St PAUL'S
INSTITUTE

By email to: FEMR@bankofengland.co.uk

27 January 2015

Dear Sirs,

Re: Fair and Effective Markets Review

The St Paul's Institute has been seeking to stimulate positive change in the City of London and the international financial markets since before the onset of the financial crisis under the banner of 'The City and the Common Good'. We are grateful for the opportunity to provide comments as part of the consultation process initiated by the Fair and Effective Markets Review in October 2014.

The Chancellor should be applauded for having initiated this important initiative. While the Review's terms are restricted to the wholesale markets, nonetheless, the question of what is a fair and effective market goes to the very root of what it means to be a 'market economy.' Given the fundamental nature of the issues raised and the aspiration to influence the international agenda, we consider it essential that the Review's thinking is fully informed by a broad-based dialogue and perspectives from beyond the narrow confines of direct market participants and economists.

While we note that there has been some attempt to achieve this, as currently configured, we have two reservations about the nature and scope of the consultation.

- First, we are concerned that, notwithstanding the effort that has clearly been made to open up a dialogue, critical parts of the consultation document are drafted in a way that could circumscribe discussion. In particular the discussion of what is a 'fair' and 'effective' market provides only its conclusions without elaborating on the underlying reasoning or the assumptions being made. We believe the answer to these questions has potentially profound implications for the practical proposals that should flow from the Review and needs careful and broad-based attention. The framing seems more likely to close discussion down rather than open it out. A thorough, broad-based discussion of these issues is essential. Indeed, we believe that the process itself is part of the practical solution to the challenge of creating fair and effective markets.

- Secondly, while the effort made to make the Consultation accessible has been considerable, we question whether all the right respondents have been drawn into the process given the far-reaching economic and social importance of the markets concerned. The risk is that it will become a dialogue between policy makers and

market participants, with a broader constituency in whom it is designed to inspire trust unable to understand why they should be involved or interested in it.

For both these reasons, there is a concern that the outcomes will be self-referencing and self-reinforcing.

We recognize it will be difficult to find consensus even among industry participants and that achieving broader public understanding and acceptance is likely to be even more challenging. However, we believe strongly that achieving such broad, public acceptance of the outcome would go a considerable way to help restore trust in the City, its institutions and the broader markets. To not do so risks continued accusations of 'insider dealing' in the way decisions get made.

A broader, multidisciplinary conversation is required to open out the themes of fairness and effectiveness in the context of the relationship between the financial sector and the common good. St Paul's Institute intends in the months to follow to hold a dialogue on these issues at a multidisciplinary level. We propose to bring together a small group of distinguished voices: market participants, academics from a range of disciplines and representatives of broader societal views, for an off the record discussion once responses to the public consultation have been submitted on 30 January, but before the Review's recommendations are published.

We would be delighted if members of the various committees constituting the Fair and Effective Markets Review would be willing to join us in this conversation, either as active participants or simply in a listening role. We are keen to see the Review arrive at outcomes that receive broad public acceptance and help move thinking in a direction that supports those outcomes. We are intent on helping to achieve that result.

Yours sincerely,

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Director

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