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THE FINANCIAL MARKETS ASSOCIATION

ACI BRIEFING

NEWS FROM THE FINANCIAL MARKETS ASSOCIATION
www.acifma.com

Q4 2017 VOL 19, ISSUE 117 ISSN 1469-2031

ACI to Smooth Transition to New Era

The foreign exchange industry faces a number of challenges as the FX Global Code of Conduct is fully implemented, MiFID II hits the statute books and participants continue to deal with the aftermath of conduct issues from several years ago. ACI FMA's Managing Director, Brigid Taylor, believes the Association has to tools and services on offer to not only help the industry face these challenges, but to overcome them.

"There is so much needed in a short time, around reporting, TCA and best execution for example, but there is also the principle of changing peoples' behaviour," she says. "Everyone needs to be aware of the Global Code and how we need to nuance the culture of the industry. ACI FMA saw the need for this change and has worked on developing solutions, which are now coming to market at the right time."

Prime amongst those solutions is the ELAC (E-Learning and Certification) portal, which has been steadily rolled out globally over the past two years.

"Firms are thinking about their internal profile," observes Taylor. "They are asking the question: Are my staff all aware of the Global Code? The trouble is whereas these firms once built their own compliance tools, MiFID II has taken so many resources, they don't have the capacity to map the Global Code to their internal policies – ELAC and ACI can do that for them, it represents the complete solution to what is a growing challenge."

While ELAC is a robust and scalable tool, a lot of firms have the challenge in that they have completed the initial work to show they adhere to the Code but there is little more after that in terms of continuous professional development (CPD). Taylor, however, stresses that ELAC can fill that gap as well.

"Especially as the Code changes over time, there will be a real need for CPD and ELAC helps," she explains. "We can add or take away themes as the Code progresses. As an update to the Code is rolled out, ACI can update ELAC automatically for all users.

"This provides a lot of comfort for institutions because it shows that Code adherence is not a one off issue, these firms can stand in front of their regulators and specifically show how their firm and staff adhere to the Code," she continues. "We are having a lot of multi-lateral discussion about ELAC, with the business heads, such as sales and trading, mainly on the sell side at the moment but also buy side treasuries and execution desks are getting interested, but then also with the compliance and legal function. These teams in particular have a real interest in what we are doing and what we are capable of."

ELAC offers high level reporting and can oversee team performance and then drill down to individuals and measure what has been achieved. It can also offer peer comparison for the Global Foreign Exchange Committee (GFXC). "Our analysis from ELAC can be fed to the GFXC," Taylor explains. "For example, are there areas in which there is a real imbalance between those getting it right

Brigid Taylor

and wrong? If a large number of people are getting a question wrong it could be because the Code is ambiguous, this would highlight it.

"Equally if there was a close balance between getting a question right and wrong the same could be said, so ELAC can be a very important tool for feedback to the GFXC about the Code and can identify areas that may need further clarification," she adds. "The Code is a fantastic and important piece of work and successfully evolving it is vital to the industry's interests. We believe ELAC is one of the few data-based resources that can help that evolution – it is live real time feedback and it can hopefully change behaviour where it is needed.

"We are not in the business of wanting people to get it wrong, if the wording is unclear we can highlight it and enable better discussions going forward," Taylor continues. "We have to stress that ELAC is not only about preparing people for the Code – it does that – but it is also a support tool for the work the central

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ACI Briefing is published by:
PROFIT & LOSS
IN THE CURRENCY & DERIVATIVE MARKETS

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banks and big institutions are doing globally."

The Challenge of Regulation

As time progresses from the official launch of the Global Code, the period allowed to sign the Statement of Commitment is being eaten up, with just under six months left for firms to sign the statement. Taylor says she is hearing from a lot of people that while they are happy to sign for the Code, their legal teams are asking whether they are able to prove they can maintain the appropriate oversight and protection policies.

"We are taking lot of calls about ACI's solutions for this, specifically ELAC and our new Global Code Certificate examination," she says. "This is especially important as firms battle to hit the MiFID II deadline. MiFID has been a huge resource consumer, so inevitably the investment has not been available for other projects.

"My view is the Code sits alongside MiFID," she continues. "It is the spirit of the law and the letter of the law – they are inter-linked. I also think this is reflected in the relationship between the industry and ACI – the industry is naturally very focused on implementing MiFID II, but at the same time ACI has deployed its resources to help them maintain momentum in other crucial areas."

Issues related to inappropriate communications over chat mechanisms have understandably taken many headlines in the foreign exchange industry, however they have also served to heighten the emphasis on best execution – and the imminent roll out of MiFID II has reinforced that trend.

"While there have been a lot of technical advances in the area of best execution, including increased adoption of algo execution strategies, another factor in providing best execution is transparency and behaving appropriately," Taylor says. "Sometimes this is overlooked, so our Global Code Certificate can play a role in helping people understand the full process – it is not only about deploying the right strategy, it is doing the right thing for the customer, that has to be paramount in any service provider's ethos."

The Model Code

ACI FMA's Model Code has played an important role during the past two decades in providing detailed principles for best practice, but inevitably the push for one global code of conduct has seen the spotlight drift away. This does not, however, mean that The Model Code has no role to play going forward.

"Our intention now is to use it for detail around the over-arching principles," says Taylor. "The Model Code has been aligned with the Global Code but obviously it has much more depth where it is required so people can use it for more detail around the Code's principles.

Taylor also says ACI FMA is extending its previous work on market principles to other asset classes such as money markets. "The Model Code is also providing some good input to ELAC in that it offers real life examples on best market practice. If you don't score well enough on ELAC it refers back to the Code, so if you are uncertain on any issue, you can refer to The Model Code for more in depth guidance."

New Values, New Culture, New Market

While historically ACI FMA has not had a specific CPD programme, it has had a progression of examinations, culminating in the ACI Diploma. Taylor believes that ELAC will provide a strong element of an industry-wide CPD programme, however.

"The market is changing and the industry is changing and we need to be able to respond to that," she says. "CPD will become a cultural foundation of the market in my view but we don't want it to be too onerous – tools like ELAC will help ensure it doesn't become so. CPD is now a big part of the education effort at ACI and is part of our continuing education build out."

There is also the global nature of the markets as well as the increased mobility of workforce to consider. Taylor says that ACI FMA will continue to incorporate local codes into ELAC, meaning staff can be checked out on – and learn about, regional nuances regarding codes of conduct.

"If people move to Singapore, for example, having ELAC can help because there will be a passporting element to it, but also they can tap into ELAC and learn and test themselves on local regulations, such as the Blue Book in Singapore," Taylor says. "We need to be able to do this as people and businesses work across boundaries and industry segments, we need to be able to show they can adhere and behave in all markets, and preparing them for a move is one way."

