



HM Treasury



BANK OF ENGLAND



Fair and Effective Financial Markets Review

Terms of Reference

Objectives

- To reinforce confidence in the fairness and effectiveness of wholesale financial market activity conducted in the United Kingdom;
- To influence the international debate on trading practices, including highlighting issues that can only be addressed through co-ordinated international action.

Scope

The review will focus on those wholesale markets, both regulated and unregulated, where most of the recent concerns about misconduct have arisen: fixed-income, currency and commodity markets, including associated derivatives and benchmarks. However, it is possible that a number of the review's recommendations could have applicability across a wider range of wholesale markets.

The review will cover:

Trading practices: The review will consider current trading practices in markets (both regulated and unregulated), differences across asset classes, and the drivers of behaviour including incentives on individuals and firms. The review will assess where markets are susceptible to abuse, which practices are potentially detrimental to clients and whether current market structures exacerbate conduct problems. The review will also consider what measures could be taken to address these areas, particularly by firms who bear the primary responsibility for ensuring appropriate behaviour within their organisations and the markets in which they operate.

Scope of regulation: This aspect of the review will consider the international regulatory framework and, if appropriate, how best to bring currently unregulated markets (such as FX and precious metals) or activities into the scope of regulation. It will also consider which benchmarks should be brought into the scope of existing UK regulation. The review team will need to distinguish between regulatory interventions that can be taken at the national level and those that will require international co-operation, and on the latter it will need to co-ordinate during the course of its work with the relevant international authorities.

Impact of recent and forthcoming regulation: there has been a major programme of regulatory reform both nationally (e.g. the Banking Reform Act, LIBOR reforms) and at the EU level (e.g. the revision to the Markets in Financial Instruments Directive and the new Market Abuse Regulation). The review will consider the extent to which these changes already address areas of concern, or whether further action is needed.

Supervision: What are the implications for the future supervision of firms and markets in terms of regulatory powers and resources needed?

The review will be collaborative and forward-looking, drawing on the insights of public officials, market participants, end users of wholesale financial services and commentators.

Outputs

By June 2015, the review will recommend:

- Principles to govern the operation of fair and effective financial markets (taking account of existing rules and principles);
- Reforms to ensure standards of behaviour for firms within those markets are in accordance with those principles;
- Tools to strengthen the oversight of market conduct within both regulated and unregulated markets;
- Whether the regulatory perimeter for wholesale financial markets should be extended, taking into account extensions of the perimeter under forthcoming European legislation, and whether international action is necessary to make such extensions work; and
- Additional reforms, over and above those already in train in relation to benchmarks, to strengthen the infrastructure which supports these markets.

As an interim deliverable, the review should recommend a list of additional benchmarks that should be brought into regulatory scope under UK legislation.

The review will also have regard to the impact of its recommendations on:

- The stability, efficiency and effectiveness of the financial sector, and its capacity to contribute to the growth of the UK economy in the medium and long run;
- The need to maintain vibrant competition in wholesale financial markets;
- The competitiveness of the UK financial and professional services sectors and the wider UK economy; and
- The resources needed for implementation.

The review will run for twelve months following announcement at Mansion House, and report in June 2015. It will produce a substantive consultation document in the Autumn and a final report by June 2015.

Leadership

The review will be led by Nemat 'Minouche' Shafik, Deputy Governor for Markets and Banking, with Martin Wheatley, CEO of the FCA, and Charles Roxburgh, DG Financial Services at HM Treasury, as co-chairs.

Andrew Hauser, recently appointed as the Bank's Director for Markets Strategy, will lead a full-time secretariat drawn from staff at the Bank, FCA and HMT.

The review will have a separate market practitioner panel, with its own secretariat. The panel will be led by Elizabeth Corley, CEO Allianz Global Investors Europe, and will comprise around 12-15 senior industry leaders representing sell-side and buy-side firms, market infrastructure providers and major corporate users of financial markets.

Members of the panel will act in a personal capacity rather than represent the views of their firm/trade association. The panel will feed into the work of the review, but all executive decisions of the review will be the responsibility of the leadership team.