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The Challenge and Opportunity Awaiting ACI

In recent years it has felt as though ACI – The Financial Markets Association has been at a crossroads. In one direction lay opportunity, in the other, oblivion.

Speaking to people within the Association – people like me who have a long, loyal and dedicated link to ACI – there seems to have been a divide between what could be termed "modernists" and "traditionalists". The former wanting to take ACI forward through more active engagement, the latter being more comfortable with the association's stance and seeing no reason to rock the boat.

What has been, still is, at stake for ACI is the opportunity to regain something it has rarely had over the past 20 years – relevance.

The Association has been offered a seat on the prestigious Market Participants' Group (MPG) – the committee that is helping to rebuild trust in FX markets through the BIS' global Code of Conduct. The fact ACI was offered this seat is a reflection of the respect the industry has not only for the Model Code but also the efforts put in by the current management board and ACI's President to show the world ACI has a modern face.

The Association needs to use that as leverage to reach further into the industry's structure and help shape its future in a manner that it rarely has over the past two decades.

This approach will be anathema to some, especially in the traditionalist camp, but I would respectfully suggest they may have forgotten ACI's roots – and its long and proud history of leadership in the industry.

ACI was born out of cooperation and a lack of ego, by people who worried less about how the Association was managed and more about what it could do to help improve markets. ACI should be about what it does, rather than how it does things.

Two unsung heroes of ACI are Harry Ruddick and Marcel Le Grand, I wonder how many members have heard of them? Probably not many. But it was their idea to help drive the internationalisation of markets by establishing an association of international exchange traders – the Association Cambistes International – that's ACI to you and me.

Traditionalists might also raise an eyebrow at the mantra of the man widely identified as the founder of ACI, Maurice Plaquet. His ideals? Know your counterparty, your customer and your industry better.

This is a statement from Plaquet in 1955. "We must work with faith, conviction for the creation of a link between European dealers until there is a link between dealers of the world. We must be an entity that is always ready to serve in our field of professional activity. We always have something to learn and, by knowing each other well, we shall keep each other abreast of technical and organisational advances."

How can this be viewed through the prism of modern times? To me it seems a very "modern" view. It says ACI can help drive change, represent the interests of foreign exchange traders and help modernise the market structure. How is that different to today?

Plaquet, with his colleagues, most significantly Roy Bridge from the Bank of England, also directed work that led to the publication, in 1958, of the Collected Customs of Exchange. This was the forerunner of The Model Code, which means the latter is merely the latest iteration of a lifetime's work by the Association.

Why say this? To remind people of the legacy ACI has and what it stands for. It has a long and proud history of cooperation with the industry's best interests at heart and of helping to shape the market structure. The industry faces unprecedented challenges and ACI should be playing a major role – as worthy as they are, ACI needs to do more that sit, with some complacency, astride its two pillars of education and conduct.

Thankfully there seems to be an acceptance amongst most of ACI's Council that it does need to do more and it is pleasing to see that it has backed the ideas and efforts of ACI's President and Management Board.

Three years ago ACI recognised it needed something different, hence it advertised for a professional President. It further accepted the need for a more open, modern approach with the appointment of Marshall Bailey two years ago, someone from outside of the Association's orbit in recent years, but a man with senior credentials in meaningful global institutions.

In my view it made the right choice, and ACI has given itself the chance to deliver

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a credible, meaningful message to the industry. ACI's President consistently delivers on the issues traditionalists feel so important – education and ethics – but he is seeking, with the management board, to go the very necessary next step and make ACI relevant.

ELAC is a great example of how ACI's management board is trying to modernise. The Association's Council and other bodies are there to represent the best interests of the members, who, lest we forget, are the reason the Association exists at all.

Take a look at the trader tribunals taking place right now. The ambiguity they are highlighting around bank management approaches are nothing but trouble for all concerned. The banks are facing embarrassing revelations, the staff are facing an uncertain employment future. The people that have been unfairly dismissed, even if they are not members, are the archetypical ACI member – they sit on a trading or sales desk. With a process such as that provided by ELAC both these individuals and their institutions have the protection offered by knowing explicitly what is right and wrong. If the individual has gone through the ELAC process and been involved in bad practice there are no grey areas. By backing ELAC the institution is also stating, "We adhere to best practice" something that will be important to their clients down the road. ELAC is a very good idea that meets the demands of the modern market – how long is it since ACI could say that it was an innovative leader? More to the point, who are the people ELAC will protect by giving them some structure in a very difficult environment? ACI members – the people who are meant to be at the heart of the organisation.

There is also the need for a broader outreach, however. Participants in the foreign exchange industry – both ACI members and non-members – are passionate about its future and state of health and are keen to hear all views. ACI is missing a chance by relying upon conduct and education when it could also be stating its view on wider industry events. ACI has a President and Management Board members who have credibility in the industry – let them speak out on the issues of today, the Association will benefit from it.

