London Stock Exchange Group

## LSEG Response to the UK Fair and Effective Markets Review

### EXECUTIVE SUMMARY

London Stock Exchange Group plc (LSEG) welcomes the opportunity to respond to the UK Fair and Effective Markets Review (Review). LSEG is a diverse financial market infrastructure group and operates a range of international equity, fixed income and derivatives markets as well as a number of Central Securities Depositories (CSDs) and Central Clearing Counterparties (CCPs). In addition, LSEG operates a trade repository and provides a range of real-time and reference data products, as well as access to international equity, bond and alternative asset class indices, through the leading index providers, FTSE International and Russell. More than 30 other organisations and exchanges around the world use the Group's Millennium IT trading, surveillance and post trade technology.[1]

### Key principles and characteristics

LSEG fully supports the three principles that underpin the consultation on the Review, namely that: i) markets are the best source of dynamism, prosperity and progress; ii) FICC markets are global and as such any recommendations arising from the Review will likely require global discussion; and iii) one-size-fits-all solutions may not be appropriate given the diversity of the different FICC markets.

LSEG also supports the proposed characteristics of "fair" and "effective" FICC markets and in this regard believes transparency and open access are key. We also welcome the proposal to include integrity as a characteristic of fair markets - integrity is a core value for LSEG and we are committed to the highest standards of business integrity in all of our activities and the markets that we serve.

### Regulatory drive to transparent and multilateral trading environments

In our view, measures to promote greater transparency, liquidity and open access will enhance the effective functioning of key benchmark markets. As the Review acknowledges, regulation is an important driver in this respect, in particular MiFID II which will introduce new pre- and post-trade transparency requirements for non-equities, promote on-screen liquidity and encourage more execution on trading venues. Based on our experience as an operator of electronic fixed income trading venues, we anticipate that the transition from OTC to on-venue trading will take place progressively, beginning with those instruments that are more liquid (typically government bonds) and

[1] LSEG operates a range of international equity, fixed income and derivatives markets including London Stock Exchange; Borsa Italiana; MTS Group; and Turquoise. LSEG also operates a range of post-trade and risk management infrastructures including CC&G S.p.A, the EMIR authorised CCP; Monte Titoli, the Italian CSD; globeSettle, a new CSD based in Luxembourg; LCH.Clearnet Group, with EMIR authorised CCPs in France and the UK, clearing a range of asset classes including equities, fixed income, exchange traded derivatives, commodities, as well as a range of OTC derivatives. LSEG also operates the EMIR authorised trade repository, UnaVista.

**Contacts:**

Hannah Gurga, LSEG Head of Regulatory Strategy, +44 (0)207 797 3369, hgurga@lseg.com

Valentina Cirigliano, LCH.Clearnet Regulatory Strategy, +44 (0)207 797 3374, valentina.cirigliano@lchclearnet.com

therefore better suited to trading in a lit order book environment, and gradually extending to other instruments. Over time, higher on-screen liquidity in the government bond market can help drive liquidity growth in other fixed income markets, as our experience as the operator of MTS, one of Europe's leading fixed income trading platforms, has shown.

**Clearing**

LSEG operates a horizontal clearing model and fully supports open access between trading venues and CCPs. Open and non-discriminatory access promotes competition and delivers greater choice and capital efficiency to end users.

We welcome the progress made in the United States, Canada, Europe, Australia and Japan to implement the G20 commitment for increased central clearing. In this context, we would encourage the Review to engage with ESMA and other regulatory authorities that are considering future clearing of FICC markets, where appropriate. For example, in Europe, ESMA is taking the lead in considering mandatory clearing of non-deliverable FX forwards (NDFs). We support this proposal as it could help promote the transparency and integrity of the foreign exchange market and is also a prudent approach to creating clearing services for other FX products.

**Surveillance and supervision**

Effective surveillance is critical to helping ensure the fairness and effectiveness of all markets. In our view, firms and their supervisors are better able to monitor market practice and identify potential misconduct in transparent, automated and multilateral markets. These markets offer a greater degree of access to investors, reduce the risk of manipulation and improve the dissemination of market information, thereby increasing price transparency. Encouraging more on-venue trading, particularly in the fixed income markets, would be a step towards more effective surveillance by the industry, firms and supervisory authorities.

We also believe that an appropriate balance of surveillance and supervision, with necessary enforcement action, has a core role in bringing about improvements in standards of conduct and in shaping behaviour and ethics. As regards supervision, we believe it is important for the Review to consider if the existing supervisory arrangements for FICC markets is adequate and effective, given the range of regulators that are part of it.