Taylor also believes ELAC works to another coming trend in financial markets. "I think accreditation is coming globally," she asserts. "There are some places where it is in place and I think more will follow. If that is the case ACI needs to be at the forefront of that move, we need to position ourselves for this but we need to be properly prepared on a global basis."

Conduct and operational and compliance risk has grown in the industry's consciousness over the past three years and this is only likely to grow further.

"There is a real chance that people who have not qualified under ELAC for CPD credits will become an employment and possibly even a counterparty risk," Taylor suggests. "Will people trade with them or employ them? I am not sure how that plays out but it is a risk that everyone should be aware of."

Continuing the theme, Taylor points to arguments in some circles that say counterparty risk analysis will, in the future, incorporate an element of adherence to MiFID as well as other regulations out there, such as the FX Global Code. "This is a cross border issue," she says. "It is not just about domestic markets, institutions globally need to have access to information about who is adhering to the Code.

"ACI FMA is looking at hosting a register of those that have signed the Statement of Commitment," she continues. "I believe we are uniquely positioned to provide this because we have the reach in certain jurisdictions that others don't have through our members in 64 countries."

As to why she wants ACI FMA to be a central plank in the reform process, Taylor is keen to stress the importance of getting the new industry structure right. "ACI FMA has been doing all of this work because it is important for everyone that someone facilitates change by providing tangible solutions for all participants.

"We represent, so have to be thinking about, the whole industry around the globe," she adds. "It is important we get this right because we went from an environment where everything seemed to be alright to one where nothing was – we skipped over the middle ground which is probably close to where we should be. It is important that we operate with an appropriate amount of transparency that allows people to do their job.

"Circumstances have brought about bottlenecks – liquidity is still an issue but if people know how they are able to talk and how they are able to trade it will open up better liquidity," she continues. "We will take the fear factor out of the foreign

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exchange industry and that will help it operate – within clearer guidelines.”
Ultimately the foreign exchange industry is changing for everyone. Market and execution risk is shifting in many cases to the buy side from sell side, new participants are entering the market and the technology revolution shows little sign of slowing. This brings challenges to participants, but it also represents opportunity. Underpinning everything is the need to give individuals and institutions the confidence to operate within broad, but mutually agreed parameters. It is a changing industry and ACI FMA is playing a key role in facilitating that change.
“ACI FMA’s values have not changed dramatically over the six decades and more of our existence – they remain education, professionalism and ethical conduct,” Taylor says. “What has changed is the range of tools and services we can offer to a radically changed industry landscape. It has been a painful process for the industry but we are advancing and it will get better still. We have transparency in a controlled environment where everyone knows the rules.”

ACI FMA Creates Two Professional Education Roles

ACI – The Financial Markets Association has announced the appointment of two additional professional roles to enhance its educational and attestation offerings.

Paul Chappell has been appointed Director of Education and will be supported by Deputy Director for Education, Rui Correia. Together, ACI FMA says, the two men will be responsible for delivering the association’s strategic educational initiatives to its global membership.
ACI FMA has gone through a period of evaluating and streamlining its vision and focus to reflect the current needs of financial markets and the individual members it represents. The internal changes reflect the evolution in financial markets, global regulatory reforms and the industry’s focus on conduct, education and training.
Chappell was long time Global Head of Foreign Exchange at Bank of America before leaving to establish his own currency management firm C-View, of which he is currently Chairman.
Correia spent 26 years in a variety of markets related roles in international banks before becoming a certified trainer for financial markets in Portugal, where he is also a member of the Board of ACI Portugal.
Brigid Taylor, ACI FMA Managing Director, says, “We are delighted to have acquired the expertise of two experienced professionals to take up the roles of Director of Education and Deputy Director of Education. These appointments reiterate ACI FMA’s focus on educating and training our members, and ensure efficient and optimal value is created for our members, who are represented across 64 financial centres globally.
“ACI FMA seeks to meet the educational needs of its members by developing relevant education and training solutions that are accredited and valuable across all financial markets where the association is represented,” she continues. “These full-time positions will add valuable leadership to our efforts as we continue to develop and implement a dynamic and relevant education offering of professional qualifications, driving learning and development solutions for financial market participants worldwide.”
ACI FMA Board of Education Chair Oliver Madden, says, “ACI FMA’s suite of qualifications and learning tools, such as our long-established Dealing Certificate and Dealing Simulation Courses, the more recent ACI FMA FX Global Code Certificate qualification and our ongoing e-learning and attestation services portal, ELAC, fully support current market pressures to demonstrate knowledge of, and adherence to, industry standards of conduct and best practice.
“With dedicated resources and the benefit of Paul and Rui's market knowledge and expertise, we will be able to deliver better products and solutions and support market participants to meet internal and external competence and adherence obligations,” he adds.
Chappell says, “I took on the job because I firmly believe the industry has a requirement for more education and guidance as it faces evolution and challenges in the current environment and I consider that I can make a contribution to this. The industry needs to realise the value of the educational tools available from ACI FMA, from exams, through the on-line attestation facility ELAC, to specialist and higher education in the Dealing Simulation Course and Diploma – they are essential in an era of Codes of Conduct and adherence- and I want to get that message out.
“We face a period in which not only does a new generation need training and educating to a much broader and deeper

PAUL CHAPPELL

level than before, but we have the requirement to maintain our levels of compliance and knowledge as markets and technology evolve, and that’s where ELAC really helps,” he adds.
“ACI FMA recognises that whilst volunteers remain vital to the association and its work, there is simply too much involved now in ACI’s education suite to try to do it all on an *ad hoc* basis,” Chappell continues. “Together with Rui, we wish to ensure the Association is at the forefront of helping the industry prepare for the next challenges, not just the ones they face today. One of the easiest ways to show you are doing something about understanding evolving markets is by having staff take the Global Code exam and use ELAC.
“The ELAC questions have to be current and relevant and, probably, more complex that the Global Code examples,” he adds. “ACI FMA is in a great position to do that.”
Correia says “Financial markets are global, so ethical conduct, good practices and adequate training for professionals need to have a global reach as well. As ACI FMA, through its core values, is *the* entity that creates and delivers the best tools to address these topics, I am delighted to be part of the team that will work on the development of our education suite and I certainly look forward to helping ACI FMA further expand its international reach.”

ACI Provides Feedback on Principle 17

ACI FMA's new Director of Education, Paul Chappell, also chaired ACI's sub-committee to respond to the feedback request regarding any possible changes to Principal 17 of the FX Global Code, specifically the language around the practice of last look.

