

LOOKING FOR SOMETHING

The government has just announced further steps to raise standards of conduct in the financial system with a joint review by the Treasury, the Bank of England and the FCA into the way wholesale financial markets operate. Strong and successful financial services that set the highest standards are an essential part of building a resilient economy.

The 'Fair and Effective Markets Review' will be led by Bank of England Deputy Governor for Markets and Banking, Minouche Shafik, with Martin Wheatley (Chief Executive Officer, FCA) and Charles Roxburgh (Director General, Financial Services, HM Treasury) as co-chairs.

Recent events have demonstrated the need for authorities and market participants to take action to ensure fair and effective markets. Forward-looking in nature, this review reflects the government's long-term economic plan to ensure Britain remains a world leader in financial services, with successful institutions operating to the highest standards.

Drawing on the insights of public officials, market participants and end users of wholesale financial services, the review is also intended to reinforce confidence in the fairness and effectiveness of UK wholesale financial market activity, and influence the international debate on trading practices.

Amidst recent serious allegations of misconduct in financial markets, the review will focus on those wholesale markets where the bulk of concerns about misconduct have arisen - fixed income, currency and commodity markets - although it will be applicable across a wider range of wholesale markets.

The review will run for 12 months and is expected to make recommendations on:

- principles to govern the operation of fair and effective financial markets;
- reforms to ensure standards of behavior are in accordance with those principles;
- tools to strengthen the oversight of market conduct;

- whether the regulatory perimeter for wholesale financial markets should be extended, and to what extent international action is required;
- additional reforms in relation to benchmarks, in order to strengthen market infrastructure.

In the meantime, the government will take action domestically including:

- extending the new legislation the government put in place to regulate LIBOR to cover further benchmarks in the foreign exchange, fixed income and commodity markets, based on an early recommendation of the review – this legislation includes new criminal sanctions;
- extending the Senior Managers and Certification Regime to cover all banks that have a presence in this country, by bringing in foreign banks that have branches here;
- expanding the tough UK criminal regime for market abuse. As part of this, the UK will not opt in to EU rules. Our own rules will be as strong as or stronger than those of the EU, but will preserve flexibility to reflect specific circumstances in the UK's globally important financial sector.

The government will consult on these steps in the autumn. Martin Wheatley, Chief Executive of the FCA, said: "Confidence and trust are critical to financial markets – and robust, reliable benchmarks are the bedrock of market integrity. I welcome this review, which will ensure that key markets operate with the highest standards of integrity."

A panel of market practitioners will also be appointed, to involve and reflect the views of the financial services industry in the Review. This panel will be chaired by Elizabeth Corley, CEO of Allianz Global Investors.

Peter Smith, Head of Distribution Engagement