The Review is necessarily wide-ranging and we have chosen in our response to focus only on those questions that are most relevant to our business. We hope our contribution will assist the Review in finalising its recommendations and would of course be happy to discuss it further if helpful.

**LSEG comments on specific sections of the Review**

***What does 'Fair and Effective' mean for FICC markets?***

**Q1: The Review would welcome respondents' views on the definition of 'fair and effective' FICC markets proposed in Section 3. Does it strike the right balance between safeguarding the interests of end-users without unnecessarily impeding the effectiveness of FICC markets? Are the concepts of transparency, openness and equality of opportunity appropriately specified? And how does the definition compare with those used in other markets, jurisdictions, organisations or legislation?**

LSEG supports the characteristics that have been proposed to define "fair" and "effective" FICC markets, namely:

**Effective:**

- Enabling investment, funding and risk transfer, underpinned by robust infrastructure – we agree that a key characteristic of effective FICC markets is the ability of the issuers and investors to undertake transactions, including risk transfer and the channelling of savings to investment in a predictable way, in support of the broader non-financial economy.

- Competitive prices – We agree that the ability to execute a transaction at a competitive price is a key characteristic of effective markets; and that competitive prices should be set through a price discovery process that is transparent to the relevant parties and reflects the current and expected balance of supply and demand.

**Fair:**

- Clear standards of market practice – We agree it is essential that market participants should have a good understanding of the relevant codes and rules that apply to the FICC market(s) in which they operate.

- Transparency – We agree that transparency helps to demonstrate to market participants and the regulatory authorities that a market is operating fairly.

- Open access – LSEG operates a horizontal clearing model and fully supports open and non-discriminatory access between trading venues and CCPs. Open access promotes competition and can help to deliver greater choice, better service, lower costs, enhanced capital efficiency and innovation to the end users.

- Competition on the basis of merit – We agree that a fair market, properly regulated, should incentivise market participants to innovate and invest, and reward those which do so successfully, therefore promoting competition on the basis of merit.

- Integrity – We agree that fair markets are those in which market participants behave with integrity and are protected from any form of misconduct. Integrity is a key characteristic of fair markets and LSEG is committed to the highest standards of business integrity in all of its activities and markets served.

***A framework for evaluating fairness and effectiveness***

**Q2: Of the six themes identified in Table A on page 5 (market microstructure; competition and market discipline; benchmarks; standards of market practice; responsibilities and incentives; and surveillance and penalties), which do you consider to be the most important factors contributing to the recent series of FICC market abuses? In which other areas do you believe the fairness and effectiveness of FICC markets globally may be deficient? Do these answers vary across jurisdictions, or specific markets within FICC? Are there any other important areas of vulnerability that are not identified in the table?**

We believe that standards of market practice, surveillance and penalties are key correlated factors that help to ensure the fairness and effectiveness of FICC markets. Indeed, stronger regulatory surveillance, which identifies and punishes misconduct, could lead to higher standards of market practice.

Identifying and punishing misconduct is a responsibility shared by firms and their supervisors. More on-venue trading, particularly in the fixed income markets, could help to strengthen their surveillance capabilities. We believe that the ability of firms and supervisory authorities to monitor market activity and identify potential misconduct is enhanced in a transparent, automated and multilateral environment. On-venue trading increases market transparency, which in turn enhances the ability of firms and supervisory authorities to identify suspected misconduct. The behaviour of trading firms is also subject to the rules of a prescribed venue or exchange, ensuring that their trading and market activity is properly monitored.

***Market microstructure***

**Q4: Does the market microstructure of specific FICC markets — including trading structures, transparency, asset heterogeneity or market access — enhance or diminish fairness and effectiveness? Where there are deficiencies, will recent or in-train regulatory or technological changes improve the situation, or are further steps needed? How do these answers vary across jurisdictions, or specific markets within FICC?**

We believe that transparency and market access are important characteristics of fair markets, irrespective of the asset class. In certain FICC markets, transparency could be enhanced and MiFID II will go some way towards achieving this by introducing new pre and post trade transparency requirements for non-equities and encouraging more on-screen liquidity.

As an operator of a number of electronic fixed income trading platforms, we believe that the transition of an asset class from OTC to on-venue trading takes place progressively, beginning with those instruments that are more liquid and therefore better suited to electronic trading, such as government bonds. Over time, higher on-screen liquidity in the government bond market can help drive liquidity

growth in other fixed income markets, as our experience as operator of MTS has shown. For example, the table below illustrates that the trading volumes on the government bond segment of the Tel-Aviv Stock Exchange (TASE) increased substantially – close to 100% – after the inception of MTS Israel in September 2006. The corporate bond market on the local stock exchange also increased by around 47% in terms of average daily traded amount, observed on a yearly basis.