The word 'relevance' features a lot when discussing ACI and having an opinion would be one way of helping ensure ACI is respected. Industry people may not agree with a view, but they respect anyone with an opinion. Having no opinion, no voice, means ACI risks being seen as irrelevant.

Many good people have worked for many years to push ACI away from its image as a social network towards a professionally run body promoting professional conduct and helping to educate people with that end goal in mind. Turning its back on those ideals is not an option – especially when ACI can be building upon those pillars through more outreach.

Becoming relevant means maintaining engagement at the top levels of the industry. It is not just about hosting an event with a central bank speaker it is about representation on the local FX Committee; it is about speaking out and having the major banks – few of whom see ACI as relevant at this time – listen intently; it is about going back to its roots as a foreign exchange organisation that represents the interests of the foreign exchange industry and is heavily involved in shaping its future.

It may seem harsh to question the relevance of ACI, but the reality is this question is being asked all over the world in all sorts of institutions. A difficult question to answer as an ACI member is, "why didn't they just adopt the Model Code when looking for a global code of conduct?"

It's a difficult question to answer because I don't know the answer. The Model Code is an excellent and comprehensive work that covers in much great detail most, if not all, of the moral dilemmas facing us as an industry. More pertinently it is frequently updated by a Committee for Professionalism stocked with senior industry figures bringing a deep knowledge of the industry to the table.

In spite of all of this, it was still not adopted by the powers that be, who decided they wanted a new code.

So while The Model Code remains an important document, the reality is its importance has been diluted by the presence of what is widely seen as a more "senior" code. This focuses attention even more closely onto ACI's education efforts, and again I think it fit to put the current situation into historical perspective.

In the 1960s and 1970s, ACI's National Associations produced relevant training courses for their members. I recall going on a junior dealers' seminar in London in the very early 1980s having been sent by my bank, which recognised the standard and relevance of that training programme.

In the early 1980s ACI Australia developed its Dealing Simulation Course to help train junior dealers in coping with what was then the novelty of a floating currency.

From the very early days of ACI, its National Associations also hosted senior dealer meetings featuring traders and managers from multiple centres, who came together and discussed relevant issues of the day and then were often given an address by a senior industry figure from either a central bank, monetary authority, politician, or major customer.

These three initiatives have one thing in common – they demonstrated ACI's ability to react to changing circumstances by tailoring its educational efforts to the current needs of the industry.

This is not to say that the current ACI education programme is irrelevant, nothing could be farther from the truth, but more it is to say that the need in the current environment is for a different educational process.

This is where ELAC comes in, for in reality it is merely the latest in a long and proud history of ACI responding the needs of the industry with workable and innovative ideas.

From one step removed there seems to have been something of a battle over the past few years for control of ACI between the modernists and traditionalists, but that seems to be settled in favour of the former. The paradox from my perspective is that the traditionalists are forgetting their history in proving so reactionary to change, for ACI, from the very early days, was an innovative leader that helped shape the modern foreign exchange market.

So the report card on ACI is largely positive but comes with a warning. The Association's first paid President and his Management Board has done a lot of good work in helping to raise the profile of the Association and to date the Council has, broadly, backed them. Now is not the time to rest on one's laurels, however, for foreign exchange in particular is in the midst of probably its biggest reform programme in 25 years and ACI needs to have a big say, and play a big role in its development.

At the end of the day, one thing is clear – the wider reform process is going to take place no matter what people think, or desire. ACI has made a great start to changing the industry's perception of its work, but that only makes it more urgent it doesn't drop the ball now.

Colin Lambert
Editor, ACI Briefing

Positioning ACI FMA For Renewed Growth

ACI – The Financial Markets Association is looking at an exciting future as its Management Board places an emphasis on building stronger foundations within the financial markets community.

That was the key message from ACI FMA President Marshall Bailey's address to the recent 55th ACI FMA World Congress in Jakarta.

ACI FMA's Council voted to back the Management Board's strategy to help the Association fulfil its huge potential by focusing on innovation and leadership in advancing the cause of financial markets' professionals.

Bailey pointed out that, in keeping with the wider financial industry and global economy, ACI FMA faces difficult and uncertain times. "Weaknesses in the financial system have been exposed ever since the 2007/2008 banking crisis, and much has yet to be put right," Bailey told ACI members. "In the last 15 years in the United Kingdom alone, where so much international trading and banking takes place, the 10 biggest misconduct scandals have cost the banks and building societies almost £53 billion in fines and other penalties.

"This misconduct has been the result of inadequate standards and enforcement across a number of areas of conduct," he warned. "It is not only that a very small handful of people have committed unprofessional acts, but it is also a failure of management to properly train and supervise their employees, and also of regulators for not overseeing these matters and providing the proper forum for the industry to engage with these same regulators.

