



# FEMR Final Report

## ACI FMA Responds To the FEMR Results

**Marshall Bailey, President, ACI Financial Markets Association:**  
**We welcome the recommendations set out in the Fair and Effective Markets Review (FEMR), which sets the foundation for positive change in the Fixed Income, Currency and Commodities (FICC) markets – particularly at a time when the issue of individual conduct and ethics in FICC markets is very much in the public eye.**

From our perspective, the most important takeaway from this is that the FEMR will lead to an increased emphasis on financial education on ethics and industry-wide training as well as the adoption of a single code of conduct for Foreign Exchange to raise standards and accountability. Regulators are rightly stepping up efforts to tackle trader misbehavior and place conduct at the heart of their reforms. The importance of this cannot be over-emphasized. The financial services industry employs millions of people globally, and the sector has been tarnished by the actions of a small minority acting in an unethical manner. Where they are guilty of misbehavior, we need to make individuals accountable, but let's also assist and support those seeking to improve the industry to do so.

Today's report also makes clear that measuring and monitoring progress is central to behavioral change. It is clear that in some situations individuals receive little or no training or practical guidance, leading to uncertainty about what is and isn't acceptable. Positive progress has already been made on the enforcement front, but to achieve sustainable change, we must go further and embed high standards of conduct and practices within organizations. This can be done through education, and by monitoring individual behavior to ensure individuals at all levels – from the most junior ranks up to senior management at board level – acknowledge and abide by an enforceable code of conduct.

Initiatives like the ACI's Code of Conduct and e-learning and certification (ELAC) Portal provide this critical service to organizations and individuals alike. The Model Code articulates in great detail how ethical conduct should be taught

The principles outlined by the newly-established FICC Market Standards Board (FMSB) are closely aligned with those already adopted by the ACI's e-learning and certification (ELAC) Portal. It was created to allow individuals to continuously monitor and test their knowledge of the Model Code, and meets the requirements set out in the Fair and Effective Markets Review for testing to be based around interactive real-world scenarios.

The ELAC Portal was designed specifically to enable individuals and their managers to demonstrate how conduct rules can be applied in a variety of situations, while continuous assessment ensures that they can quickly adopt new guidance, address any knowledge or conduct gaps and most importantly, uphold the highest standards of professionalism and behavior.

In addition, ensuring the universal application of a code of conduct across borders will be vital to changing behavior and ensuring all participants and institutions are clear on what is and isn't acceptable behavior. If necessary, it must be backed up by law and embedded within national financial regulations to guarantee strong enforcement. I believe we need to look to bodies like the Financial Stability Board, chaired by Bank of England Governor Mark Carney, or the Bank for International Settlements in Basel, which has already begun excellent work to harmonize international codes, to drive this further.

Levelling the playing field internationally in this way will provide much needed clarity and reduce opportunities for ethical arbitrage. It is also beneficial for regulators, as they can measure the behavior, ethics and conduct of all participants by the same criteria – regardless of geographical location – and any misdemeanors can be immediately identified and addressed.

## **Comments on last look**

The reality is that customer preferences vary – and 'last look' can, at times, be an acceptable and effective form of execution. For example, some might prefer as tight a price as possible, accepting a potentially higher rejection rate through 'last look,' whilst others might prefer certainty of execution at a different price.

However, participants should take steps to ensure that provision of 'last look' liquidity does not create a false impression of market levels or depth. Under no circumstances should orders with 'last look' be placed for the purpose of price discovery and with no intention to trade, and use of electronic algorithms solely to accept trades that are favorable, and reject non-favorable deals when the criteria for assessing are equal, should be avoided completely.

The ACI's Model Code provides clear guidance on how 'last look' practices should be used by liquidity providers and the information that must be provided to customers in order to maintain a transparent and fair operation.

#### **About ACI – Financial Markets Association**

ACI – Financial Markets Association is a leading non-profit, non-political association of wholesale financial market professionals. Members of ACI are in a large part engaged in professional trading, broking, operations, regulatory and compliance activities in foreign exchange, money fixed income and derivatives markets.

ACI was founded in Paris in 1955 as Association Cambiste Internationale and has a proud and illustrious history of involvement in helping its membership through various market iterations/interactions.