

London, 27 June, 2016

To: Minouche Shafik, Deputy Governor Markets & Banking, Bank of England
Charles Roxburgh, Director General Financial Services, HM Treasury
David Lawton, Director of Financial Markets, Financial Conduct Authority
Andrew Bailey, Deputy Governor for Prudential Regulation and Chief Executive of the Prudential Regulation Authority

FICC Markets Standards Board progress update to Fair & Effective Markets Review (FEMR) Principals

Dear FEMR Principals,

The 1 year anniversary of the FEMR report has recently passed and as interim Chair I wanted to update you on the progress of the FICC Markets Standards Board (FMSB).

In your report, one of the key recommendations was for the senior leadership of FICC market participants to create a new independent FICC Market Standards Board (FMSB) with participation from a broad cross-section of global and domestic firms and end-users at the most senior levels, and involving regular dialogue with the authorities. The overall aim was to improve the quality, clarity and market-wide understanding of FICC trading practices, and thereby contribute to the raising of standards of conduct in wholesale FICC Markets.

Since June 2015, 36 firms have joined as members. They include international users of the markets such as corporates, asset owners and asset managers, market infrastructure providers such as exchanges, custodians, and investment banks, truly reflecting the diversity of participants in the wholesale FICC markets.

1 Structure

The FMSB consists of a Standards Board, 7 Sub-Committees and an Advisory Council. Members of both the Board and the Council are senior executives within their firms who provide the necessary experience and depth of understanding required (see appendix).

The focus of the FMSB has been to determine the strategy for the set-up of the Standards Board in its first year of operation, deal with necessary logistics to establish a firm foundation and to develop an action plan, which included the drafting of our first standards. The Standards Board set the overall strategy for the establishment and first year of operation of the FMSB supported by an outcome-oriented annual plan. The Board is responsible for ensuring delivery against the plan's objectives. They also approve any standards or guidelines from the Committees and Working Groups of the FMSB before they can be considered final.

1.1 Membership

Standards Board members act in a personal capacity and are drawn from the FMSB membership to reflect the diversity of the FICC markets. A number of independents and standing guests have been invited to join the Board to provide additional expertise. The Board met on 6 occasions in 2015/2016.

Each member firm is represented on the Advisory Council.

The Advisory Council plays an important role in ensuring all Member firms, including those not on the Board, have full visibility of the work being undertaken. The Council reviews the progress of the FMSB and raises issues to the Standards Board for consideration. By the end of July 2016, the Advisory Council will have met on 4 occasions.

1.2 Committees

Six of the Standing Sub-Committees drive the development of the standards and best practice guidelines. Each is chaired by a Standards Board member. The Sub-Committees are:

- Fixed Income Rates Products, Market Practices
- Fixed Income Spread Products, Market Practices
- Currencies, Market Practices
- Commodities, Market Practices
- Conduct & Ethics
- Codes & Standards Convergence

Member firms have nominated more than 100 senior personnel to be involved in the activities of the FMSB at a working level. Further technical resource on a pro-bono basis has been provided by Linklaters, Deloitte, KPMG, Oliver Wyman, and PWC for which we are very grateful.

We have been encouraged by the active participation and level of engagement at both the Advisory Council and the Board, and this is reflected in the seniority and time commitment of the market practitioners and firm leadership at these meetings.

The involvement of the Association of Corporate Treasurers has been key and our particular thanks go to them and to the executives from individual listed companies for their active engagement in the FMSB and the Sub Committees.

1.3 Legal Structure

The FMSB is part of an independent organisation, FICC Markets Standards Board Limited, a company limited by guarantee. A legal entity Board is in the process of being established and will comprise the Chair, the Chair of the Nominations Committee, the Chair of the Finance Committee and up to four other members drawn from the Standards Board. The Standards Board is a Committee of the Legal Entity Board, which is the Board of Directors of the FICC Markets Standards Board Limited for company law purposes.

The Standards Board has established a Nominations Committee charged with overseeing senior appointments, formalising a range of governance topics and periodically reviewing the balance and diversity of the FMSB's workings. The Nominations Committee has led the set-up of the Legal Entity and its Articles of Association as well as developing the Terms of Reference for the FMSB with support from Linklaters. It has overseen the appointment of a permanent Chair, Mark Yallop, who will assume his role after the Advisory Council meeting on the 25th July, 2016.