The feedback was requested by the Global Foreign Exchange Committee (GFXC), a forum comprising central banks and private sector market participants part of whose brief is to promote, maintain and update the FX Global Code.
The text of the Code was finalised in May 2017 and provides recommendations that reflect a broad set of global views both from public and private sector participants. The GFXC encourages market participants to adopt the final Code and incorporate it into their activities. ACI FMA provided members of the Market Participants' Group that helped create the Code and publicly welcomed its full release in May.
At the time of the launch of the Code, the GFXC stressed its commitment to evolving it to maintain its relevance and said it intended to periodically request feedback from market participants and others on specific topics. The first such request focused on last look, specifically trading activity during the last look window related to a trade request.
The Code defines "last look" as "a practice utilised in Electronic Trading Activities whereby a Market Participant receiving a trade request has a final opportunity to accept or reject the request against its quoted price".
Principle 17 provides guidance on four related topics: (1) the purpose(s) of last look; (2) governance and controls designed to limit the use of last look beyond its intended purpose(s); (3) use of information obtained from a Client trade request, including through trading activity in the "last look window"; and (4) Client transparency regarding the functioning of last look, including minimum disclosures.
The GFXC noted that input received during the Code's drafting process reflected a wide range of views on features of last look. Some market participants object to the use of last look, arguing that it is not necessary as a risk control mechanism and moreover that it can negatively affect the outcome for the client. Others view last look as beneficial for market liquidity and pricing.

The text in Principle 17 aims to encourage improved transparency and controls surrounding the use of last look, however one particular area of debate was around "trading activity that utilises the information from the Client's trade request, including any related hedging activity" during the last look window.
The Code states that it is "likely inconsistent with good market practice" and the GFXC says this language reflects input that expressed concern that hedging activity during the last look window could be to the client's detriment.
With that in mind it issued a request for feedback on two specific questions. Respondents were asked to specify whether they, or their members, provide prices subject to last look, or not; and whether the respondent, or its members, is a client that places trade requests subject to last look, or not.
The core questions were:
"The Code states that "During the last look window, trading activity that utilises the information from the Client's trade request, including any related hedging activity, is likely inconsistent with good market practice because it may signal to other Market Participants the Client's trading intent, skewing market prices against the Client, which (1) is not likely to benefit the Client..." Do you agree or disagree?
"Are there specific situations where this trading activity benefits the Client? In those situations is such trading activity related to the validity or price checks that the Code states as the purpose for last look? Please provide reasons for each response."
The second question was based upon the response to Question 1: "Do you consider that the language set out in the Code on this activity should be modified (for example, should it be strengthened further or provide further detail as to what may or may not constitute good practice)? Please provide reasons."

Process

ACI's immediate response to the feedback request was to establish the new sub-committee under Chappell's leadership. In fact ACI had updated its own Model Code in the area of last look at the end of 2016 and the members of the new Committee were predominately the same experienced professionals . "There were many different characters on the committee which meant we could cover the topic from a variety of angles," explains Chappell. We had a great spread from different types of banks, through platform providers and brokers, to buy side and non-bank market makers, I chaired as an independent. In some ways we mimicked the composition of the MPG. "We set out to answer the two specific questions asked by the GFXC – a lot of the 33 responses were lengthy and didn't answer the questions – rather they tried to reimagine last look from all sides – that wasn't what was asked.
Unsurprisingly, given the rather emotive nature of the subject, and its potential financial ramifications, Chappell says there was quite a diverse range of opinion from those who wanted it banned to those that thought there was little wrong with how last look is used.
"The best way to start in these circumstances is to recognise what we agree on and how, if required, we can reinforce that consensus," he says.
"Everyone thinks differently about last look and we wanted to narrow the focus down, so we managed to get agreement that generally speaking there is a need for time to credit and risk check as well as allow for system latency and in those circumstances last look was justified.
"This meant it really came down to one core issue, " he continues. "Is there any justification beyond these criteria for delays in accepting the trade – so-called rate last look? We ended up without a

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consensus but we did have a majority that accepted that rate last look was not consistent with best practice and that's what we said in our response.

"We got to the point where we recognised that there was no real argument for rate last look – no one could come up with a convincing reason why it is needed," he adds.

Formal Response

Following the deliberations and hard work of the Committee, ACI FMA formally submitted its response ahead of the deadline in September.

In it, the association says, "ACI FMA agrees that trading activity that utilises information from the trade request is inconsistent with good market practice. Furthermore, it considers that such activity, when undertaken by market participants acting as principals as defined in Principle 8 of Global Code, is inconsistent with good market practice. As such, the word "likely" should be removed."

The response also went on to suggest greater definition in the wording of the Principle as follows: "During the last look window, trading activity undertaken by market participants acting as principals as defined in Principle 8 of the Global Code of Conduct, that utilises the information from the Client's trade request, including any related hedging activity, is inconsistent with good market practice because it may signal to other Market Participants the Client's trading intent, skewing market prices against the Client."

ACI FMA also noted that there is "no firm evidence or specific situations where there is any likely benefit to Clients from trading activity by market participants in the last look window" and that any suggestion that it might lead to tighter pricing was circumstantial.

The Association further believes that the language as set out in the Code should be modified and strengthened to provide further clarity on the specific circumstances that might constitute 'legitimate' use of last look, and suggested;

"There is a legitimate use of last look as it pertains to rejection of a stale quote and thus a failed match; the checking of credit, permission, risk and liquidity exposure; system and message integrity, along with price latency. All other uses of last look, including the delaying of acceptance of a trade by a market participant in relation to price, are potentially open to inappropriate behavior and are discouraged, unless adequate safeguards to detect any form of abuse against the Client or the market exist; nor should any attempt be made to take advantage of the other market participant's intentions."

More Work

Chappell says the work undertaken by the committee, while occasionally difficult, was very rewarding. "Everybody participated freely and with the same goal of providing a considered, properly analysed response," he says. "ACI FMA was the only respondent that represented the interests of individuals operating in financial markets, and we believe our response offers a good representative view of market participants."

It is unlikely to stop there, however, for with clouds possibly looming over the practice of pre-hedging thanks to the conviction of former HSBC FX trading head Mark Johnson in a New York courtroom, another round of feedback could be forthcoming.

Chappell is prepared for that, declaring himself ready and willing to help shape ACI FMA's response to the industry's demands, but he also believes other issues already exist.

"We probably only spent one quarter of our time on the committee discussing the traditional last look issue," he reveals.

"The rest – which was many hours – was spent on calls and meetings discussing the quote and cover model as it pertains to last look.

"People are taking liquidity and passing it out as their own and then cherry picking the flow using last look and we are not sure that is right," he adds. "At the very least we believe it is a practice that needs more clarification and transparency from those using this model and we plan to start our discussions around this tricky issue and others, including order management such as the appropriate procedures for pre-hedging.