"The result has been messy and expensive, and costly to the global economy," he continued. "It has not only been the jobs lost, and the pressure of internal investigations, but these crisis points have also impacted liquidity, and hurt our customers."

Bailey argued that ACI FMA may have missed an opportunity before the financial crisis hit. "While the ACI FMA's membership remained focused on its individual accountabilities as members, and took codes of conduct seriously, it is clear that much of the rest of the market paid insufficient attention to this," he observed. "The damage to our industry from a lack of oversight has been enormous. The ACI FMA should have been in a position to help, but it wasn't. But now, in 2016, we are. We are ready, and we are getting better each month."

Noting that the impact of the ongoing regulatory scrutiny can lead to "value destruction" and create a "vicious downward spiral in financial stability", Bailey argued that further potential damage can be averted through industry-led initiatives, many of which are already underway.

"All of these initiatives directly impact the ACI FMA and its membership," Bailey pointed out. "Just as we have all been impacted by the challenges, we will all be impacted by our common industry-led, and regulatory-endorsed, recommendations for moving on.

"The industry will work together to bring solutions for what are often termed the grey areas, where our practices must be agreed," he added. "It will be a difficult target to hit, but we can get there if we work together. Indeed this is the spirit of the ACI FMA, set up so long ago, to facilitate the sharing of good practices, and maintaining good and transparent communication."

Bailey observed that ACI FMA's work will help build the resources to equip the Association for the future, and to impact the industry in members' communities.

"The Management Board is leading the effort to articulate our core global strengths, and to position the ACI FMA for new growth," he said. "We aim to provide value for members, through our education and membership opportunities, and to bring the ELAC Portal on codes of conduct to the industry.

"It is clear that there is a need for ACI FMA to play its role in the wholesale financial markets community."

The foundations of ACI FMA's rejuvenation illustrate what, as Bailey put it, "ACI does best – ethical conduct, education, and our ability to help with the certification of professional standards throughout the world."

Pointing out that ACI FMA has long been the origin of much good work on ethical conduct via The Model Code, and for networking amongst individuals, and for education in FICC-based financial markets, through its examinations, he explained the three core focuses of ACI FMA's work.

"We are repositioning the organisation internally to be more effective in advancing our mission around conduct

Marshall Bailey

and education," he said. "Three strategic functions will now drive ACI FMA. The ELAC Portal will be central to our work, bringing much needed revenue to the Association as well as a centrally themed product of incredible value to our industry.

"While the investment in ELAC is only one year old, we have substantially recovered the amount, and many are showing strong interest," he continued. "If we get this right, we will have made an immense and irreversible contribution to our industry, and to ACI FMA for future generations.

"For the ACI FMA to have such a themed purpose is natural, given our long held views of the value of ethical conduct and our Model Code," he added. "Under the new leadership of Christian Buschmann, our second theme of education is getting stronger."

Bailey told members that the Board of Education has worked hard to reposition and grow ACI FMA's capacity, and the future, with the deployment of new technologies within ACI FMA's education suite, "will bring the education platform up to the highest standards".

"We have focussed our efforts, cut unnecessary expenses, and are forging agreements with governing bodies that will broaden our distribution and value. All of this leads to member certification via our network, which responds to the requirements of our regulators and the needs of our members. To be a member of ACI FMA has value, and we must guard that value."

Bailey also stressed the importance of continued investment in technology improvements. "To serve members better, we are investing in a core digital transformation project as part of the ELAC Portal that will modernise our IT infrastructure and improve our technology capabilities," he explained. "We will also

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improve the technology that serves our National Associations via our central website.

"We simply need to do a better job at relationship management with institutions that will allow us to be more effective in managing our relationships worldwide," he stressed.

The third key area of focus involves professional activities for ACI FMA members. "Our Board of Education has new-found commitment to excellence, and is working closely with [President of the African region] Brigid Taylor and others to deliver a result that we can all endorse," Bailey explained. "Among their initiatives will be the provision of Continuous Professional Development, or CPD credits, for work associated with the ACI FMA, either through education or attendance at our events.

"This allows us to respond to the growing market need for professional accreditations," he added, noting that it also allowed ACI FMA to demonstrate the value it provides its members.

"With our long legacy, we have the duty to work together to bring the Association to the highest possible standard," Bailey concluded. "To do this, we need to define ourselves in a manner that provides preferential value to our members, and provides service to the industry. This is our chance, to deliver our future to the next generation."

Images from Jakarta

The recent 55th ACI World Congress took place in Jakarta, hosted superbly by ACI Indonesia. Delegates were treated to a series of informed panel discussions within which senior and respected global and regional figures shared their insights on the challenges and opportunities facing the global economy and financial markets.

With more than 900 attendees, the conference aptly reflected the theme of the Congress, "Value in Diversity". A packed exhibition area showcased the latest and best in technology enhancements to help ACI members with their daily tasks – and an equally packed networking programme meant the Congress can sit proudly with its predecessors in delivering a memorable event for members.

