

## Unique Opportunity to Shape Fair and Effective Markets

September 2015

The purpose of this briefing is:

- to draw to your attention a unique opportunity to shape both policy thinking about how to create 'fair and effective markets' and potentially the operation of the markets themselves; and
- to encourage your organisation to engage with it.

The opportunity has arisen following a review undertaken by the UK Treasury, Bank of England and Financial Conduct Authority in order to identify ways of making financial markets more effective. While, at first sight, this topic seems highly technical, these markets have enormous significance in determining commercial behaviour throughout the world at all levels of the global economy. In view of that, the Bank of England is now looking for ways to take this work forward with broad-based involvement from all areas of society – a process that will formally launch on 11<sup>th</sup> November, although work is already under way. It is also seeking to globalise the initiative. *Nothing of this sort has ever happened in the UK and nothing like it is happening anywhere else in the world.*

### ***What is the Fair and Effective Markets Review?***

The Fair and Effective Markets Review (FEMR) is an initiative launched by the Chancellor of the Exchequer, the Governor of the Bank of England, and the Chief Executive of the Financial Conduct Authority in June 2014 to seek to **address structural problems and issues of misconduct in the wholesale Fixed Income, Currency and Commodities (FICC) markets**. A public consultation process began in October 2014 and a final report was released in June 2015. It provided analysis of the root causes of misconduct and unfairness in FICC markets; evaluated the impact of regulatory reforms already under way; and made recommendations regarding areas that need further attention to 'fill remaining gaps' that are serving to undermine confidence in these wholesale markets. At the same time, ***it was announced that an Open Forum would take place on 11 November 2015*** to bring together 'policymakers, financial market participants and users, academics, media representatives and wider society' to openly discuss what constitutes fair and effective markets that work 'for the good of the people'.

### ***Why should you care about the Open Forum?***

Third sector organisations should be keen to contribute to the forthcoming Open Forum. It is a genuine attempt to provide access to regulatory policymaking for a wide range of different stakeholders in FICC markets – which includes institutional investors and pension funds. **Without significant mobilisation, it is very likely that the majority of Open Forum participants will be financial sector representatives or institutional investors.** Clearly, if that were to happen, the process would not be informed by a much broader range of views on what constitutes fairness in our economic system and how we might collectively wish to structure financial markets in order that they can better serve the needs of ***all*** people and communities.

For those wishing to shape financial and commercial behaviour, whether for social and economic justice, the environment or any other reasons, a potentially important opportunity would be missed.

### ***How do Fixed Income, Currency and Commodities (FICC) markets affect the average person?***

Investment banking and wholesale institutional finance dominate trading activities in FICC markets, but the outcome of this trading has a direct effect on the real economy and our daily lives. Fluctuations in FICC markets help determine:

- Household borrowing costs such as mortgages, purchase loans and credit cards,
- Currency exchange rates,
- Cost of food and raw materials,
- Price of fuel at the petrol station, and
- Returns to pension funds.

Inefficiencies in these markets affect the production chain from individual farmers to consumer prices. Lack of trust in these markets creates incremental costs in regulation, compliance, contracts and litigation. The recommendations that have already been made by the FEMR are intended to ensure better long-term market integrity, establish more effective enforcement to deter misconduct (both incompetence and criminal based), and promote more transparent and equal-access FICC markets.

### ***How can a non-finance organisation contribute to the forthcoming Open Forum?***

It is important for regulators and financial sector institutions to recognise that their activities have far-reaching consequences for all members of society. A wide range of organisations have a vested interest in the outcome of the FEMR. The Open Form briefing document states that “*real markets work in the interests of society, not just market participants*”<sup>1</sup>. It lists 26 initial questions to be addressed in the context of the Open Forum, and a number of these questions might relate to your particular areas of expertise and focus (such as those regarding remuneration, credibility and integrity, and global cohesion). However, it is important that all relevant issues get an airing and there is no particular reason why the Forum should be restricted to these – it is expected to be a process, not a one-off event. To date, few third sector organisations have responded to FEMR calls for participation – perhaps because the subject matter is believed to be technical and the preserve of specialists. However, it is critical that financial markets should not be left to operate in this parallel, technical world. They have hard, practical consequences which everyone can understand and engage with.

That is why it is important for the full range of social interests to engage with the issues already raised and to introduce any others which have so far not been recognised within the current framework – broader questions about what is just, fair and effective and how these principles can best be brought to bear on financial and economic behaviour. It is an opportunity to consider the relationship of markets with inequality; the environment; producers and end-users.

A high level of participation from non-financial sector organisations would help to send a clear message that the markets are not just there for dealers and technicians and that society at large is committed to working together across boundaries for the greater good of all those affected by financial market activity.

### ***NEXT STEPS***

The next steps for your organisation are straight forward, and we hope that you will join us in doing the following:

- Read through the [FEMR consultation material](#) available on the Bank of England website.
- Register your interest in [attending the Open Forum](#) event taking place on the 11<sup>th</sup> November 2015
- Send in your thoughts, ideas and reactions to [OpenForum@bankofengland.co.uk](mailto:OpenForum@bankofengland.co.uk) (and copy us in so we can hear them too!)
- Feel free to contact us via [institute@stpaulscathedral.org.uk](mailto:institute@stpaulscathedral.org.uk) if you have any questions about this call to action, or would like to know more about our work with the Fair and Effective Markets Review.

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<sup>1</sup> Open Forum: Building Real Markets for the Good of the People, p.3