In addition to the Nominations Committee, a Finance Committee is also proposed to oversee the financial affairs of the FMSB. This Committee will be responsible for the production of the Annual Budget and Report, as well as the provision of the Statutory Accounts.

1.4 Secretariat

The FMSB is extremely grateful for the support it has received during its first year of operation.

Allianz Global Investors have provided the infrastructure, offices and a number of key resources that form the Secretariat. They have also hosted all Standards Board meetings. KPMG support has been integral and we thank them particularly for their long term pro-bono secondment to the Secretariat and the use of their offices to host a number of Advisory Council meetings.

The continuity provided by these two organisations has underpinned the effective functioning and enabled continued momentum to deliver successfully the first transparency draft standards for comment.

There will be transition to a full time Secretariat in the coming months as the new Chair formalises the body.

1.5 Competition / Legal advice

We must also thank Linklaters for providing the legal counsel for all Standards Board and Advisory Council meetings. Given the nature of discussions in the Sub-Committees and their respective Working Groups the FMSB has engaged professional anti-trust advice. Documentation is also reviewed by competition lawyers prior to publication.

2 Work agenda - Market Practices Sub-Committees

The Market Practices Sub-Committees are focussed on addressing areas of uncertainty in specific trading practices by producing standards and guidelines, and other relevant materials such as practical case studies.

The process of selecting areas for developing standards involved the following steps:

- Reviewing themes identified during the FEMR consultation, Market Practitioner Panel response and in the FEMR final report;
- Sub-Committee identification of a long list of areas for consideration;
- Prioritisation of issues based on criteria developed by the FMSB secretariat;
- Screening for topics being fully addressed by regulation underway;
- Proposal of a short-list for discussion at the FMSB Board.

In this first year of operation we were also looking to identify areas for standards development that could act as 'proofs of concept' and inform future Board activities.

A summary of the Sub-Committees progress is as follows:

2.1.1 Fixed Income Rates Products

The Sub-Committee, when deciding on which topic area to focus, selected Reference Price Transactions (otherwise known as a closing price order or end of day order) in the FI Rates markets. They have recently completed a draft standard which will be published as a Transparency Draft in the coming weeks for public comment. In drafting the standard, the Sub-Committee has considered:

- The legitimacy of these transactions;
- Clarifying the underlying activities undertaken by participants in these transactions;
- Determining guidance on characteristics of appropriate hedging practices;

- Determining appropriate controls and expectations for training.

The draft standard was widely discussed within the FMSB membership and shared during its development with the UK Public Authorities. The group intends to focus next on the UK Gilt Issuance process, and will be engaging actively with the UK Debt Management Office.

2.1.2 Fixed Income Spread Products

The Sub-Committee has been working on documenting the New Issuance Process for publicly syndicated and distributed bonds and highlighting areas for further consideration. It has been noticeable that discussions involving representatives from across the market from issuers to buy-side have resulted in a general raising of awareness and improved common understanding.

The development of this best practice guidance has also provided an opportunity to consider how and where to include any relevant elements of standards developed by other bodies, (in this case the ICMA and the Investment Association), and see where and how these pre-existing standards are already shaping market practice on a consistent basis.

The current draft best practice document details a number of suggestions for improvement such as:

- Allocation policy;
- Pre-sounding;
- Price revisions;
- Communication channels;
- Deal statistics.

The Sub-Committee is obviously aware of in-train regulation such as MiFID II and the standard will, explicitly, not cut across this. As with the other Sub-Committee materials, these require further alignment and review with both internal and external stakeholders as well as the UK public authorities, with a view to publishing for comment in the Autumn.

2.1.3 Currencies

Prior to the establishment of the FMSB, work had been started by the then FEMR Market Practitioner Panel FX Working Group on guidance covering Stop Loss and hedging for Stop Loss. When the Bank for International Settlements (BIS) set up its Global Foreign Exchange working group to produce a global Foreign Exchange code of conduct, the FMSB decided to submit its working drafts to the BIS to avoid duplication and to support the development of a global code.

