Citi – Response to the Fair and Effective Markets Review

Citi welcomes the opportunity to respond to the Fair and Effective Markets Review (FEMR) consultation. This response complements our input into the responses by Association for Financial Markets in Europe (AFME), British Bankers' Association (BBA), International Swaps and Derivatives Association (ISDA), and the International Capital Markets Association (ICMA).

Citi has approximately 200 million customer accounts and does business in more than 160 countries and jurisdictions. Citi provides consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, transaction services, and wealth management. Citi operates globally for our institutional clients, including corporates, financial institutions, investors, and governments across many Fixed Income, Foreign Exchange and Commodities (FICC) markets.

London as a financial centre has a pre-eminent place in global financial markets. This is a hugely valuable asset that should be well managed by the regulators and the firms that operate here. We support work that improves this environment to deliver more fairness, more effectiveness and better outcomes, which are critical for underpinning trust in the integrity of markets and the professionalism of its participants.

We agree that the functioning of FICC markets strike a balance between serving customers at competitive prices and acknowledging the high level of specification and liquidity of many products required by the end users. FICC markets are heterogeneous and the focus of effective regulation should be driven by better outcomes for clients and the integrity of markets.

A focus on increasing transparency, standardisation and other microstructure features such as electronification, should not be an end in itself. These features are part of the ongoing evolution of markets but in some circumstances could lead to worse outcomes for the fairness and effectiveness of these heterogeneous markets.

The six themes ensuring fairness and effectiveness, which are identified in the FEMR consultation, are important factors, some or all of which combined together contributed to the recent market abuses.

We would also add that recent issues also highlight the challenge posed by the conduct of certain individuals. Their behaviour demonstrated the need to continue to enhance internal conduct, training, supervision and performance management to ensure that every individual acts consistently in a way that promotes the fundamental integrity of markets and the best interest of clients. Citi has been focusing on these areas through an extensive ethics and culture programme. We also observe that the fines that regulators have been able to impose as well as the individual prosecutions clearly indicate that these markets are already and effectively within the scope of the regulators. There is a potential for variations to emerge across jurisdictions and we feel strongly that there needs to be international regulatory co-operation and a global code of conduct, which is principles-based, across heterogeneous asset classes.

We note that many developments in FICC products have been client-driven and we think that to ensure fairness and consistent standards across FICC markets, comprehensive conduct principles need to apply to all market participants.

We regard electronification as a natural evolution of most FICC markets. However, we would not agree with a regulatory pan-market endeavour to expedite this as an overriding objective in itself as it might have an adverse effect on liquidity and the ability to customise products and service for clients. In addition, we are concerned that mandatory standardisation of transactional support and product structures may inhibit client choice and the ability for clients to tailor capital market solutions to their needs and opportunities. However, we welcome, where possible and

appropriate, streamlining of global and regional standards of documentation and due diligence in order to help make markets more effective.

In relation to competition, we believe most FICC markets to be highly competitive though we acknowledge that costs related to technology and capital requirements have been identified as a risk for a reduction in competitiveness in the future. The number of participants in many FICC markets has reduced since the financial crisis but these markets remain highly competitive. In some markets, trading has moved to a more concentrated group of market makers though this has often led to improved pricing for the end client and provided the scale needed for their counterparties to cover regulatory and technological development costs.

Citi welcomed and provided input into the setting up of the Banking Standards Review Council (the Council), which will provide a forum for discussion between practitioners, the sharing of best practice in ethics and good conduct and which will enable enhancements based on experience. The Council might not have a global role in the professionalisation and improvement of conduct standards. However, we strongly believe that its work can be used as a catalyst in the London market and could inform the work of a new global body.

Related to the above, we would support the industry's aspiration towards the establishment of specific professional qualifications. We believe that an annual re-evaluation of competence, including conduct, would be a useful and effective addition to the overall environment of regulation and control.

We support a global principles-based Code of Conduct for all market practitioners as well as dynamic, regulator-endorsed market practice guidance which address current grey areas of acceptable and unacceptable behaviour – we believe a coherent forum is needed for discussion and identification of instances where there may be issues regarding the fairness and effectives of FICC markets. Bearing in mind the heterogeneity of FICC markets, we think it is important to build on existing codes of conduct where possible, to avoid duplication and over proliferation.

In conclusion, we think that FEMR has already stimulated an excellent and holistic assessment of FICC markets which can form the base for future global debates and enhancements in conduct, controls and regulation. This consultation is a powerful opportunity to deliver an outcomes-based approach and to be a catalyst for reinforcing professional standards of capability and conduct across the market. We believe that this is a critical element in rebuilding the perception and reality of market integrity and trust which is so critical to fair and effective markets.

Yours faithfully,

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