherever possible to improve fairness and effectiveness.

It is now time for individuals and firms to step forward and play a central role in improving standards in FICC markets. The Review has been greatly encouraged by firms' commitment to the project over the past year, most notably through the Market Practitioner Panel chaired by Elizabeth Corley, CEO of Allianz Global Investors. The challenge now is to turn that into action. If firms and their staff fail to take this opportunity, more restrictive regulation is inevitable.

A full list of the Review's recommendations is set out on pages 7-8 of the Final Report.

Recommendations to raise standards, professionalism and accountability of **individuals** include:

- i. Encouraging IOSCO to consider developing a set of common standards for trading practices that will apply across all FICC markets; (see section 4)
- ii. Extending UK criminal sanctions for market abuse to a wider range of FICC instruments and lengthening the maximum sentence from 7 to 10 years' imprisonment; (see section 6)
- iii. Mandating qualification standards to improve professionalism and disclosure requirements for references to avoid misconduct going undetected when individuals change jobs (see section 2).

Recommendations to **firms** to improve the quality, clarity and understanding of FICC trading practices:

- iv. Creating a new FICC Market Standards Board with participation from a broad cross-section of firms and end users and, involving regular dialogue with the public authorities, to address areas of uncertainty in trading practices and promote adherence to standards. (see section 4)

Recommendations to the **UK authorities** to strengthen regulation of FICC markets include:

- v. Extending elements of the Senior Managers and Certification Regimes to a wider range of regulated firms active in FICC markets; (Section 5.1)
- vi. Creating a new statutory civil and criminal market abuse regime for spot foreign exchange, drawing on the international work on a global code. (see below and Section 4)

Recommendations to the **international authorities** to raise standards in global FICC markets include:

- vii. Agreeing a single global FX code providing a comprehensive set of principles to govern trading practices around market integrity, information handling, treatment of counterparties and standards for venue – as well as stronger mechanisms to ensure market participants adhere to that code (Section 4).
- viii. Examining ways to improve the alignment between remuneration and conduct risk at a global level (Section 5.4).

In addition, the Review identifies a set of principles to guide a more forward-looking approach to the structure, behaviour and supervision of FICC markets. These will be an important theme at the Open Forum to be held at the Bank of England in the autumn of 2015.

In his annual Mansion House speech this evening, the Chancellor is expected to say:

“The public rightly asks why it is that after so many scandals, and such cost to the country, so few individuals have faced punishment in the courts.

“The Governor and I agree: individuals who fraudulently manipulate markets and commit financial crime should be treated like the criminals they are – and they will be.

“For let us be clear: there is no trade-off between high standards of conduct and competitiveness. Far from it. Implementing the reforms set out in this Review will ensure trust in our markets and strengthen London’s global leadership position.”

Commenting on the publication of the Final Report at Mansion House, Mark Carney, Governor of the Bank of England, said: “With its publication today, all the main building blocks are now in place for the real markets we need. I want to pay tribute to my colleagues Charles Roxburgh, Minouche Shafik and Martin Wheatley, who so ably led the Review. And to salute Elizabeth Corley, who so expertly chaired the Review’s independent Market Practitioners Panel, canvassing and coalescing views from across industry.”

Martin Wheatley, Chief Executive of the FCA, said: “These markets are central to our economy and today’s recommendations will be important in rebuilding public trust in their integrity. Domestic regulatory reform is only one piece of the puzzle. Driving up global standards needs international cooperation between regulators, but confidence is underpinned by the behaviour of the firms and individuals active in them. We will know the review has truly succeeded when we see these changes being embraced at every level in industry.”

To ensure that momentum is maintained on those recommendations under the control of the UK authorities, the Review’s Chairs will provide a full implementation report to the Chancellor of the Exchequer and the Governor of the Bank of England by June 2016.

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Notes to Editors

- i) The Final Report can be found on the [Bank of England website](#).
- ii) The Review was chaired by Minouche Shafik, Deputy Governor for Markets and Banking at the Bank of England, with co-chairs Martin Wheatley, Chief Executive of the Financial Conduct Authority and Charles Roxburgh, Director-General for Financial Services at HM Treasury.

- iii) The Review issued an interim recommendation that a further seven major UK FICC benchmarks should be brought into the scope of UK regulation. This recommendation has already been implemented by the Government, coming into force on 1 April 2015.
- iv) The terms of reference for the Fair and Effective Markets Review, along with its consultation document, can be found on the [Bank of England website](#).
- v) The Bank of England is today also launching its Open Forum, which will build on aspects of the Fair and Effective Markets Review Final Report. For further details, see the [Bank of England website](#).