The FMSB welcomes the publication of the 1st phase of the BIS Foreign Exchange Working Group's code of conduct in May. This is an important step in the development of a global code to strengthen standards in the Foreign Exchange markets and we strongly endorse this initiative. The FMSB continues to engage with the BIS FX Working Group on a number of levels, including representation on the Bank of England's FX joint standing Committee (FX JSC). This engagement also helps to identify areas of potential read across into other markets.

2.1.4 Commodities

The Sub-Committee has been working on a draft standard for Commodity Binary Options. This was an example highlighted in the FEMR report of where further standards and guidelines could help improve and clarify trading practices.

The draft standard is being finalised and we aim to publish it in the coming weeks as a Transparency Draft. The draft standard was developed openly with the UK Public Authorities. The Standard seeks to:

- Describe the characteristics and potential use of these instruments;
- Provide guidance on the management of the commercial conflict of interest that these instruments may create;
- Provide guidance on the approach to the hedging of the risk these instruments create; and
- Set expectations as to certain controls firms should have in place.

The transparency draft standards relating to Reference Price Transactions and Commodity Binary Options have potential relevance to other asset classes. The FMSB will consider over the summer whether the standards might be expressed to have a wider application than to the specific asset classes that they currently cover.

2.2 Other Sub-Committees focused on Standards

2.2.1 Conduct & Ethics

The Conduct & Ethics Sub-Committee has been instrumental in developing the Market Standards Decision Framework, which outlines the process by which the FMSB develops and promulgates standards and good practice guidance.

In addition, the Sub-Committee has set up two Working Groups to focus on conduct training and surveillance, two other areas highlighted in the FEMR report.

It was noted that individuals should receive suitable training and qualifications to ensure they understood and would apply appropriate standards of conduct. Work is underway to assess formal wholesale FICC markets training programmes undertaken by member firms with the intention of completing a paper summarising good practice by year end. More effective surveillance was also seen as important to increase the likelihood of detecting wrongdoing at an early stage. Work is underway structured around facilitated workshops with surveillance representatives from FMSB member firms, focussing on a specific asset class – Foreign Exchange – over the trade lifecycle. We are drawing on the points of view of all market participants (buyside, sellside and venue). A good practice paper is scheduled for publication in Q4 2016.

2.2.2 Codes & Standards Convergence

The Sub-Committee has been engaging with other standards setters and communicating with industry associations from time to time. This is important because the FMSB does not wish to duplicate effort by doing work in areas where there are already effective standards in place. The group has already engaged with the International Capital Market Association (ICMA), Wholesale Market Brokers' Association (WMBA), London Energy Brokers' Association (LEBA), Financial Markets Association (ACI), International Swaps and Derivatives Association (ISDA) and Investment Association (IA).

2.2.3 Engagement with other authorities

There has been interest from, among others, the European Securities & Markets Authority (ESMA), the Hong Kong Securities & Futures Commission (SFC), Financial Services Board of South Africa, the Swiss Financial Market Supervisory Authority (FINMA), the Deutsche Bundesbank, the German Federal Financial Supervisory Authority (BaFin), and the Monetary Authority of Singapore (MAS). Where possible verbal updates have been provided on the work being undertaken. It is the intention to share the draft standards and this letter with those bodies.

In November last year, the interim Chair spoke on a panel at the 2nd Annual Federal Reserve Bank of New York (NY FED) Reform of Culture and Behaviour in the Financial Services Industry Workshop. More recently, she participated in the Financial Stability Board (FSB) Roundtable on Governance Frameworks in New York.

2.2.4 Legal Working Group

A Legal Working Group has been established to help ensure that the progress of draft standards through member firms is timely and has been reviewed from a collective legal perspective. They will also consider the implications of the standards for the markets in which member firms operate.

3 Process of adoption

3.1 Transparency drafts

The FMSB has decided to publish its draft standards in order to allow comment from non-member market participants and other interested parties. The transparency drafts will be published on the FMSB website and sent to industry associations and other standards setters, as well as to Public Authorities who have expressed an interest. This ensures transparency and wider engagement. The drafts will be made public for up to 90 days, after which feedback will be consolidated by the Secretariat for review by the relevant Sub-Committee (supported by the Legal Working Group as required), and any changes incorporated where appropriate.