The 55th ACI World Congress was well supported by local and Asian governments, who showed their strong support for ACI FMA's role in the global financial markets. The Indonesian government also demonstrated its support for internationally significant reforms to the economy and financial system. As a show of this support, the Indonesian Government was represented at the event, here, His Excellency, H. Muhammad Jusuf Kalla, Vice President of Indonesia, enters the Congress Hall.

ACI FMA's Management Board gather for the ACI General Assembly and to report on the significant progress made during the Council meeting that immediately preceded the World Congress.

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On the sidelines of the World Congress, ACI regional groups held meetings, here is the Middle East group preparing to discuss matters of importance to the region and ACI Middle East's membership.

EDDIE TAN

Below: President of the African Region Brigid Taylor speaking with Christine Habel, Chair of the ACI Regulatory Working Group and Patricia Casal, Head of the ACI FMA Secretariat in Paris, in one of several interesting discussions on the sidelines of the Council meeting and Congress.

Above: While in Jakarta, ACI FMA signed a Memorandum of Understanding with local organisation LSPP, the Banking Professional Certification Agency. This cooperation for the dissemination of high-quality education spanned a number of professional fields, from the ACI Dealing and Operation Managers Certificate, through the Diploma and the ELAC Portal, supporting ethical conduct in the financial markets, to the ACI Model Code and the local "Brown Book" as well as the forthcoming BIS Single FX Code of Conduct. By signing the MoU, LSPP is confirming its intent to cooperate with the professional ACI FMA suite of educational opportunities to benefit the many thousands of Indonesian market professionals.

Left: As always the Congress ended with a spectacular Gala Dinner which enabled delegates to mull over and discuss the themes of the previous four days, as well as the future of ACI FMA.
The Gala Dinner was highlighted **(above)**, as is traditional, by the ACI Flag Ceremony in which ACI Indonesia passes the flag to the next host, ACI Ireland, who in turn invites delegates to assemble in 12 months time in Dublin.

A Closer Look at ELAC

ACI's e-Learning and Certification portal (ELAC) was launched one year ago and has been adopted by several banks, with more interesting in learning about its benefits. How does ELAC work though, and what are the opportunities for potential deployers of the portal? *ACI Briefing* takes a closer look.

As the unfair dismissal tribunals against multiple banks continue in London, with more to come, conduct risk has rarely, if ever, been higher on the agenda. The tribunals, which have thus far all resulted in wins for the traders claiming unfair dismissal, have highlighted the level of uncertainty – at least prior to 2013 – over certain practices and whether or not they were condoned by the respective institutions.

ELAC is able to provide a testing and reporting infrastructure to help build an understanding of conducts risks, in turn helping the institution arrange the appropriate training for its staff.

By having an individual focus, ELAC is able to apportion accountability for the identification, mitigation and adherence to the risks identified at an individual level. This helps build an understanding of how to identify conduct risk in the organisation, and identify who is responsible for managing the conduct risk.

A big problem raised by the unfair dismissal tribunals is a lack of clarity over what is and what is not allowed, and how issues can be escalated – ELAC can help solve that problem.

Within ELAC is a management information system that can quantify the support mechanisms an institution has in place; establish targets for individuals and business segments across the business; report the number of individuals that are meeting their individual obligations to be aware of the latest conduct and market practices in their area of expertise; and to quantify the number of contributions individuals in the organisation make, for example, appropriate escalations.

This data can help establish a leadership framework within the organisation and help evaluate reward packages by defining incentives and identifying role models at all levels who could be awarded accordingly based on values defined by the individual institution.

This will help to motivate individuals who don't meet the required standard to improve whilst monitoring their progress, and also demonstrate the institution's willingness to place a higher value on good conduct.

A real strength of ELAC is its flexibility in that it can be tailored to an individual institution's requirements.

This can help when local market regulatory nuances need to be taken into account, because it effectively provides an independently-monitored testing and certification framework for any individual institution – one that takes into account global codes of conduct as well as the institution's own compliance and regulatory regime.

This is done by the structure of the institution concerned being established on ELAC – this can be done at institution or business line level.

Once the structure is established a manager is appointed for each business line or silo, and, if the institution desires confidentiality of results, it can assign codes to individual staff or business lines to maintain anonymity.

Within each business line individual accounts are activated and the relevant manager can define their industry sector and individual role on which they want to certificate their staff, for example in foreign exchange, fixed income, sales, or trading.

ELAC then provides self-assessment questions and market practice cases for the individuals to study and be certified upon.

To support the individual, ELAC provides all subscribed individuals in the organisation continuous access to relevant, codes of conduct chapters, self-assessment questions, market practice cases and opportunities to contribute as well an obligation to complete a number of self-assessment questions and market practices cases per period. The relevant period can be established by the institution.

