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News release

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FEMR consultation: How fair and effective are the fixed income, foreign exchange and commodities markets?

The Fair and Effective Markets Review (FEMR) has today published a consultation document on what needs to be done to reinforce confidence in the fairness and effectiveness of the Fixed Income, Currency and Commodities (FICC) markets.

The Review was established by the Chancellor in June 2014, to conduct a comprehensive and forward looking assessment of the way wholesale financial markets operate, to help to restore trust in those markets in the wake of a number of recent high profile abuses, and to influence the international debate on trading practices.

The Chancellor, George Osborne, said:

"The integrity of the City matters to the economy of Britain. Markets here set the interest rates for people's mortgages, the exchange rates for our exports and holidays, and the commodity prices for the goods we buy.

I am determined to deal with abuses, tackle the unacceptable behaviour of the few and ensure that markets are fair for the many who depend on them. I want to make sure it is done in a way that preserves the UK's position as the global financial centre for many of these markets, with all the jobs and investment that brings.

The consultation that the Fair and Effective Markets Review has launched today is comprehensive, balanced and rigorous, and asks all the right questions. I look forward to the Review's final recommendations in June next year."

Wholesale fixed income, currency and commodity markets ultimately make it possible to do business across almost every sector of the global economy. They help determine the borrowing costs of households, companies and governments, set countries' exchange rates, influence the cost of food and raw materials, and enable companies to manage financial risks associated with investment, production and trade.

However, in recent years there have been a number of high-profile abuses in these markets. These have included the attempted manipulation of benchmarks, alleged misuse of confidential information, misleading clients about the nature of assets sold to them, and collusion.

Minouche Shafik, the Chair of the Review, and Bank of England Deputy Governor for Markets and Banking, said: "Fixed income, currency and commodity markets affect us all. When they work well they can be a source of prosperity and facilitate economic growth. But confidence and trust in these markets have been severely damaged as a result of a series of unacceptable abuses, such as the manipulation of benchmarks. Fixing these markets is essential to restore trust – among participants, and among the public. That requires market practitioners to recognize current market shortcomings and engage with each other and the official sector to enact lasting change to create real markets that are fair, effective, and trusted by all."

To have lasting impact, the Review intends to focus its final recommendations on a core range of high priority actions. To inform that process, this consultation uses a six-part framework to assess the most critical sources of vulnerability and identify the potential solutions from both structural and conduct perspectives:

- Structural: market microstructure; competition and market discipline; and benchmarks.
- Conduct: standards of market practices; responsibilities, governance and incentives; and surveillance and penalties.


Within this framework, the Review is seeking to assess:

- the areas where fairness and effectiveness are currently deficient;
- the extent to which ongoing regulatory, organisational and technological change that has taken place since the financial crisis is likely to address these deficiencies; and
- what further steps are needed to help ensure fair and effective FICC markets.

Martin Wheatley, Chief Executive of the Financial Conduct Authority said: "Much has been done to tackle the underlying causes of past misconduct, but the perception remains that too often private interests are placed ahead of fair competitive markets. Rebuilding trust in these markets will take time and requires firms and the authorities to take action, both at the UK level and internationally. Given the essential role of these markets, it is vital that we get this right." The Review is seeking responses across the full range of topics. The full list of consultation questions is drawn together in Section 6 of the document. Responses are sought by Friday 30 January 2015.

The Review is conscious that the FICC markets are global in scope, and shaped by forces far wider than those in the United Kingdom alone. In each case, the Review will need to evaluate the extent to which change is: (a) for the industry (which has the capacity to act globally) to implement; (b) for the UK authorities; or (c) for wider discussion with the international authorities.

Key Resources

 [Consultation Document: How fair and effective are the fixed income, foreign exchange and commodities markets?](#)