

Modelling integrity through culture

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Speech by Martin Wheatley, Chief Executive of the FCA, at the FCA Markets Conference 2013. This is the text of the speech as drafted, which may differ from the delivered version.

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Good morning and thank you all very much for joining us today at the FCA's first Market Conference. Markets have come a long way since our predecessor, the FSA, gave its first address about a sector-wide policy and strategy agenda, six years ago.

Over this period, we've experienced an almost unprecedented financial crisis, the clean-up of which still continues. At the same time, policy initiatives have radically changed market infrastructure and brought a larger share of activity under our watch. The face of global regulation has evolved, with new European supervisory authorities, and new international bodies of regulation. And of course, in the midst of all this, the UK's regulatory framework has been redesigned, resulting in the creation of the FCA and the PRA.

What strikes me here is the extent to which changes have taken place on an international level. The only truly UK-centric change is the FCA. And this begs the question, where is the *global* regulatory agenda heading? Where does the FCA's mandate fit within this global landscape of markets regulation? And how will we continue to drive change in this landscape?

These are the questions I want to focus on today.

As markets have become ever more international, so too has markets regulation. The FCA is firmly at the heart of this global regulatory landscape, and is here to drive forward a changing global agenda that emphasises conduct and culture.

A lot of the work since the crisis has focused on strengthening the resilience of our institutions and infrastructure. As this work nears completion, the spotlight is shifting. It is shifting towards market practices, industry culture, and individual behaviour. And the FCA will drive this conduct-focused agenda, through coordinated engagement with you, market participants, and with international counterparts, some of whom you'll get to hear from today.

A new regulatory landscape

To understand this changing agenda, we need to take a quick look behind us and consider the major changes that have taken place.

A few decades ago, markets were very much a domestic business. You couldn't move funds from one country to another like we can today with short settlement dates. Technology didn't allow traders in London to match Tokyo's prices within seconds, and Asian banks could not fill gaps in overnight liquidity by phoning London. But sweeping changes in technology and increased globalisation have changed the picture completely. And it's in 2008 that we witnessed the full extent to which markets had become interconnected, as much of the system sunk and froze following failures at certain banks. The collapse of institutions like Lehman Brothers shook the financial markets and exposed gaps in our infrastructure.

To date, we've addressed these gaps by improving global coordination, strengthening our standards, and extending our oversight.

As a first response to this global failure, new actors have been established to oversee European and international regulation. We now have three European Supervisory Authorities. These are regulators with new powers and growing responsibilities, playing increasingly key roles in the development and coordination of policy across Europe.

The European Securities and Markets Authority will soon be celebrating its third birthday, and over the last three years its mandate has grown substantially. As a member of ESMA's management board, I've seen at first-hand how quickly ESMA has grown into its role. It now has supervisory powers of its own, over credit rating agencies and trade repositories, and plays a vital role in developing technical standards.

At a global level, the FSB and IOSCO have growing responsibilities in supporting local policy initiatives and delivery consistency across different markets. While hardly new, IOSCO now plays an influential role in the development of markets policy, bringing together the regulators of 95% of global trading. The Financial Stability Board also has a key part to play, providing the international forum to link securities regulation with prudential regulation, and ensuring that we take a joined up view on financial stability.

Secondly, from a policy perspective, we have tightened regulatory standards.

A number of European and international policy initiatives have come to fruition. The first version of MIFID radically changed the infrastructure of our markets. Basel III has strengthened our institutions, and firms are responding well to the challenges posed by these strict capital requirements. And EMIR continues to be implemented with further technical standards due next year.

A number of other pieces of legislation are still in the pipeline, several of them in the final stages of negotiation. Once the review of MIFID is agreed at political level, we will work with ESMA to prepare

the detail for implementation. Similarly, but focusing on the primary market, work will soon start at ESMA to flesh out the detail of the Transparency Directive.

And along with new regulatory bodies and stronger regulatory standards, the third and final key change is that the perimeter of regulation has expanded.

The new Market Abuse Regulation will bring more products within regulatory scope, and MiFID II will define new types of trading venues. Combined with initiatives such as EMIR and the G20 Pittsburgh Agreement, these initiatives will extend transparency and risk management to the previously opaque derivatives market, drawing activity back through clearing houses and exchanges.

At the same time, new regulations, directives, principles and guidelines are starting to capture firms that have typically sat outside the remit of financial regulation. These are firms that often matter in size or turnover, but that currently lack experience in implementing regulation. They will have to gear up to handle this challenge and operate at the same standards as the rest of the market. And we will work with them to facilitate this transition.

That list cherry picks some initiatives underway. Once brought together and finalised, these changes will substantially strengthen our markets. The new regulatory architecture will give us better oversight of activity across industries and asset classes. Market infrastructure will be stronger with more consistent treatment across platforms, and risk management will be improved in OTC transactions. Firms will be more robust, with increased capital, higher levels of liquidity and better collateralisation. And investors will have a clearer sense of what they are investing in, strengthening their roles as drivers of growth and competition.

A new regulatory agenda

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Given this changing and markedly international level of negotiation and policymaking, given this significant schedule of regulation across all parts of financial markets, from pre-trade to post-trade, there is an obvious question to ask ourselves:

How, and towards where, will the FCA drive this changing international agenda?

Well today we want to share our experience of this change, hear your views, and portray how we see the future.

The reality is that, having sailed through troubled waters, we've now adapted to changing winds, we've strengthened our structure, and we've gained a stronger sense of direction.