**Tel-Aviv Stock Exchange'Daily Turnover, 1992-2013**
(US $ millions)

| Year | Bonds | |
|---|---|---|
| | Government bonds | Corporate bonds |
| 1992 | 27 | 2 |
| 1993 | 32 | 3 |
| 1994 | 27 | 2 |
| 1995 | 34 | 2 |
| 1996 | 55 | 1 |
| 1997 | 53 | 2 |
| 1998 | 76 | 2 |
| 1999 | 62 | 1 |
| 2000 | 72 | 2 |
| 2001 | 129 | 2 |
| 2002 | 157 | 2 |
| 2003 | 154 | 4 |
| 2004 | 199 | 9 |
| 2005 | 251 | 21 |
| 2006 | 325 | 27 |
| 2007 | 635 | 95 |
| 2008 | 866 | 152 |
| 2009 | 806 | 151 |
| 2010 | 639 | 172 |
| 2011 | 805 | 179 |
| 2012 | 800 | 188 |
| 2013 | 920 | 210 |

*Source: www.tase.co.il*

Although an electronic market for government bonds existed in Israel prior to the introduction of MTS, we believe the key drivers for this substantial increase were that foreign banking institutions could access the local market directly through MTS for the first time; and that pre- and post-trade data was made available to investors globally via the MTS data distribution channels. In addition, the quote-driven nature of MTS inter-dealer market allowed for deeper order books, making it easier for dealers to provide liquidity to their clients as well as on the local stock exchange. As a result, the government bond segment became an effective price reference for the corporate bond segment.

Another example can be drawn from Italian FICC markets. In 2014, the government bond segment on MTS Italy had average daily trading volumes of around €5bn (single-counted), which is a significant trading level. The Italian sovereign bond market is one of the most liquid in Europe and provides evidence that an electronic, quote-driven interdealer market also promotes liquidity in the secondary market.

The experience of other jurisdictions in introducing an electronic market for government bonds may be of relevance to the Review in a UK context. Currently, the gilts market is market maker quote driven. Under the DMO obligations for Gilt-edged Market Makers (GEMMs), GEMMs are obliged to make on demand two-way prices at which they are prepared to deal, however, there is no obligation to provide firm quotes publicly on screen (unless a market maker itself contracts to trade on an electronic trading platform such as the LSEG's ORB platform). As a result, the gilts market tends to

have a greater reliance on voice-brokered trades with resultant post-trade pricing information visible only if the trades executed are of retail size. The Review may wish to consider if there is sufficient liquidity in this market to support transparent, multilateral electronic trading and an obligation for GEMMs to quote on screen, whether on a Regulated Market, MTF or OTF under MiFID II.

***Fixed income***

**Q5: Is greater use of electronic trading venues for a wider range of market participants possible or desirable? Are there barriers preventing a shift to a more transparent market structure?**

In principle we are supportive of more electronic trading in both the wholesale and retail markets, although this needs to be calibrated according to the liquidity of the assets class. In particular, we support the promotion of a wider and larger participation of retail investors in electronic and transparent government bonds markets and believe this could support further development of retail capital markets, on both the equity and fixed income side. This would give more people the ability to have exposure to real investment growth, helping to reconcile citizens with the financial system. Currently only 10% of LSE quoted shares are retail held[2], compared to 37% in US[3]. More retail participation would also improve levels of liquidity for all market participants.

The example of MOT, the LSEG regulated market for Italian government and corporate bonds, is relevant in this context. Its success is mainly based on its microstructure, as it is an order driven market, and on the presence of a large range of market participants, including retail investors. Retail investors make a significant contribution to a more transparent market with their on-book trading activity, even in times of high market volatility.

In the UK, the promotion of greater retail participation in both the primary market, for example through retail gilt issue, and the secondary market, with a potential obligation by the DMO for GEMMs to quote on-screen, would create a level playing field for all the different market participants. The introduction of a requirement for GEMMs to make continuous and publicly available tradable prices would give investors greater confidence of achieving best execution and incentivise participation of a larger share of investors that currently do not access the capital markets as availability of executable quotes would mean the same price could be accessed by all participants (within specific quote sizes, taking into account that trades in the UK gilt market may vary widely in size from hundreds of pounds in the retail market to hundreds of millions in the wholesale market).