As mentioned earlier, the FMSB intends to publish its initial transparency draft standards in the coming weeks.

After the transparency draft period has ended, the standard (incorporating any relevant changes and a recommended implementation period), will be presented again to the Standards Board for final approval.

3.2 Adherence

When the FMSB standards are published in their final form, they will apply to firms that are the Members of the FMSB. All members are expected to comply on a global basis with the core principles of all FMSB standards but there may be occasions where they are unable to comply with specific details or in certain jurisdictions. In those circumstances members can explain their reasons for not complying.

The Conduct & Ethics Sub-Committee and the Legal Working Group are developing the detail of the comply or explain framework to define how adherence will work in practice and associated implementation periods. Proposals will be brought to the Standards Board in the Autumn for approval.

4 Future 'horizon scanning'

The FEMR Market Practitioner Panel submitted an assessment of grey areas and potential vulnerabilities in wholesale FICC markets as part of the FEMR. This, together with the FEMR concluding report and other consultation responses, was used as the basis of a first 'horizon scan'.

The FMSB will repeat a review of the FICC markets periodically with a focus on identifying any emerging trends or issues or developments arising from innovations.

5 Looking forward

On the 11th May, 2016, the FMSB announced the appointment of Mark Yallop as the first permanent Chair. He will take up his position officially on the 25th July.

The FMSB has secured its own premises in the city and will be hiring permanent staff for the Secretariat over the coming months.

In the Autumn, the Standards Board will consider the feedback on the published draft standards, ahead of their formal adoption.

During the 3rd and 4th Quarters of 2016, Sub-Committee work on the areas mentioned above will be concluded and priorities for the 2017 work programme identified.

The Nominations Committee has outlined a process for considering how the Standards Board membership should evolve and will be working with the Chair on implementation.

Once the FMSB membership had reached a critical mass during the set up in 2015, focus turned to the work programme rather than further recruitment. However, interest has remained strong and the new Chair will also be following up with potential new members.

The fee structure will be reviewed by the Chair and the Finance Committee for recommendation to the FMSB Standards Board in the 3rd Quarter.

The working relationship with the UK Public Authorities has been extremely constructive and cooperative. The interest and willingness of the Public Authorities to engage has been vital to the progress made by the FMSB and, on the Membership's behalf, I would like to take this opportunity to thank you, as FEMR Principals, for setting the tone and context for this to happen.

Going forward, we sincerely hope that the nature of constructive engagement will continue.

Conclusion

You can see from the above that the FMSB has made considerable progress on a number of fronts over the past year. The challenge now is to sustain the momentum we have developed. I have every confidence that the FMSB will be in excellent hands when Mark Yallop takes over at the end of July and I look forward to continuing my association with the FMSB as a member of the board.

In conclusion, I have been hugely impressed and heartened by the high degree of support and engagement the FMSB has received from participants from across the wholesale financial markets. Many have devoted considerable time and effort to getting the FMSB off the ground and working on our first standards. I am very grateful for their help and support.

The FMSB is unique in being able to bring together participants from across the market at such a senior level. We have sellside, buy-side, market infrastructure providers and corporate customers all sitting together in the same room, discussing how markets should work and agreeing what constitutes good practice.

This has never been done before. It gives us a real opportunity to change practices in the wholesale markets and, this will, over time contribute to strengthening the reputation of and trust in financial markets and the institutions that serve them.

Yours sincerely,



Elizabeth Corley
Interim Chair FICC Markets Standards Board

Appendices

A. List of member firms

Member Firms:
Aberdeen Asset Management
Allianz Global Investors
Bank of America Merrill Lynch
Bank of New York Mellon
Barclays
BlackRock
Bloomberg
BNP Paribas
Citi
CQS
Crédit Agricole CIB
Credit Suisse
Deutsche Bank
Deutsche Boerse Group
Goldman Sachs
HSBC
ICAP
JP Morgan
Legal & General Investment Management
Linklaters (Legal Advisor)
Lloyds Banking Group
London Stock Exchange Group
M&G Investments
Morgan Stanley
Nomura
PGGM
Royal Bank of Scotland
Royal Dutch Shell
Scotiabank
Société Générale
Standard Chartered
Standard Life Investments
State Street
Thomson Reuters
Tradeweb
UBS