ELAC defines a Personal Accreditation Rating (PAR), which quantifies a minimum number of market practices and self-assessment questions each individual in the institution should complete in a set time frame.

After the initial certification, this can be set by the institution to maintain their staffs' PAR rating.

The portal can also allow for other contributions to training such as accredited Continuous Professional Development (CPD) points, where a jurisdiction supports the practice, to be calculated as part of a PAR rating.

The reporting function of ELAC allows an institution to compare performance across departments and business lines, thus making it easier to identify areas of risk – it can also help highlight areas where more clarity around conduct is required. By reporting this, ELAC ensures it is everyone's obligation, including senior management, to act upon risks raised by the process.

For those institutions that require it, ELAC can also provide benchmark reporting on how each individual or groups within the institution perform against peers in the industry. This can be by sector, role or based on other demographics or geographical information to help the organisation identify areas where it could, perhaps should, raise standards.

As more customers question the practices of their service providers, there is a growing demand on the part of those providers to have an independently monitored and benchmarked standard for conduct risk. Whilst a level of trust does still exist between banks and their customers there is little doubt it is one area that could do with being bolstered.

Transparency of action is becoming one of the more widely used phrases in financial markets and part of that transparency is not only how an institution trains its staff, but also how it monitors their ongoing conduct.

If nothing else the trader tribunals in London have thrown light on some ambiguities around conduct rules and expectations. With ELAC, ACI has the tool to help institutions remove that ambiguity.

A big problem raised by the unfair dismissal tribunals is a lack of clarity over what is and what is not allowed, and how issues can be escalated – ELAC can help solve that problem.

Education Drives African Growth

In her report to ACI FMA members, the Association's President of the Africa region, Brigid Taylor, identified education as the primary driver of growth.

In 2012, the African region was responsible for 38% of ACI FMA examinations taken globally – in 2015 that number increased to 50%. In the period 2013-2015, Africa represented 43% of all exams taken.

The result of the higher focus on education and increased membership – ACI Africa, has doubled the number of National Associations under its umbrella from five to 10 since 2013 – means the region now contributes double what it previously did annually to ACI FMA. Since 2013, Botswana, Ghana, Tanzania, Uganda and Zimbabwe have joined ACI FMA, leading to a 95% increase in membership numbers, taken the region's total to 1244. In recognition of the Association's growth in the region, September 2015 saw the first ACI Africa Congress hosted by ACI South Africa in Cape Town.

The Value of Membership: A Look at ACI UK

Morgan McDonnell

"Integrity is doing the right thing, even when no-one is watching."
So stated ACI UK President Morgan McDonnell at the recent ACI UK AGM and Dealing Simulation Course.

McDonnell notes that at the same time as banks are reeling from the $10 billion fines levied on them by regulators over acknowledged manipulation, myriad and evolving regulation encroaches, increasingly, on hitherto unregulated markets. "This is all intended to improve market transparency and to impose more rigorous 'best practices' and behaviours on all market participants," he observes. "While we have historically (and successfully) resisted the need to be regulated like other financial markets, recent rigging and other market abuse activities have rather dented our long tradition of market integrity, historically defined as 'my word is my bond'," McDonnell adds. "Instead, we have major organisations stumping up huge fines while claiming ignorance of the behaviour of employees, and individual traders singled out for prosecution claiming to have acted with the full knowledge of their senior management.

"What neither party appears to have said, however, is "we knew it was wrong and shouldn't have done it". In other words, we're sorry we got caught, not for the act itself," he continues.

McDonnell is adamant the foreign exchange industry shouldn't need legislation to tell it, individually and collectively, how to conduct itself ethically and professionally. "As Guy Debelle and the Global Code Working Party have stated, a voluntary, principles-based Code (like the ACI Model Code) is always preferable to a prescriptive, rules-based one," he says. "As we strive to re-establish trust in our markets, standards of conduct must be set (and seen to be applied), education must be available to support adherence, controls must be in place to enforce behaviours and most important, we must be seen to be responsible and accountable for our actions."

Whilst McDonnell is generally optimistic over ACI's role in the industry, he does acknowledge some challenges. For example, by his own admission, ACI UK member numbers do not reflect the UK's predominant position in the global financial marketplace. "While overall membership numbers have remained consistent over the past three/four years, it is disappointing that they are not much higher," he acknowledges.

"One of the reasons given is that institutions that previously paid members' subscriptions (and at the same time encouraged across the board membership) are sensitive about potential conflict with new internal rules governing 'supplier' relationships and broader KYC/AML rules," he continues. "It may also be that they consider that their industry voice is met through institutional membership of other organisations. ACI is unique in that it represents the interests of individuals and not institutions.

"Given recent events and the actions taken by regulators against individuals (not institutions), ACI membership has never been more relevant," he adds. Whether or not your firm will pay a membership fee, the £100 annual subscription offers very good value to be part of a professional community committed to promulgating the highest standards of integrity and conduct, dedicated to educational qualification and accreditation and offering members an active calendar of business and social events in the UK (and other centres) throughout the year."