**Q6: Is standardisation of corporate bond issuance possible or desirable? Should standardisation be contemplated across a broader range of fixed income products? How could that be brought about?**

We believe that there may be opportunities for increased standardisation of corporate bond issuance as it allows a comparison between and facilitates the analysis of issuers and financial instruments traded. However, any regulatory measures that may be contemplated to encourage standardisation of

[2] ONS
[3] Census.gov

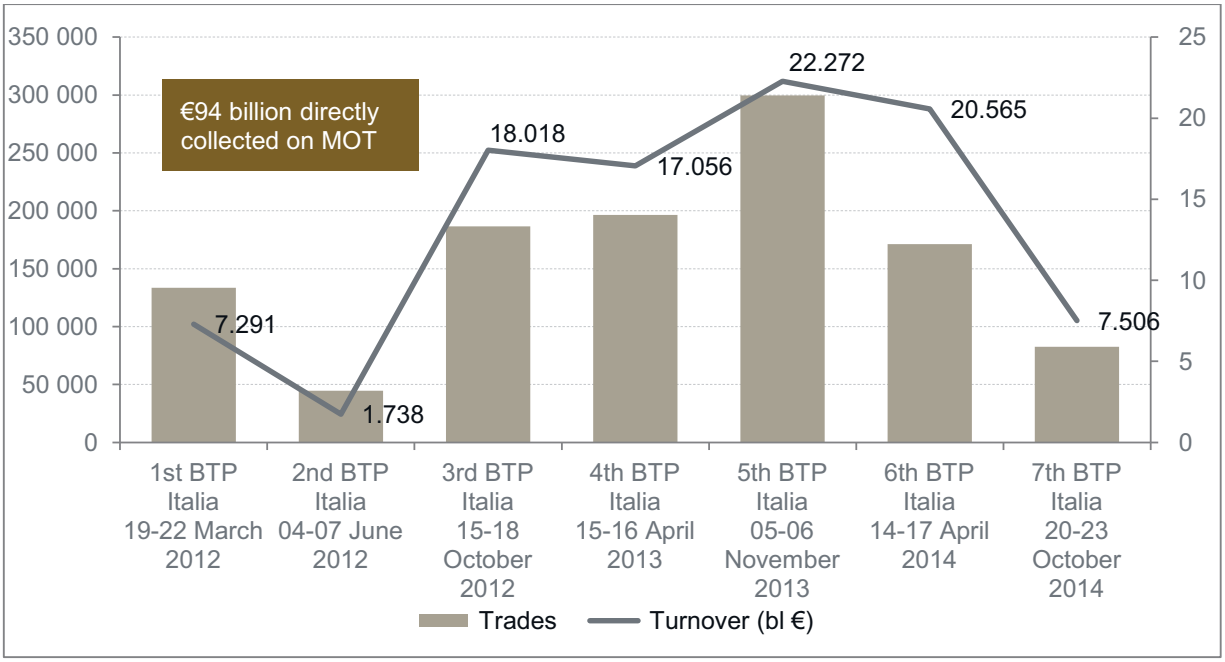
corporate bond issuance should take into account the needs of the individual issuer as well as local market practices.

We welcome ESMA's planed review of the way in which the Listing Authorities across the EU have implemented the Prospectus Directive (for both bonds and equity). Supervisory convergence is a key part of standardisation of the issuance process. ESMA should ensure that Member States are implementing the single rule book as intended and that EU regulated firms and issuers are operating on a level playing field, wherever they are incorporated in the Union.

**Q7: Should the new issue process for bonds be made more transparent through the use of auction mechanisms, publication of allocations or some other route?**

We support a transparent and efficient new issue process for bonds as it allows market participants to monitor in real time the progress of the offer and the final results. MOT, which is used for the primary market and initial placement of both Italian government and corporate bonds, is an example how a new issue is managed exclusively on an electronic platform of a regulated market.

The MOT distribution model for primary market issuance, now available to any type of issuer including corporate and financial firms, was originally conceived to facilitate the distribution of a specific type of Italian Government bond (so called "BTP Italia"): these are inflation-linked securities designed to meet the needs of retail investors and issued directly through LSEG's MOT platform instead of using the traditional auction mechanism. To date, the Italian government has issued 7 bonds using this model, raising more than €94 billion[4] via a continuous trading mechanism for the phase dedicated to retail investors and auction mechanism for the institutional investors.




In April 2014, we also had the first corporate issue based on the same distribution model through the MOT platform, and again open to both retail and institutional investors. This was an issue from an

[4] Department of Treasury BTP Italia http://www.dt.tesoro.it/en/debito_pubblico/btp_italia/

Italian private equity company (Tamburi Investment Partners – TIP) that raised €100 million within the matter of a few minutes through a 6yr 4.75% bond. Even though the extremely short offer period meant that a relatively small number of investors managed to buy the securities at issuance, this has not affected the liquidity, with €160 million (more than the total amount in issue) changing hands in the first month of trading[5]. However, the flexibility of our IT platform also allows the issuer to set thresholds in terms of minimum and maximum order sizes which might help to improve secondary market liquidity.