"This is a great example of how ACI FMA can demonstrate its leadership capabilities to the industry," he concludes. "By recognising potential risks and discussing and creating solutions before some people have even realised it is an issue at all. Most notably, as markets develop and evolve, the ACI ELAC education platform rapidly produces new Scenarios and Questions directly covering the practical application of Principles; thus seeking to provide further guidance to its members and users.

GFXC to Adjust Language on Principle 17

The Global Foreign Exchange Committee (GFXC) met to consider the results of its consultation over the wording in Principle 17 of the FX Global Code of Conduct, specifically relating to the use of last look, and says it has concluded that Principle 17 "should indicate that market participants should not undertake trading activity that utilises the information from the client's trade request during the last look window".

CHRIS SALMON

At the same time, however, the GFXC has recognised the concerns by some involved in the feedback process that such an action would negatively impact the quote and cover, or riskless principal model. As such, the committee says it has agreed that Principle 17 should clarify the conditions under which certain trading arrangements, often referred to as "cover and deal", may be distinguished from the last look guidance.

In reaching this judgement, the GFXC says it balanced the feedback that highlighted the potential for trading activity in the last look window to benefit a client with other feedback that emphasised the risk that clients could be disadvantaged by such trading and that it

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could undermine the overall integrity of the FX market.

In line with the GFXC's review process, finalised language will be shared with local FX committees before being published by the end of this year. Chris Salmon, Chair of the GFXC, says, "The GFXC has made a number of decisions that will help to strengthen and embed the Code across the global market. I am grateful for the detailed feedback provided by market participants on last look in response to our Request for Feedback."

The GFXC has also commissioned further work on two areas. These are "cover and deal" trading arrangements and disclosures regarding last look on anonymous e-trading platforms. "In both cases the objective is to determine whether the GFXC should enhance its guidance about good market practice, potentially through the development of additional illustrative examples for the Code," it says in a statement.

Separately, the GFXC reaffirmed the importance of expanding the global reach of the Code and agreed a number of steps to secure this outcome.

ACI Russia to Lead Formation of Local FXC

ACI Russia has unveiled a Russian language version of the FX Global Code as well as plans to create the Moscow FX Joint Standing Committee, which it says will be based upon the Self-Regulatory Organisation National Finance Association (SRO NFA).

The Association says the new Committee will be supported by the country's central bank, the Bank of Russia, and will participate in the activities of the Global FX Committee (GFXC). At the time the Global Code was launched earlier this year the GFXC publicly encouraged regional and local markets to form their own FX committees as part of the process of helping to ensure the Code reached all geographical locations and customer segments.

The Russian language version of the Code was originally created by the Bank of Russia and then reviewed and finalised by the editorial group of the ACI Russia Council.

The new FX committee will include experts from banks, brokerage firms, corporates, market infrastructure and market services companies, market software suppliers and representatives of the Bank of Russia.

"This platform is to become the essential forum for the development of national standards of professional ethics in the Russian FX market based on the Global FX Code and for the interaction between market participants and regulatory bodies," ACI Russia says.

Sergey Romanchuk, President of ACI Russia, has been proposed as the first chair of the Committee and Russian representative on the GFXC, together with a representative from the Bank of Russia.

The announcements were made at an event in Moscow, which featured presentations by Romanchuk; Executive Director of ACI Russia, Konstantin Zyryanov; President of SRO NFA, Vasily Zablotsky; and Director of Department for Countering Misconduct at the Bank of Russia, Valeriy Lyakh.

The event also hosted a panel discussion which focused on the implications of the adoption of the Global FX Code principled in the day-to-day business via signing the letter of adherence, as well as the potential consequences of violations of those principles.

The following experts shared their views on the Code: Head of the Legal Department of Moscow Exchange, Alexander Smirnov; Thomson Reuters' Regional Business Development Manager in the Financial Markets of Russia/CIS Anna Senina; and Romanchuk. Additionally, Lyakh responded to questions from the audience and presented the views of the Bank of Russia as to the use of the new approach (the Code) to prevent unfair market practices. Due to the multitude of questions from the audience the panel discussion stretched well into the evening hours.

Upon the conclusion of the official presentations and panel discussion, the participants enjoyed the buffet provided by the two sponsors of the event, Thomson Reuters and the Moscow Exchange. The latter also took responsibility for offering the inaugural print edition of the Russian language translation of the FX Global Code. The guests received their individual copies, which were offered to be signed by the Members of the Editorial Group: Daria Dergunova, Konstantin Zyryanov, Dmitry Piskulov, Asiya Rafikova, Sergey Romanchuk, Anna Senina and Maxim Khrustalev.

ACI Adjusts Examination Suite

Following the success of the newly-created ACI FMA FX Global Code Certificate, to meet the requirement for market participants to attest to the Code, the Association has taken the decision to remove the code of conduct sections from its Dealing Certificate and Operations Certificate syllabuses.

This allows current Dealing or Operation certificate holders to take the Global Code Certificate to prove their understanding of it in addition to their current certified knowledge, and for new candidates to build their knowledge through this specific certification.

This will create a specific suite of standalone professional and behavioural examinations.

The Association has also announced a revised pass mark for the Operations Certificate, which is now aligned with the same pass mark required for the Dealing Certificate.

Updated versions of each syllabus are published on the education section of ACI FMA's website.

Additionally the ACI Diploma continues to be a valuable advanced level certification for financial market's professionals, as it includes more complex topic such as Market Analysis and Risk Management.

The announcement is the latest enhancement to the ACI FMA education suite of attestation and certification products that are specifically designed to support market participants meet their code of conduct commitments.

The new syllabi and other information on ACI Education can be found at https://acifma.com/about-education

What Does an Adherence Register Mean?

One of the key issues raised during the creation of the Global FX Code concerned adherence – how were market participants to know that their counterparties had adopted the Code? This was especially pertinent given how a group of central banks and, provisionally, members of the FX Working Group's sub-committee the Market Participants' Group have committed to avoiding dealing with firms that decline to sign up where possible.

Part of the solution came with the publication – along with the full version of the Code – of a Statement of Commitment that market participants were expected to sign within one year. At the same time as the Statement of Commitment was issued, ideas were being touted around of a central registry that participants can access to ensure their counterparties were Code adopters.

The Global Foreign Exchange Committee (GFXC) has published initial guidance on the establishment of registers.

The GFXC stresses it supports market-led mechanisms that raise awareness of the Code and aim to promote its widespread adoption by market participants. To this end, it adds it is aware that some market participants have expressed interest in the creation of and having access to public registers which would facilitate market participants making their use of the Statement of Commitment public, and their attendant recognition of, and commitment to adopting the good practices set forth in the FX Global Code; as well as to assist interested parties in identifying market participants that have done so.