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Our own emphasis on conduct and culture is heralded by our work to strengthen benchmarks. We've been at the vanguard of establishing a regime that is practical, but that nonetheless results in a shift in firm behaviour and individual accountability. As I prepared to take on the task of chief executive of the FCA, I was also asked to review whether the revelations surrounding LIBOR required a wider policy response. The policy recommendations resulting from this review – now known as the Wheatley Review - have delivered a LIBOR regime that provides for accountability, strengthened governance and robust systems and controls around the submission of rates.

We have built on this work, actively participating in the development of European and international standards for benchmarks.

We've done this in Europe, where we've engaged with ESMA's work. While we need to consider the detail carefully, we welcome the Commission's proposals for a Regulation on benchmarks, which is currently undergoing negotiation. We've done this at the FSB, working closely with our international partners to promote consistent standards through the FSB sector steering group, which I co-chair. And, most significantly, we've done this at IOSCO, where I head the task force on benchmark regulation with my counterpart from the CFTC.

The IOSCO principles on benchmarks will drive up the standards of transparency and governance, and ultimately increase benchmark users' confidence that benchmarks are robust and credible. We are fully aligned with this approach. We are already working with the administrators of main benchmarks – we're working with them to set in train assessments against these principles, and we strongly encourage all administrators to self-assess their compliance by the deadline of July 2014.

Another area where we are leading the regulatory agenda is our work on wholesale conduct policy, which my colleagues will shed more detail on throughout the day. Wholesale consumers come to the UK because they trust us to act with integrity, to put client interests first, and to keep client assets separate and safe. Our recently announced asset management strategy is one component of our work in this area, and we will continue to work with firms across the industry to improve conduct and resolve conflicts of interest.

All of these initiatives foster a culture of transparency, confidence and ultimately, integrity around our industry, providing an essential depth of liquidity to London's markets, and reinforcing the UK's stature as a global financial centre.

And as we deliver reform, we will continue to use our range of supervisory and enforcement powers, where conduct upsets market integrity. Enforcement outcomes set our expectations as we continue to monitor the markets, and as we progress supervisory investigations such as our recently announced investigation into foreign exchange trading. The lessons learned from these investigations are as important as the principles set for market participants – proactively driving up standards and highlighting a necessary change in culture.

An agenda delivered through a pragmatic, consultative and cooperative approach to regulation

In achieving these changes in conduct and culture, what truly ensures our success as a regulator, and your success as an industry, is that the FCA is at the heart of international regulation. And in its role

as a global regulator, the FCA will push internationally for a pragmatic, consultative, and cooperative approach to regulation.

If we want to reap the benefits of transparency and new reporting obligations, we need to be pragmatic. The easier it is for firms to roll out consistent standards across the systems and processes they run, the more likely they are to successfully comply with the requirements. The globalised nature of today's markets means that harmonised rules across the single European Market are also essential. Our approach recognises that harmonisation, done pragmatically, and at the right level, is a good thing. We need a balance between standards that can adjust to each jurisdiction, but whose detail is meaningful to the day to day operations of a firm. This reflects the reality of today's markets, where a significant number of firms are multijurisdictional – firms that want a clear picture of their risk exposure across jurisdictions, in the same way that we want a view of risks across the market.

Alongside pragmatism, we need to be consultative. Consultative in working with other regulators, but also in working with you, those with experience of implementing regulation. If we are to make sure that implementation is done in a cost effective way, if we are to prevent unnecessary costs being passed down to the end user, we need to be pragmatic and clear in how we communicate with industry. We've devoted a significant amount of resource to this recently, particularly in communicating our expectations and reaching out to those who are less familiar with regulatory standards.

But we also need to acknowledge that beyond being the regulator for UK markets, we are one of the key regulators of global markets. The UK is a global financial centre, and as the Financial Secretary said again last Thursday, that means we have to be a strong voice in international fora.

What is relevant to the UK market is often the global market. Risk does not pay heed to legislation's attempt to draw a line around national borders. We are the largest centre for cross-border banking, and account for nearly half of the global turnover for interest rate derivatives. The London Stock Exchange has a higher number of foreign equity listings than the New York Stock Exchange, and we are the leading hub for international bond trading.

And given this international context, we cannot deliver on our objectives without a collegiate approach to strengthening those markets. International cooperation is key to achieving a number of our initiatives. We need to actively participate in working with Europe, we need to actively participate in working in international fora, and more than ever before, we need to be active in having strong bilateral relations with counterpart international regulators.

As most of the big questions for markets are international ones, you will see less policy material directly from the FCA than you might expect. But that does not mean we are inactive. Far from it. We take our international role very seriously and that's why we are starting the day with a panel session on international regulation. You will witness first-hand how we share priorities with our EU and US counterparts, and how we are at the forefront of discussions to address cross-border risks.

Conclusion

I hope that, at the very least, it is apparent to you by the end of today that we embrace the international nature of the markets we regulate, and reflect that internationalism in our approach. In a regulatory environment that increasingly focuses on culture and conduct, a pragmatic, consultative, and cooperative approach guarantees a stable evolution and transition.

Markets regulation is at the heart of the FCA, and we are at the heart of international regulation. And it is with this mix of expertise and international prominence that we will continue driving the changes in regulation, infrastructure, and culture.

Please take today as an opportunity to understand the details of our approach, of the changes the come, and to discuss how to best implement these changes. Thank you, and enjoy your day.