***Regulatory Measures***

**Q11: Are there any areas of FICC markets where regulatory measures or internationally co-ordinated regulatory action are necessary to address fundamental structural problems that exist?**

We believe that regulatory action in the following areas could help to enhance the fairness and effectiveness of the FICC markets:

- Mandatory clearing of non-deliverable FX forwards (NDFs) could help to promote the transparency and integrity of the foreign exchange market. It is also a prudent approach to creating clearing services for other FX products such as Options; introducing clearing to the FX markets with a financially settled product before moving to more complex physically settled products with the liquidity demands they bring. For this reason, we support ESMA's proposals for a clearing obligation for these products.

- Alongside more central clearing of fixed income products, the introduction of a standardised methodology for calculating haircuts for bilateral bonds and repos could help to improve the fairness and effectiveness of the market. A standardised methodology, which may require a rating based approach to define the products with consideration for issuance jurisdiction and currency, could be reviewed by regulators in much the same way as the methodologies for CCP haircuts on fixed income products are today.

  In this context we welcome the recent FSB final framework on haircuts on non-centrally cleared securities financing transactions[6]. We believe this framework will help to strengthen risk management within the industry and welcome the FSB's recommended implementation by end 2017. However, we note that the FSB framework applies to only one portion of the bilateral repo market (i.e. banks-to-non banks transactions against collateral other than government securities). Market fairness could be further enhanced by haircuts being applied to all market participants on an equivalent basis. We would therefore encourage the Review to consider whether there may be benefit to the FICC markets by broadening the scope of the FSB framework, for example if haircuts were also to be applied to bilateral transactions between non-banks, including those against government bonds.

In addition, as the Review acknowledges, FICC markets are global, yet differences in the regulatory approach of individual jurisdictions may pose challenges for firms, and their regulators, when operating cross-border. These issues are explored by IOSCO in its recent Task Force report on

[5] Borsa Italiana – trading statistics: http://www.borsaitaliana.it/borsa/obbligazioni/mot/obbligazioni-in-euro/contratti.html?isin=IT0005009524&lang=en
[6] FSB report: http://www.financialstabilityboard.org/wp-content/uploads/r_141013a.pdf?page_moved=1

cross-border regulation[7]. IOSCO identifies three main cross-border regulatory tools: national treatment, recognition and passporting. The choice of tool will be guided by a number of factors. However, differences in the approach taken may cause difficulty, as has been seen for example in the legislative and regulatory frameworks that have been introduced for central clearing and the subsequent challenges for the regulators in determining equivalence between jurisdictions. Given the global nature of these markets we believe it is important that regulators work together to create a framework that provides a level playing for all market participants. However, as is also evident from the IOSCO report, the ability for regulators to work together to create the conditions necessary for effective cross-border regulatory environments also depends on the political decisions being taken to support that work.

***Promoting effective competition through market forces***

**Q14: Is there a relationship between the level of competition in FICC markets globally and the fairness and effectiveness of those markets? What risks are posed by the increase in concentration seen in some FICC markets? In answering this, please have regard to the geographical scope of any relevant markets.**

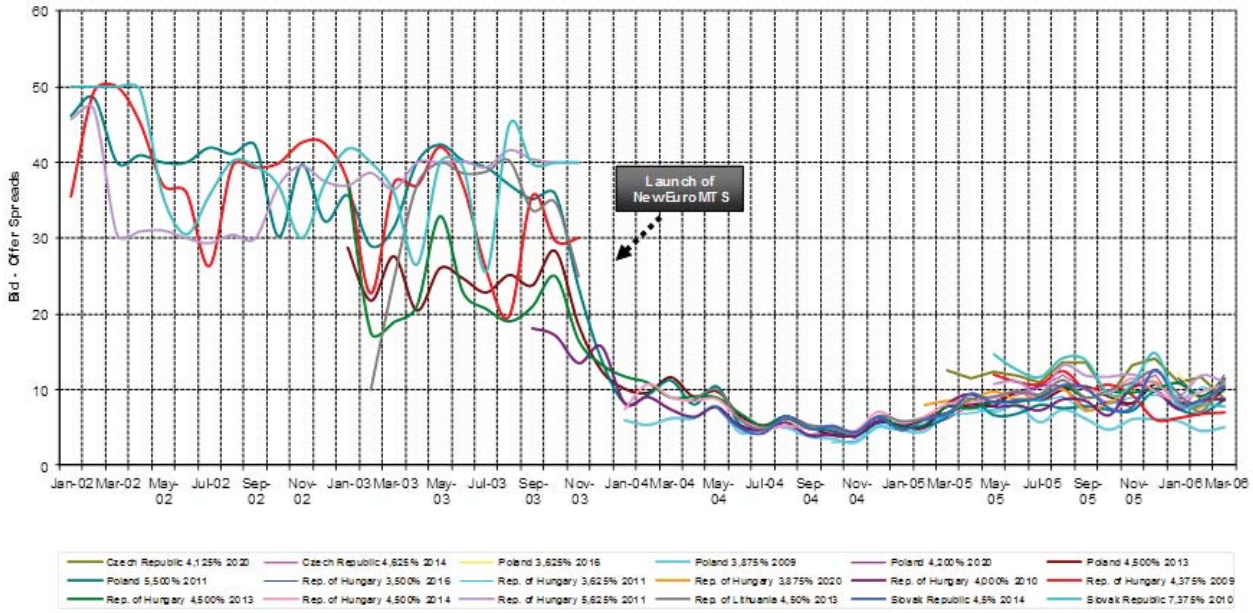
As noted in our response to Question 1, we believe that fair markets, properly regulated, should incentivise market participants to innovate and invest, and reward those which do so successfully, therefore promoting competition on the basis of merit.