The GFXC says it anticipates that public registers could be established using a variety of operating models. For example, one model might be a website which lists those market participants that have self-published their Statement (for example, on their own website) and provide a link to the Statement. An alternative model might host market participants' Statements, however the GFXC states it takes no view on the most appropriate operating model.

The guidance takes the form of a short set of non-binding considerations as to the recommended characteristics of a public register that would most effectively achieve the aforementioned purposes.

The GFXC says that should multiple registers develop over time, it will consider establishing and hosting a Global Index of Registers, likely accessible via the GFXC website, that will provide a link to all participating public registers.

The GFXC says it considers that public registers should be established with the overarching objective of increasing the transparency around market participants' use of the Statement. As such, in providing a platform for market participants to make public their use of the Statement, public registers should make it clear to users what a market participant's presence on the public register represents and what reliance should or should not be placed upon a market participant's inclusion on the public register.

The committee adds it does not expect public registers to assume responsibility for verifying the accuracy or validity of a market participant's Statement; monitoring adherence to the Code by market participants listed in the register; or verifying whether market participants are within the defined scope of market participants covered by the public register.

With this in mind, the GFXC says it has considered possible features of public registers from the perspective of both market participants that may wish to be included on the public register and users that may wish to identify market participants included on the public register, in providing the non-binding recommendations.

The recommendations state that public registers should consider providing fair and open access to those that may wish to use the public register to identify market participants included, as well as - subject to the operating model adopted - make the following details publicly available regarding the Statement; market participant name, Statement date and market participant type; admission date of the market participant to the public register; and a link to the market's participant's Statement (as hosted by the public register, or as published elsewhere e.g. market participant's website).

Further, the GFXC says a register should:

- Clearly set out the process by which market participants are admitted to or removed from the public register.
- Clearly set out how a market participant's inclusion on the public register is maintained through time, including how frequently a market participant might renew their Statement and expectations for how future updates to the Code will be taken account of, for example, whether renewal of the Statement is required following a comprehensive review of the Code.
- Define the scope of market participants that are eligible to be admitted to the public register (for example, whether all market participants are eligible or whether the public register only applies to a specific jurisdiction or market sector).
- Provide a link to the Global Index (if relevant).

The committee adds that public registers may also consider developing a search function to enhance usability.

In the event that a Global Index is established by the GFXC, it is expected that alignment with the recommendations above will be a relevant factor for determining a public register's eligibility for inclusion.

"Initial feedback to the GFXC suggests that multiple entities, both from the public sector and private sector, may have interest in establishing a public register,"

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ACI to Offer Code Adherence Register

ACI FMA is currently constructing a Global Register for financial market participants who wish to publicly display their commitment to the FX Global Code. of Conduct

This is in response to the requests by both global central banks, whom ACI FMA engages directly with, as well as members of the Global Foreign Exchange Committee (GFXC). The register will be intended to support both ACI FMA members, as well as those market participants who are not members and would like to display their commitment to the Global Code publically. ACI FMA will be hosting a publically accessible register, that is expected to be in full adherence to the GFXC recommendations (see main story).

"ACIFMA supports the FX Global Code and the core values of instilling ethical conduct behaviours into financial markets globally," says Brigid Taylor, Managing Director of ACI FMA. "As such the Association will continue to provide solutions to meet the requests of the GFXC and financial market participants, large and small, to help create opportunities for all who choose ethical behaviour as a common value."

Adherence Register. Continued from p.9

the GFXC says. "Multiple registers may be able to capture a larger cross section of FX market participants given the diversity of the wholesale FX market.

"In order to support a more comprehensive view across different registers, the GFXC will consider establishing a Global Index," it continues. "In considering the establishment of a Global Index the GFXC is in no way discouraging others from developing such a service. The GFXC's initial thinking is that the Global Index will not provide the names of individual market participants, but will provide a list of and links to each of the public registers that are aligned with the aforementioned recommendations.

"The GFXC may also explore providing a search functionality, whereby members of the public could search for institutions across all public registers that provided the GFXC with the ability to include the registers' contents in the search function," it adds. "The Global Index will not collect or publish Statements from market participants. In addition, the Global Index (and hence the GFXC) will not assume any responsibility in (a) verifying that the information contained in the framework of public registers is accurate, true or reliably reflects the circumstances of any market participant, (b) monitoring adherence by the market participants that are listed in the framework of public registers, or (c) verifying whether market participants are within the defined scope of market participants covered by the public register."

Reinforcing its stance that it does not wish to be responsible for the local registries, the GFXC says it anticipates working constructively with entities that establish public registers and wish to be included in the Global Index. This may involve standardising certain details provided by individual public registers to facilitate an effective global search function across multiple registers, it adds.

ELAC to Engage with Regional Codes

In addition to its main focus on the FX Global Code, ACI FMA's ELAC will also support education and certification on several regional codes of conduct.

These will include the UK's Money Markets and Precious Metals Codes, both of which will be ready for ELAC users to have the option to include in their PAR score and demonstrate their understanding of the expectations of these codes in early 2018.

Whilst five of the six themes in the Global Code speak to addressing expectations across all functions and responsibilities within financial market firms, the section on 'execution' deals specifically with FX, as such the Bank of England has proactively generated two new codes to deal specifically with money markets and precious metals execution in the UK.

Although the twi new codes have been established for UK markets, ACI FMA believes UK counterparts would be well advised to consider ensuring that they fully understand the requirements when trading directly with a UK counterpart, or trading in these UK assets – this can now be achieved by using ELAC.

In addition, ELAC will support the Singapore Blue Book following the Singapore Foreign Exchange Markets Committee decision to update the it to fully incorporate the Global Code. This work is currently in progress and is being driven by Lam Chee Kin of DBS and expected completion of the first draft is towards the end of this year.

With over 60 ACI National Associations representing ACI globally – ACI FMA is committed to including any new conduct codes of conduct that may be published, on the ELAC portal – to ensure that global market participants have the options available to them to understand the expectations and prove adherence to any codes that may be relevant to them at any time in their career.

RegAT is Dead But Fast Markets Still a Challenge for Regulators

The changing mood amongst US regulators towards the regulation of automated trading was reflected in a speech by CFTC Commissioner Brian Quintenz in October, when the newly-confirmed regulator said the controversial RegAT rule was "D-E-A-D".

Commissioner Quintenz, who was appointed in August 2017, spoke of "one of the most serious missed opportunities of the agency's prior pending rulemakings – Regulation Automated Trading, or "Reg AT".

He argued the CFTC's process on this rule development was "so confused" because while the regulation is titled Regulation Automated Trading the entities it would require to register were classified as Algorithmic Trading Persons. "Those are not interchangeable terms," he said. "Not all algorithmic trading strategies have completely automated functionality.