Standing Guests:
Association of Corporate Treasurers
Banking Standards Board
Hedge Fund Standards Board
KPMG
Oliver Wyman

B. Advisory Council representatives

Member Firm:	Representative:
Aberdeen Asset Management	Brad Crombie
Allianz Global Investors	Elizabeth Corley
Bank of America Merrill Lynch	Alex Wilmot-Sitwell
Bank of New York Mellon	Richard Gill
Barclays	CS Venkatakishnan
BlackRock	Patrick Olson
Bloomberg	Rob Friend
BNP Paribas	Pascal Fischer
Citi	James Bardrick
CQS	Simon Finch
Crédit Agricole CIB	Thomas Spitz
Credit Suisse	Eraj Shirvani
Deutsche Bank	Ahmet Arinc
Deutsche Boerse Group	Carsten Kengeter
Goldman Sachs	Isabelle Ealet
HSBC	Douglas Flint
ICAP	David Casterton
Independent	Mary Miller
Independent	Charles Nichols
JP Morgan	Guy America
Legal & General Investment Management	Mark Zinkula
Linklaters (Legal Advisor)	Robert Elliott
Lloyds Banking Group	Richard Moore
London Stock Exchange Group	Raffaele Jerusalmi
M&G Investments	Simon Pilcher
Morgan Stanley	Clare Woodman
Nomura	Jonathan Lewis
PGGM	Patrick Fleur
Royal Bank of Scotland	Kieran Higgins
Royal Dutch Shell	Russell O'Brien
Scotiabank	Kevin Felix
Société Générale	Frank Drouet
Standard Chartered	Neh Thaker
Standard Life Investments	Keith Skeoch
State Street	Kim Newell Chebator
Thomson Reuters	Abel Clark
Tradeweb	Enrico Bruni
UBS	David Soanes

Standing Guests:	Representative:
Association of Corporate Treasurers	Colin Tyler
Banking Standards Board	Dame Colette Bowe
Hedge Fund Standards Board	Dame Amelia Fawcett
KPMG	Bill Michael
Oliver Wyman	Nick Studer

C. Standards Board representatives

Standards Board Member:	Firm:
Guy America	JP Morgan
Steven Ashley	Nomura
Samir Assaf	HSBC
Marc Bailey	Independent
Catherine Bradley	Independent
Michael Cole-Fontayn	Bank of New York Mellon
Elizabeth Corley	Allianz Global Investors
Nick Collier	Thomson Reuters
Sally Dewar	JP Morgan
Anton Eser	Legal & General Investment Management
Jim Esposito	Goldman Sachs
Patrick Fleur	PGGM
James Kemp	GFMA
Michael Kent	Linklaters (Legal Advisor)
Guy Kirby	State Street
Tarek Mahmoud	BlackRock
Ludovic de Montille	BNP Paribas
Andy Morton	Citi
Chris Murphy	UBS
Charles Nichols	Independent
Russell O'Brien	Royal Dutch Shell
Rod Paris	Standard Life Investments
Simon Pilcher	M&G Investments
Fabrizio Testa	London Stock Exchange Group
Patrick Trew	CQS
Nat Tyce	Barclays
Sanaz Zaimi	Bank of America Merrill Lynch

Standing Guests:	Representative:
Alison Cottrell	Banking Standards Board
Thomas Deinet	Hedge Fund Standards Board
Serge Gwynne	Oliver Wyman
Colin Tyler	Association of Corporate Treasurers

D. Attendance at meetings

Standards Board Meeting Dates	Attendees*	Apologies*
15 Sep, 2015	29	7
12 Nov, 2015	33	4
14 Dec, 2016	29	10
19 Feb, 2016	28	11
7 Apr, 2016	33	6
6 Jun, 2016	35	3

* Numbers include invited ex-Officio observers from UK Public Authorities

Advisory Council Meeting Dates	Attendees*	Apologies*
26 Oct, 2015	30	18
25 Jan, 2016	41	16
25 Apr, 2016	42	18

* Numbers include invited ex-Officio observers from UK Public Authorities