



BANK OF ENGLAND

News release

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Working together for an ‘ethical lift’ across finance

Bank of England Deputy Governor for Markets and Banking Minouche Shafik and Executive Director for UK Deposit Takers Supervision James Proudman today speak at the New York Federal Reserve’s conference, “Reforming Culture and Behaviour in the Financial Services Industry: Expanding the Dialogue”. They discuss this challenge from the perspective of market-wide reform and firm-level implementation respectively. Minouche explores the wide-ranging actions of the UK authorities after the Fair and Effective Markets Review (FEMR) to help reverse the tide of misconduct that had emerged across markets since the financial crisis. Within this broad theme, James explains how the PRA is implementing a regulatory framework around accountability and how this is applied to individual firms.

Highlighting the progress described in the FEMR implementation report published in July, Minouche explains that whilst “regulators must introduce rules and regulations to enforce minimum standards of conduct, hold individuals to account for their actions, and put in place incentives to promote good conduct, hard law is not enough... market participants must come together to create soft law: aspirational standards that are higher than the regulatory minimum and encourage ongoing behavioural change.”

Minouche emphasises the importance of the official sector not only implementing rules and regulations but also playing “a broader role by promoting good behaviour”. In particular she praises the work of senior market participants in establishing the Fixed Income, Currencies and Commodities (FICC) Markets Standards Board and notes the progress being made towards a single Global FX code which is being developed through a partnership between 16 central banks and market participants.

Minouche also notes that “conduct risks will evolve over time and the official sector needs to stay on the front foot”. In response, the UK authorities have announced a work programme to scan the horizon for potential market or private sector co-ordination failures that may be damaging the fairness or effectiveness of FICC markets. The authorities will seek to catalyse reforms to insure that market structures that are vulnerable to manipulation and misconduct do not develop over time.

Turning to the supervision of UK banks, James outlines the PRA’s approach to culture and accountability, and how we apply this to firms – including through the new Senior Managers Regime and remuneration rules (individual accountability) and guidance on governance for boards (collective accountability).

James stresses that both individual and collective responsibility are crucial to promoting a healthy culture within the sector. He says: “taken together, the reforms that we have put in place with respect to both individual and collective responsibility are aimed at creating a regime in which the senior management of firms are now ‘on the hook’ for the decisions taken within the firm: both the key strategic decision taken at senior management level, and the framework of delegations and decision-taking that cascades through the organisation.”

James adds: “Ensuring there is a clear and transparent answer to the question ‘who’s in charge’ has been a priority of the prudential reform agenda in the UK.”

Both Minouche and James reinforce the Bank’s commitment to improving standards and ethics in financial markets.

Minouche concludes: “it will take time to move from ‘ethical drift’ to ‘ethical lift’. Better regulation is part of the solution, but so is a more effective partnership between the official and private sectors to improve market practices and conduct norms.”

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Notes to Editors

Minouche Shafik speech:

<http://www.bankofengland.co.uk/publications/Documents/speeches/2016/speech930.pdf>

James Proudman speech:

<http://www.bankofengland.co.uk/publications/Documents/speeches/2016/speech931.pdf>

FEMR implementation report:

<http://www.bankofengland.co.uk/markets/Documents/femr/implementationreport.pdf>