**Q16: Are there any lessons that can be drawn from experiences in other financial markets (or indeed other markets) about the ways that alternative or evolving market structures could impact on competition in FICC markets?**

We suggest the Review considers the experience in Italy, where pre and post trade transparency requirements were introduced for equities and fixed income through implementation of MiFID I.

As an operator of electronic fixed income trading platforms, we believe that the introduction of a pre-trade transparency requirement, particularly in a quote-driven and inter-dealer market, can improve its liquidity. For example, NewEuroMTS, a venue for trading euro-denominated government securities of the EU Accession States, was launched in 2003. The graph below illustrates that the introduction of an organised market (i.e. the establishment of standardised access rules, quoting obligations and availability of trading data) led to an improvement of liquidity conditions on the relevant instruments, as evidenced by the tightening of the relevant bid/offer spreads.

[7] IOSCO Task Force on Cross-Border Regulation Consultation Report https://www.iosco.org/library/pubdocs/pdf/IOSCOPD466.pdf




***Benchmark design***

**Q21: Do current domestic and international initiatives by industry and regulators to improve the robustness of benchmarks go far enough, or are further measures required?**

We support the recommendations made by IOSCO in the Principles for Financial Benchmarks and endorse IOSCO's objective to address conflicts of interest in the benchmark setting process, enhance the reliability of benchmark determinations and promote transparency and openness. FTSE International Limited, the index provider within LSEG, issued its Statement of Compliance in relation to the IOSCO Principles in July 2014. Independent assurance of the assertions by FTSE in this Statement of Compliance was received from KPMG LLP and we would encourage IOSCO and regulators to mandate this approach so that other benchmark administrators follow this example.

***Industry-level measures***

**Q22: What steps could be taken to reduce the reliance of asset managers and other investors on benchmarks?**

Benchmarks can provide a cost effective tool for asset managers and other investors. Rather than seeking to reduce reliance on benchmarks, the focus should be on ensuring that benchmarks are properly constructed, well regulated and transparent.

**Q23: What additional changes could be made to the design, construction and governance of benchmarks?**

The design, construction and governance of benchmarks are areas covered in the IOSCO Principles and we would encourage benchmark administrators to comply with the IOSCO Principles. Importantly,

the IOSCO Principles address the vulnerabilities in the submission process, such as potential conflicts of interest of banks or other parties providing the underlying information from which benchmarks are derived.

**Q24: Should there be an industry panel to discuss benchmark use and design with the aim of assisting industry transition?**

The highly competitive market of benchmark providers creates the incentives necessary for innovation. Many of the changes around the use and design of benchmarks are already driven by client demand. On this basis we do not believe that the creation of an industry panel is necessary.

***Regulatory action***

**Q25: What further measures are necessary to ensure full compliance with the IOSCO Principles for financial benchmarks by all benchmark providers?**

We support the analysis of the FSB, IOSCO, FCA and the European Commission that the strongest regulation should be directed at a small set of critical, submission-based benchmarks (i.e. the IBORS). These benchmarks present the greatest risks not only in terms of vulnerability to manipulation (because of inherent conflicts and subjectivity in their methodology) but also because of the adverse impact on financial stability, in the event of their failure or non-availability, due to their unique role in the financial system (e.g. LIBOR is referenced by c. $300tr contracts[8]).

More broadly, the IOSCO Principles recommend that benchmark providers should publicly disclose the extent of their compliance with the Principles annually. We support this recommendation as it ensures transparency of the quality and integrity of benchmark determinations to both benchmark users and regulators. We also support ad-hoc reviews by IOSCO of the degree of compliance with the Principles by benchmark administrators with the objective to identify areas for improvement and recommend necessary actions within given timelines. An example of this is provided by the IOSCO formal review of the WM/Reuters 4 p.m. London closing spot rate in September 2014[9], the results of which were made public.