"This is more than semantics – it demonstrates a top-level disregard for the enormity of the trading method spectrum and, therefore, a disregard for the proper assessment of market risk posed throughout that broad spectrum," Quintenz continued.

"Evidence of that disregard permeates the original proposal."

Quintenz further observed that in its originally-conceived form, an Algorithmic Trading Person, or an AT person, was defined so broadly that anyone using something as simple as a trailing stop – or anything with a similar, limited amount of automated functionality would have been captured, forced to register with the Commission, and subject to the same rules and requirements as the most sophisticated High Frequency Trading firms.

"That is poorly-crafted and flawed public policy," he stated. "While the agency's

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lame-duck re-proposal of Reg AT in December of last year attempted to address the breadth of the AT person definition by including a trading frequency threshold, it was still a registration scheme.

"I don't believe the right answer is to regulate and dictate all algorithmic trading activity," Quintenz continued. "The right answer is to understand and address automated trading risk. The agency needs to reset its posture on this issue, and we need to have a serious discussion about the finite circumstances under which automated, algorithmic activity can create large-scale market disruptions. Only then should we examine what, if any, additional regulatory solutions are necessary to address those concrete and specific instances."

Significantly, while Quintenz issued the usual disclaimer about the speech reflecting his views and not necessarily those of the CFTC, he closed the section of his speech on automated trading with a very strong statement. "Lastly, let me use this opportunity to say that the prior administration's massively over-reaching and highly concerning "source code repository" proposal is D-E-A-D."

The Challenge of Fast Markets

The dropping of RegAT does not mean that the advance of technology and its impact on financial markets is leaving the regulators' agenda. Quintenz himself highlighted how the CFTC is discussing the challenges of monitoring markets in which AI and machine learning are taking a bigger role, and just days after, Chris Salmon, Executive Director, Markets, at the Bank of England, discussed the changing market microstructure, in particular the advent of "fast markets".

Salmon stressed it was "incumbent" upon authorities to keep up with developments and highlighted three recent flash events in financial markets, the equities market flash crash of 2010, the US Treasuries flash rally in 2014 and last year's Cable flash crash and while he observed that sharp moves in asset prices are nothing new, "the speed, and the typical near-total reversal" is new.

"What is clear is that flash crashes are likely just one symptom of material changes in the structure of certain markets and the nature of their participants," he said. "Although these changes are ongoing, we need to understand them and their drivers, if we are to succeed in correctly identifying any implications for financial stability."

In line with general thinking on the issue, Salmon noted that three main drivers of the shift to fast markets were e-trading, better data and regulation, however he also observed that one result of this change was less need to warehouse risk. A greater number of participants meant it was easier to find a "near instant match", Salmon observed, and identified the rise of non-bank market makers as a result of this. Another impact was how some banks, who were unable to compete with the smaller, nimbler firms, had shifted to an agency model – something of a credit intermediator between end-user clients and the non-bank firms.

Although Salmon highlighted the benefits of the presence of high frequency traders – noting that empirical research has found, on average, the presence of these firms has been associated with improved headline measures of liquidity, at least for trading in small size – he also noted the concerns over increased transparency of order and resulting slippage.

Discussing the benefits from the microstructure changes, he said, "These are potentially important benefits. The ability to undertake transactions at – or close to – prices that reflect economic fundamentals facilitates the proper allocation of capital, as well as the management and transfer of risk. It also gives borrowers the confidence to plan, and savers to finance, productive investment. Efficient markets also allow for the transmission of monetary policy by allowing changes in policy interest rates to be reflected quickly across financial markets and assets.

"The rise in automated high-frequency trading has, however, also increased the incentive for market participants to protect information that could signal their trading intentions," Salmon continued. "This is to reduce the risk of being disadvantaged by trading with other – faster-moving – market participants, and thus receiving a worse price (a phenomenon sometimes referred to as 'slippage')"

This interaction has manifested itself in two observable trends, Salmon noted. First, there has been a partial reversal in the trend toward greater price transparency as market participants embrace other forms of trading, which differ to traditional exchanges either by offering less price transparency and/or a narrower range of counterparties.

Second, market participants' desire to avoid revealing information on their trading intentions and seek the best price has led them to split up large orders, including via the use of algorithms. This can be seen in a reduction in trade sizes, as well as an increase in the rate at which orders in some markets are updated or cancelled," he added. "Here at the Bank we want end-users to both benefit from and be confident in the effectiveness of financial markets. So whilst these behaviours are presumably rational – and cost-effective – for individual market participants, we are mindful that an aggregate reduction in transparency has the potential to hamper efficient price discovery.

"Moreover, the steps some participants are taking to conceal information raises questions about how the aggregate efficiency benefits from faster markets are shared," he warned. "Finally, the occurrence of flash crashes indicates that, even if fast market prices are more efficient in general, they are not always so."

Salmon summarised by suggesting that the headline conclusion that fast markets are more efficient should be tempered, because, "as is often the case, the story here is somewhat nuanced".

Salmon noted that having less reliance of risk warehousers meant that during the 2008-09 financial crisis, stresses were concentrated in those markets that had relied on dealer balance sheets. The question of a intervention by the authorities in equity or FX markets simply never arose, he said.

And while he accepted that flash crashes are headline grabbing, and occasionally sleep-denying, they have so far had limited systemic impact, "I doubt we can fully understand what conditions may trigger similar future events or completely anticipate how they might unfold."

Interestingly, Salmon pointed out that future flash episodes, "May interact with aspects of financial market infrastructure in a way that gives rise to longer-lasting disruption. Suppose, for example, that a future flash episode happened to coincide with benchmark fixings in foreign exchange markets, or a margin call related to equity or derivative markets. The resulting impact on the recorded values of a range of assets might risk mechanically prompting further sales and price falls."

As well as calling for regulators and market authorities to better understand the risks in modern markets, Salmon also argued that fast markets alter the pattern of risks that individual market participants are exposed to. "There are good grounds for concluding that more needs to be done