Events

Against the background of industry events, ACI UK remains committed to sustaining debate around critical issues facing its members (and other market participants) as well as to its efforts in the community.

"Supporting charitable causes is very important to ACI UK," says McDonnell. "Our primary recipient of funds raised is Variety Club – the Children's Charity and particularly its Sunshine Coach programme which provides transport to schools, hospitals and hospices working with disabled and disadvantaged children. "Over the past 20 years, the fund raising efforts of ACI UK (with help from the Forex Ireland Golf Society) and generosity of our members has funded 54 Coaches, helping 100s of children in the UK to enjoy a better quality of life," he adds. "Funds raised also support other Variety activities including its annual Big Top Children's Party in London for some 600 children.

"We also support Futures for Kids, established by individuals in the European futures industry to support children's charities globally," he adds, pointing out that to date, Futures for Kids has raised over £2,000,000 for its supported charities.

On a more relevant note regarding the

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financial markets, ACI UK recently hosted the latest of its tremendously popular Square Mile Debates. On May 4 in London it debated "Europe: Stay or Go?" looking, obviously, at the looming "Brexit" vote.
"We are also looking at a number of opportunities during 2016 for further Square Mile Debates and Leaders' Breakfasts, potentially covering (separately) the new Global Code of Conduct, benchmarks and blockchain," McDonnell says. "We are able to hold events of this calibre only with the generous support of banks, financial institutions, technology vendors and other industry participants."
A interesting initiative has also been launched by ACI UK in 2016, with its Young People's Group. As the name implies, this group seeks to leverage Dealing Simulation Course alumnae and Football Tournament team players – as well as ACI UK members' personal networks – to engage younger members of the financial markets community with ACI UK.
"ACI UK is working hard to interact with people and institutions at all levels of our industry," McDonnell says. "There are tremendous benefits to membership on top of our foundation education and conduct efforts. The Model Code, long-accepted as the benchmark for industry behaviour for FX and OTC markets, will be an integral component of the new Global Code. On the education side, ELAC, our e-learning and accreditation portal, helps organisations fulfil regulatory obligations to demonstrate adherence to internal policies and industry codes of conduct.
"ACI membership itself evidences high standards of integrity – a condition of membership is that members accept the principles and practice of the Model Code," he adds. "As C S Lewis said "integrity is doing the right thing, even when no-one is watching". We must work together to reclaim the ethical high ground and demonstrate to regulators, industry commentators and other financial market participants that integrity really is our watchword."

BIS e-FI Study Paints a Familiar Picture

A Bank for International Settlements paper studying the electronification of fixed income markets delivers policy challenges and conclusions that will be familiar to e-trading observers in other markets, including the suggestion that electronic trading and market making has changed the dynamics of the market and may be an "amplifier" in times of market stress.

The paper, which is published in the last BIS Quarterly Review, says that trends in e-fixed income, especially the advent of technology and new regulation that has enabled new trading participants to challenge the traditional major dealers, can have broad implications for the functioning of financial markets and the distribution of risks among their participants.
"Given the importance of fixed income markets for the funding of the real economy and financial stability more broadly, policymakers have a strong interest in assessing how electronification may be affecting market quality," the paper states. "By market quality, we mean the extent to which it is possible to transact at prices that accurately reflect the fundamental value of the asset, with immediacy, and in volume. The concept can be viewed as the amalgamation of price efficiency and market liquidity."
The paper draws on two recent reports by the Committee on the Global Financial System (CGFS) and the Markets Committee (MC), respectively, and includes an MC survey of electronic trading platforms.
The survey finds that dealer-to-dealer platforms account for the largest share of trading – roughly 45% in 2014 – whereas all-to-all and dealer-to-customer platforms account for around 30% and 25%, respectively.
The paper notes that fixed income electronification has been growing steadily over the past five years, and automated trading has become more prevalent. Average daily turnover on electronic platforms has been trending up for most types of instruments and across the different types of platforms.
In aggregate, average daily trading volume rose by about 40% from 2010 to 2014, it says, adding the number of transactions, a key indicator of trading activity, also rose.
Across all platforms, transactions went up by roughly one third. The evolution of average trade sizes has differed across market segments. It has fallen on platforms geared towards dealer-to-dealer trading and increased in the dealer-to-customer segment.
A major driver of the rise in electronic trading volumes has been a pickup in corporate bond trading, which has more than doubled over the past five years, although from a low base. "Possible reasons include the record issuance of corporate securities during much of the post-crisis low-yield environment and the growing popularity of this asset class among asset managers," the paper suggests. "Electronic trading via platforms, in turn, may have helped overcome some of the liquidity challenges that have confronted credit markets, e.g. by facilitating the matching of buyers and sellers and by reducing the reliance on individual dealers.
"By comparison, electronic trading in other instruments has been less buoyant. That of sovereign and quasi-government securities grew at a slower rate, about 20% between 2010 and 2014," it adds.
"And trading volumes for derivatives products have actually fallen, contracting by about one third. This is consistent with a decline in outstanding positions in OTC derivatives markets more broadly, as documented elsewhere.
The survey shows that electronic trading volumes grew most in the dealer-to-customer segment, where end users can put multiple dealers in competition for a trade. This is further corroborated by data that distinguish platforms according to the prevailing trading protocol, the authors note. Platforms relying on RFQ, as is commonly the case for multi-dealer platforms, have seen the largest rise in volumes over the past five years. A smaller increase took place on dealer-to-dealer platforms; but even here volumes still rose by about a quarter from 2010 to 2014. All-to-all platforms, however, contributed little to the rise in aggregate volumes.
This was also reflected in the sluggish growth of CLOB-based trading over the past years.
The survey confirms that on dealer-to-dealer platforms, about 90% of the trades were executed via a CLOB while the remainder relied on direct streaming of executable prices. Similarly, on all-to-all platforms the majority of the trades are also done via CLOB. By comparison, the dealer-to-customer market relies