We believe that the public disclosure of compliance recommended by IOSCO, independent assessment by an external party, complemented by the disclosure of relevant information on the specific policies and procedures of each benchmark administrator, provides the right framework to ensure full compliance with the IOSCO Principles.

It is important that the relevant stakeholders are informed about internal procedures of a benchmark administrator because it enhances their confidence in the benchmark determinations. For example, FTSE International Limited has a control and governance framework that benefits from both strong internal governance operated through working groups formed of knowledgeable and experienced employees, as well as external oversight provided through advisory committees; it undertakes an annual risk assessment of its third-party relationships and manages conflicts of interests; and its

[8] Wheatley Review of LIBOR CP
[9] IOSCO report http://www.iosco.org/library/pubdocs/pdf/IOSCOPD451.pdf

procedures are subject to the LSEG Group Internal Audit's periodic reviews. In addition, to ensure the quality of its benchmarks, all FTSE indices have clear ground rules that are publicly available on FTSE's website, and their design considers the end user's requirements, alongside the suitability and availability of the underlying market and reference data.

Public disclosure by some administrators also acts to encourage disclosure by others. In a competitive market such as the provision of benchmarks, administrators need to respond to market pressure and the demands of their clients, which will lead to further compliance with the IOSCO Principles by more benchmark administrators. We would also encourage IOSCO and regulators to mandate this approach with the requirement that administrators seek a third party assessment to validate the assertions in the administrator's Statement of Compliance, thereby adding more weight to the statement and increasing market participants' confidence as to compliance with the IOSCO Principles.

One suggestion that has been advanced to encourage market participants to make the transition to IOSCO-compliant benchmarks is having CCPs charge higher margins for contracts tied to non-IOSCO compliant benchmarks. LSEG does not support this approach. In our view, CCPs' margins should be set based on the risk management parameters outlined in the CPSS-IOSCO Principles for Financial Market Infrastructures, the regulatory rules applicable to the CCP and the CCP's own risk appetite.

**Q26: How can the regulatory framework provide protection to market participants for benchmarks administered in other jurisdictions in a proportionate way?**

Adherence to the IOSCO Principles should be demonstrated by a Statement of Compliance by the provider itself, with a requirement that it be accompanied by an assessment of a third party that validates the assertions in the benchmark administrator's Statement. This approach should provide protection to market participants in the relevant jurisdictions. We note that the Rapporteur in the European Parliament has proposed an approach whereby administrators located in a third country apply to ESMA for recognition, demonstrating that they have consistent standards of transparency (on an administrator level or at an individual benchmark level). Whilst this is not a fully worked through solution at this stage, it certainly represents a step forward in policymaking from requiring total, jurisdiction-wide regulatory equivalence.

We support compliance by all benchmarks providers with the IOSCO overarching framework for benchmarks used in financial markets. However, we believe that benchmark providers in one jurisdiction should not be required to comply with additional and specific requirements in another jurisdiction, over and above those laid down by the IOSCO Principles. IOSCO recognises that "although the Principles set out uniform expectations, IOSCO does not expect a one-size-fits-all method of implementation to achieve the objectives of the Principles".

IOSCO provides an approach which reflects the diverse, global benchmark industry. LSEG believes the overall approach to regulation must be consistent across jurisdictions whilst allowing for a proportionate and pragmatic approach both to implementation and to the recognition of third country regimes.

***Standards of market practice***

**Q31: Should there be professional qualifications for individuals operating in FICC markets? Are there lessons to learn from other jurisdictions — for example, the Financial Industry Regulatory Authority's General Securities Representative (or 'Series 7') exam?**

We agree it is important that staff of FICC firms understand both their general obligations and the specific standards that apply, for example through internal training. We are not convinced of the merit in a introducing a compulsory professional qualification to achieve this, given the diversity of the FICC markets.

***Responsibilities, governance and incentives structures within firms***

**Q36: How much of a role did inadequate governance, accountability and incentive arrangements play in the recent FICC market abuses, and to what extent do these remain potential vulnerabilities in FICC markets globally? In addition to on-going regulatory changes, what further steps can firms take to embed good conduct standards in their internal processes and governance frameworks? And how can the authorities, either internationally or domestically, help to reinforce that process, whether through articulating or incentivising good practice, or through further regulatory steps?**

Domestic and European legislation has introduced a number of new requirements around accountability and incentive arrangements for financial institutions, for example via CRD IV, EMIR and AIFMD. We believe these changes should be implemented prior to any assessment of the need for further steps to embed good conduct standards in firms' internal processes and governance frameworks.