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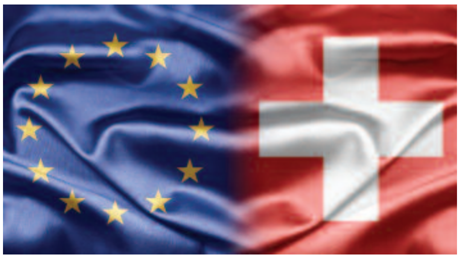
to ensure market participants take account of this consistently," he stressed.
"Use of algorithms does not change the fundamental risks associated with trading in financial markets (e.g. market, counterparty and operational risks), but use of high-frequency trading algorithms does change their relative intensity and can materially increase the potential to build up significant intraday positions," he said. "This latter point is most obviously true for those bank and non-bank intermediaries that specialise in high- frequency trading. And though these firms should be expert in managing such risks, history shows this is not a given."
Salmon continued by noting that end-users – corporates and asset managers – are increasingly splitting up larger trades into smaller pieces and trading them over a longer period. "Doing so exposes them to more execution risk; that is, the risk that prices move against them before they have finished transacting – which traditionally was more the preserve of intermediaries," he warned. "Some end-users are also now automating this trading process through the use of algorithms [and] in so doing they swap one set of risks for another, and the examples of losses by specialist firms in periods of fast market turbulence cautions against assuming that all end-users will effectively manage the new risks associated with the use of algorithms."
In addition to the users of modern technology, Salmon also highlighted the need for banks' prime brokerage and clearing businesses to maintain substantial investment in technology and infrastructure, including that to facilitate the real-time monitoring of exposures and risk management. "The costs associated with this are high, and serve as an effective barrier to entry," he observed. "As few banks provide these services, this leads to a concentration of nodes of market access for short-term liquidity providers.
The changing role of banks/dealers in fast markets prompts the question whether the nature of potentially disruptive risks is also changing. One obvious concern would be if a prime broker or clearing bank was paralysed, including for reasons unconnected to its activity in fast markets – say because of a cyber attack. I think it is fair to say that our understanding of how market functioning would respond in such a scenario – i.e. one in which a number of, in particular high-frequency, liquidity providers were denied market access – remains relatively limited."
Salmon concluded by noting that if there is a common theme across all of his examples, "it is the limits of our understanding". But while he reiterated the need for the authorities to better understand fast markets, he also argued that it is better for them to "remain vigilant and deepen our understanding, so that we can take appropriate action in the future if required – be that from a macro-prudential or supervisory perspective".
He added, "For the authorities, we need to dig deep to understand what this means for the financial system as a whole: both to appreciate the benefits and to remain vigilant as to the risks. It is important for us to ensure that regulation – both of individual participants, market infrastructure and the financial system as a whole – keeps pace with the changes in the type and distribution of risk. Only then can it provide an adequate guard against risks to prudentially regulated institutions and their counterparties."

Predicting the Unpredictable: Was the EUR/CHF Break Signalled?

A paper published by the Bank for International Settlements (BIS) studies events in the FX market leading up to the removal of the EUR/CHF floor by the Swiss National Bank in January 2015, and while it is not conclusive, it does find evidence that some option markets were predicting the break lower in the cross.

The working paper, *The discontinuation of the EUR/CHF minimum exchange rate in January 2015: was it expected?* was written by Michael Funke, Julius Loermann and Richhild Moessner from the BIS Monetary and Economic Department.
Following the removal of the floor, EUR/CHF collapsed quickly from 1.2000, hitting an official low of 0.8500 before settling around 1.0500. There were, however, several trades below the official low, including one trade – which was re-papered – at 0.0125.
The authors attempt to quantify how unexpected the removal of the exchange rate floor was. They derive risk-neutral probability density functions (pdfs) for EUR/CHF rates as implied by the prices of options with maturities of one to 12 months, using both parametric and non-parametric approaches.
The study shows the evolution of the probabilistic expectations, in the form of the probability of breaching the Swiss franc floor (break probability), and the associated higher-order moments (skewness and kurtosis), over the course of several important market events and exchange rate regime changes.
It also studies the forecasting performance of option-implied pdfs for EUR/CHF returns during the time the floor was in place, considering the forecasting performance of an error-correction model augmented with break probabilities in comparison with a random walk benchmark model, as well as the forecasting performance of the entire option-implied pdfs.
The authors find that that financial markets attached "some credibility" to the Swiss franc floor, since the break probabilities never significantly exceeded



50% while the floor was in place, but especially at longer maturities there was some doubt.
Break probabilities increased from January 2014 for all maturities, suggesting that the credibility of the Swiss franc floor somewhat decreased, although this also coincided with a strong test of the SNB's will. "We also found that the credibility of the Swiss franc floor decreased to some degree as the spot exchange rate approached the lower bound of 1.20 CHF per euro," the authors write, and again this is to be expected.
The research highlights a shift in market beliefs between April and August 2012 towards expectations of a Swiss franc appreciation, although this calmed down at

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the end of 2012, not coincidentally when the cross moved away from the floor.

The authors also find that expectations of a rise on the Swiss franc grew throughout 2014, they note, "From January to December 2014 the skewness of the densities turned from positive to negative indicating a change in the directional views of financial markets. Moreover, at the end of 2014 the kurtosis increased, indicating that financial markets saw large movements of the exchange rate as more possible."

The authors calculate break possibilities on a daily basis to look for indications the final fracture was coming – under these conditions a possibility under 50% is seen as indicating the market saw the currency floor as "credible" and *vice versa* above 50%. Interestingly, even in the month leading up to the removal of the floor, the break probabilities converged to 45-50%, but they did not exceed it.

Overall the paper looks as though it confirms, empirically, the psychology of the FX market – as the market fell towards the artificial floor so expectations – or hopes maybe – of a break increased. Given how price reflects traders' opinions and all publicly available information, it is to be expected that the more the market looked for a break, the closer to the floor it traded.

The authors appear to suggest options markets could have predicted the event, but not with any accuracy, especially in temporal terms, which is the all-important aspect of trading. They note, "In this paper we compared the forecasting performance of a random walk benchmark model with an error-correction model (ECM) augmented with option-implied break probabilities. For the one-month parametric and non-parametric break probabilities, we found some evidence that the ECM has an informational advantage over the random walk, while we found that the ECM has no informational advantage over the random walk for the three-month maturity. Considering the forecasting performance of the option-implied pdfs, we found that the one-month option-implied densities cannot predict the entire range of exchange rate realisations."

In other words, the move could be predicted to happen at some time, but short term predictive signals didn't really work. Ultimately, the paper confirms what most traders can tell a layman – financial markets are notoriously difficult to predict and trade effectively for profit (outside the sphere of the market makers of course).

This is accepted by the authors, who write, "Some economists argue that financial markets are an excellent window into future developments and thus help us to understand economic policy and politics – but markets are hardly omniscient. For example, they recently struggled to forecast the Brexit vote. They continue. "It is well-known that high-frequency exchange rates are notoriously difficult to predict. The associated difficulties of such an undertaking are neatly expressed in the following still valid phrase, [coined by Economist Michael Mussa in1979] 'In my judgement, a model that was consistently able to explain 10 percent of the actual quarter-to-quarter changes in exchange rates...would be a successful model....a model that was able to explain more than 50 percent of quarter-to-quarter changes in exchange rates should either be rejected on the grounds that it is too good to be true or should be reported to the Vatican as a miracle justifying the canonisation of a new saint'."