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predominantly on RFQ, accounting for more than 95% of trades on MDPs.

Survey data also point to an increase in automated trading. The proportion of trades executed via algorithms went from about a third in 2010 to roughly 45% in 2014. The majority of surveyed platforms reported having application programming interface (API) connectivity, which is a prerequisite for automated trading. API connectivity is notably less prevalent on MDPs geared towards dealer-to-customer markets, but is a common feature of dealer-to-dealer platforms and all-to-all platforms.

Whilst noting that e-trading can support market quality through the enhancement of price efficiency, market liquidity and lower trading costs, the paper also observes a different question is how electronification affects the ability of markets to cope with stress.

“During such episodes, market conditions hinge on the capacity and willingness of intermediaries to stand ready as suppliers of immediacy and on traders’ ability (e.g. access to funding) to arbitrage across markets,” it states. “How electronic trading shapes the business models of market-makers and arbitrageurs as well as of fundamental traders is thus crucial to understanding market dynamics during strained conditions.”

In a tale familiar to many in equities and foreign exchange markets where the debate has been raging for more than a decade, the paper says it is “difficult to assess empirically how the market structure changes have affected market robustness”.

While noting that one reason is a lack of detailed data on trading activity prior to the advent of electronic trading, and that many factors can affect liquidity conditions, the authors do offer some tentative insights using evidence gleaned from quote driven and CLOB-based markets.

One insight is that transitory jumps in liquidity conditions occur in both markets. “This reflects the fact that electronic trading platforms can help pool liquidity, but that they cannot generate liquidity when markets face order imbalances,” the authors note.

A second observation is that liquidity conditions on the US Treasury market appear to be characterised by less volatile bid-ask spreads. “While spreads do jump, they have remained in a narrow range, closely tied to the minimum tick size,” the paper states. Adverse changes in liquidity conditions, however, occur through adjustments in quoted depth.

“It is difficult to judge, based on this comparison, which of the two market structures ensures more robustness,” the paper states. “While, on the one hand, CLOBs with significant HFT presence may support trading at tight spreads throughout strained market conditions, market depth could prove shallow and fleeting if investors seek to trade large quantities. Quote- driven markets, on the other hand, benefit from the capacity of dealers to warehouse assets over an extended period of time (in contrast to the typical HFT liquidity providers), which may help absorb temporary order imbalances. Dealers, however, will seek to mitigate risks to their balance sheets by widening spreads in situations of elevated market uncertainty, implicitly charging investors for the cost of these higher risk exposures.”

Whilst noting that dealers remain the most prominent price makers in fixed income markets, the paper also argues that falling dealer inventories – their willingness to risk warehouse – has seen execution risks passed onto customers.

Changes in how dealers and, to an increasing extent, non-dealers provide immediacy also have a number of implications for the behaviour of market liquidity during strained conditions. “One concern is that abrupt but short-lived price swings (“flash crashes”) may become more frequent in highly automated fixed income markets,” the paper says. “The activity of professional trading firms and the role of automated trading during specific episodes of outsize volatility and extreme intraday movements such as the flash rally in the US Treasury market on 15 October 2014 are a case in point.

“While it has proved difficult to identify specific trigger events, a key finding of JSR (Joint Staff report) is that trading algorithms may have contributed to extreme price swings on that day,” the paper continues. “PTFs and bank dealers both managed the risk of volatility by reducing liquidity to the market, with market depth (as measured by outstanding orders in the CLOB) declining to very low levels right before the period of extreme volatility.

“Notably, PTFs were the largest contributors to this decline in depth, but maintained narrow bid-ask spreads throughout the event,” the paper continues. “Bank dealers, by comparison, responded by widening their bid-ask spreads.”