As we observe elsewhere in this response, effective internal governance, systems and controls as well as external supervision are vital in helping ensure the fairness and effectiveness of all markets. We believe that an appropriate balance of surveillance and supervision, with necessary enforcement action, has a core role in bringing about improvements in standards of conduct and in shaping behaviour and ethics. As regards supervision, the Review may wish to consider if the existing supervisory arrangements for FICC markets may be enhanced, within individual authorities and the coordination arrangements between them given the range of regulators that play a role.

***Firm-wide initiatives to improve incentives and governance***

**Q37: Do respondents' agree that the thematic areas highlighted in Section 5.5 are key priorities for FICC firms (fine-tuning performance measures; adjustments to remuneration; attitudes towards hiring, promotion and advancement; closer board involvement in governance of FICC activities; and clearer front line responsibilities)? What specific solutions to these challenges have worked well, or could work well? And how best can the authorities help to support these initiatives?**

As a trusted, global financial infrastructure provider, we are committed to meet the highest standards of corporate governance. We agree that individual performance assessment and remuneration should be based not only on revenue-based measures but also on a wider set of metrics reflecting the good client outcomes and subjective criteria.

The Review considers the potential for measuring the conduct performance of a firm as a whole against a public yardstick. While we support the ambition we believe it would be challenging to develop a common benchmark given the diversity of individual firms as wells as group firms across the whole FICC sector.

We agree with the Review that behavioural factors have to be taken into account in the context of promotion and advancement of individuals; individuals holding senior positions within a firm have greater ability to influence the organisations' ethics and values, therefore it is essential that they uphold high standards of behaviour. We support the approach to adjustments to remuneration in order to reflect employee misbehaviour, material downturns in a firm's financial performance or failures of risk management. LSEG regulated entities comply with the relevant regulatory requirements.

The Review seeks feedback on the extent to which boards of institutions with a major FICC market presence should include more members with direct FICC market experience. Our view is that this is beneficial, but has to be balanced with the need to ensure that a board membership reflects the diversity of experiences, business backgrounds, nationalities and gender, as well as the institution's values and behaviours.

***Surveillance and penalties***

**Q40: What role can more effective surveillance and penalties for wrongdoing play in improving the fairness and effectiveness of FICC markets globally? How can firms and the industry as a whole step up their efforts in this area? And are there areas where regulatory supervision, surveillance or enforcement in FICC markets could be further strengthened?**

Effective surveillance is critical to helping ensure the fairness and effectiveness of all markets. Supervision is equally important and it is essential that the regulatory framework of the FICC markets is effective, given the range of regulators that are involved. In the UK FICC markets, the Bank of England, Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA) each play a role and we would encourage the Review to consider whether the supervisory arrangements for FICC markets may be enhanced, within individual authorities as well the coordination arrangements between them.

***Firm level surveillance***

**Q41: How can firms increase the effectiveness of their own surveillance efforts across FICC markets globally? What role could the industry play in helping to explore best practices on how to make whistleblowing and other similar regimes more effective? Is there scope to make greater use of large scale market data sets and electronic voice surveillance to help detect cases of abuse in FICC markets? Are there other potentially effective tools?**

Effective surveillance is critical to helping ensure the fairness and effectiveness of all markets. In our view, firms and their supervisors are better able to monitor market practice and identify potential

misconduct in transparent, automated and multilateral markets. Encouraging more on-venue trading, particularly in the fixed income markets, would also help towards more effective surveillance.

***Firm level penalties***

**Q44: Is the current supervisory approach and level of intensity dedicated to supervising conduct within the UK wholesale FICC markets appropriate?**

We believe it is important to assess if the regulatory framework of the UK wholesale FICC markets is adequate and effective, given the range of regulators that are part of it. We would encourage the Review to consider whether the arrangements within each organisation as well as the coordination between the Bank of England, PRA and FCA might be further enhanced.

**Q45: Are there ways to improve the data on FICC market trading behaviour available to the FCA, whether through the extension of the regulatory perimeter or otherwise?**

In terms of information made available to the FCA, MiFID II will introduce reporting requirements for a broad range of non-equity instruments and we would expect this to give the FCA greater visibility of trading behaviour in the FICC market.

***Regulatory-level penalties***

**Q46: What further steps could regulators take to enhance the impact of enforcement action in FICC markets?**

We welcome the regulatory drive to pursue a more assertive and interventionist approach to misconduct in FICC markets. In our view, the ability of regulators to identify and punish market misconduct is enhanced in a transparent, automated and multilateral environment.