FMSB Annual Report Highlights Progress made in FICC Reform

The UK's FICC Markets Standard Board (FMSB) has issued its 2017 Annual Report setting out the progress it has made to enhance standards of behaviour in the wholesale fixed income, currencies and commodities markets.

FMSB was established in 2015 following the recommendations of the Fair and Effective Markets Review (FEMR), which was conducted by the Bank of England, the UK Treasury and the UK's Financial Conduct Authority.

FMSB says it has achieved "significant momentum and has received strong support from market participants and public authorities". It adds that membership now represents all sectors and users of global FICC markets and accounts for over 80% of sell side wholesale FICC market activity.

The report highlights 27 issues identified by FEMR and says FMSB has analysed 400 UK and international conduct issue, prompting another 26 issues to be identified. It has also carried out an "initial horizon scan" that has identified 20 issues.

FMSB says it has completed the initial horizon scan and segmentation of potential practice areas which require clarification by way of standards and/or statements of good practice and has produced three standards and two Statements of Good Practice. The Board is presently working on the production of five Standards and five statements of good practice, it continues, noting it is also engaged in thematic work in relation to electronic trading and technology in markets and in relation to the identification of common recurring abusive trading practices.

"The impact of technology on FICC markets is a key area of interest for FMSB," the report states. "Key issues for consideration include principles for controls and responsibilities in the management of trading algorithms, controls and risk management relating to the deployment of algorithms, version control and change management processes and record keeping, and the training of responsible staff. Also under consideration is the examination of trading rulebooks and system outages."

The report also discusses the relative merits of regulation versus principles-based guidance. It notes, "Many people

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assume that the legal framework, and the detailed regulation that has been developed to complement this over time, provide a clear description of practices in markets – and how markets should work. In fact, this is not the case.

“The advantage of high level principles is that they are concise, adjust to market developments and allow for innovation,” it continues. “However, their application to market practice requires judgement and this may create uncertainty about how principles apply to particular issues. In contrast, detailed rules are more precise, but their precision means that they may hinder innovation, need to be regularly updated to address new developments in markets and can incentivise “gaming” behaviour. As a result, there can sometimes be a tendency for rulebooks to become increasingly long, legalistic and complex.

“The result of this is that both the law and regulation are silent on significant areas of market practice and cannot cover all of the detailed scenarios and complex practices that arise in innovative and rapidly evolving global wholesale markets,” it adds. “Rules may mean that it is legal or illegal to conduct certain practices but do not specify what those practices are or should be. Good regulation and a sound legal framework are necessary pre-conditions for markets to operate fairly and effectively, but more is required to ensure that users of markets will always receive the best of outcomes. Regulation and the law need to be complemented by market standards which lay out the principles of market practice and how practitioners should deal with each other in situations where regulation and the law are not able to guide them.”

The FMSB also observes that the “repeating nature of market conduct problems is also a function of the frailty of collective memory”. It adds that no matter how intense the experience of failures, as time passes memories recede and those who were witnesses move on from the industry. “The lessons learnt by one firm or one generation do not necessarily pass to the next,” it states. “Creating clear and widely adopted market standards which set out best and unacceptable market practice in enduring form will help to perpetuate market Standards over time and across markets.”

To this end, FMSB says it is attempting to clarify “grey areas” of market practice where ambiguity as to (for example) the appropriate assessment of conflicts of interest between counterparties to a trade creates poor outcomes for market users and undermines fair and effective markets.

It adds that much attention is inevitably paid to high profile cases of conduct abuse, often perpetrated by an individual or a network of individuals who find loopholes in the legal or regulatory frameworks and firm control environments. “Regrettably, there will always be incentives and opportunities for this; the determined actors may find ways around even the best designed controls,” the report states. “These types of deliberate, intentional, abuse are unlikely to be eliminated solely by market standards. Nevertheless, by clarifying grey areas of market practice, our standards should help to pre-empt such malpractice and make it harder to engineer.”

One of the issues raised by FEMR was that market discipline was not operating effectively. Part of the role of FMSB is to provide a structured forum within which market discipline is restored and developed. “Market Standards make it easier for market users to insist on appropriate practices and to take the initiative in doing so,” the report states. “In the past, market participants have not necessarily understood the significance of ambiguous practices or have relied on market regulators to address these. But the size, speed and cross-border complexity of trading relationships in wholesale markets makes this challenging.

“Markets will be fairer and more effective if users, as well as liquidity providers, understand how trading protocols should operate and market discipline operates effectively alongside the regulatory framework,” it continues. “By promulgating clear market protocols, standards take an important step to re-establishing market discipline.”

The report also contains “behaviour cluster analysis” of the previously mentioned 400 cases over a 200-year period, although significantly and rather ominously the FMSB says that some 250 of those cases have occurred this century. FMSB says an extensive time period is used to capture potentially relevant patterns and to indicate the recurring nature of those patterns. “This work has established that malpractice behaviours are consistently similar over time, across asset classes and across jurisdictions,” it says, explaining that there are some 26 behavioural patterns evident in market misconduct cases. “These patterns repeat and recur over time and across markets despite the continuing promulgation of legislation and regulation,” it says.

Unsurprisingly given the globalisation trend, the report finds “These behavioural patterns do not respect national or jurisdictional boundaries – they are evident internationally.”

The patterns are not specific to particular asset classes and are evident in different asset classes. “This is rational: asset classes do not generate conduct risks – people do,” the report states.

Interestingly, the report also claims that behavioural patterns “readily adapt to new market structures and technologies” and says that FMSB will publish materials indicating each relevant pattern and the source cases from which these are derived, case studies for each pattern and the database of the relevant enforcement cases for reference purposes.

“The analysis has established that a number of behavioural clusters repeat and recur over time and adapt to market structural change,” the report states. “This is not new. It is notable that the US Senate Committee, which examined the conduct causes of the 1929 Crash and which led to the Securities and Exchange Act 1934, took over 10,000 pages of evidence relating to market conduct. The market conduct patterns identified by the US Senate Committee in 1934 are strikingly similar to those evident in conduct cases today.”

Mark Yallop, Chairman of FMSB says, “In the past 12 months we have made significant progress in our central aim: to raise standards of conduct in the wholesale financial markets and improve outcomes for market participants by making them more transparent, fair and effective. Everything we have seen and done so far has strengthened our conviction about the need for FMSB and the critical role that it has been created to perform.”

Andrew Bailey, CEO of the UK’s Financial Conduct Authority adds, “Good culture and trust go hand in hand. And trust is fundamentally about the honesty and veracity of commitments and the reliability of future promises to your customers, investors, creditors and the public authorities. By codifying agreed standards that set out these commitments and are accepted by all its members, FMSB is building an essential foundation for re-establishing public trust in markets again. I am a strong supporter of their work and am very pleased to see the progress made in 2016/17.”