The authors go on to state, “This event, among others, illustrates that the increasing complexity of trading algorithms and their possible interactions represent a source of risk that can act as an amplifier in stress episodes. For one, large price movements or price gapping during stressed periods can prove difficult to incorporate in trading algorithms. Liquidity providers’ risk monitoring thus often includes measures to interrupt quoting (“panic buttons”). Yet, while suspending liquidity provision may appear rational from an individual market participant’s point of view, it raises the risks for the remaining liquidity providers.

“Overall, these developments imply that electronic trading may have changed the dynamics – particularly the speed and visibility – of market responses to imbalances in demand and supply,” it adds. “It is, however, important to note that the basic underlying economic mechanism of how illiquidity risks unfold appears to have remained largely unchanged.

“Indeed, irrespective of the underlying market microstructure, market conditions remain susceptible to a sudden evaporation of liquidity,” it continues. “These are situations in which both human traders as well as PTFs as the “new market-makers” have always been reluctant to step in as shock absorbers.

The paper concludes there are several areas that may warrant further policy attention.

“First, the impact of electronic trading needs to be appropriately monitored, it states, adding that standard liquidity metrics need to be supplemented by alternative measures to reflect the changes in liquidity provision,” the authors argue. “Second, more research is needed to inform policymakers about the impact of automated trading on market quality and how to address any associated market failures.

“Third, with trading activity increasingly gravitating towards platforms, ensuring their robustness as well as their capacity to deal with market stress becomes a key financial stability issue,” they add. “With dealers closing down traditional trading desks, while their e-trading desk algorithms connect to an expanding set of multilateral platforms, the fallback option of returning to voice trading may no longer be viable.

“Finally, regulation and best practice guidelines need to adapt as markets evolve. This could include assessing the scope and capacity of existing supervision as well as the effectiveness of existing mechanisms to deal with market stress episodes.”

Should Financial Regulators Work with Academics?

A recent research paper claims that the tools currently used by regulators to identify risks in the banking system are "not fit for purpose". It further calls for a new and combined approach between regulators and academics.

The paper, *Does Danger Still Lurk in the Banking System* looks at the tools used by regulators to identify weaknesses within the banking system. It highlights some of the gaps and flaws in current regulatory instruments such as an incorrect formula for identifying systemically important financial institutions (SIFIs).

The SIFI scoring methodology was originally developed by the Basel Committee on Banking Supervision and is currently standard practice, but the authors, Professor Jean-Edouard Colliard and Professor Christophe Pérignon, argue it should be corrected through academic and regulator collaboration.

Pérignon explains: "On the one hand, regulators have access to a wealth of confidential data, but we show their tools to identify risks are relatively simple. On the other hand, academics have developed much more sophisticated tools and measures using the limited market and public data they have available. It's time to bring these two sets together through research collaboration."

According to Pérignon, new regulations still try to control specific sources of risk as well as measure the risk of individual banks. He believes there is a gap between regulatory tools and academic theory, which looks at systemic risks across the industry. Since the financial crisis in 2008, regulators have employed a range of tools and metrics to identify risks but, according to Pérignon, many of the tools used appear to be done so in an ad hoc fashion.

Pérignon accepts that trade data confidentiality and security issues are extremely important but points out that academics have been using confidential data such as personal health data for quite some time now. "The data are typically stored by a government agency and academic researchers can only run their computer code on encrypted data," he explains. "Another layer of confidentiality would be to impose a lag on the data the researchers can access. Once the soundness of a measure has been validated using historical data, it can then be implemented in real time by banking supervisors."

Moreover Pérignon is convinced the number one priority for regulators and academics is to design sound empirical measures of the systemic risk contributions of individual banks.

"The current scoring methodology used by the Financial Stability Board to identify Systemically Important Financial Institutions relies on non-public information using an extremely simple aggregation scheme," he says.

"Differently, academics have developed advanced methodologies based on the few public, mainly market-based, data they can access. Examples include of such data include stock prices or CDS spreads, which are only available for publicly-traded banks. Joining forces on this issue could clearly lead to a more efficient regulatory framework."

Buy Side Voices Concerns Over Impact of Regulation on FX

US regulations have failed to improve the FX market in the short-term, according to the buy side representative at a discussion hosted by the Commodity Futures Trading Commission (CFTC).

Angela Patel, trading operations manager at Putnam Investments, was the key speaker asked to explain the impact of CFTC regulations on the FX market at the Market Risk Advisory Committee (MRAC) meeting in Washington.

In her address to the committee Patel warned that the regulatory goal of increasing transparency and safety while not compromising liquidity is not being met in the FX market.

She opened by pointing out that although the US Treasury has exempted deliverable currency forwards from Dodd-Frank requirements, non-deliverable forwards (NDFs) are subject to them.

"This created an unnecessary regulatory distinction between two practically indistinguishable portfolio risk management tools," Patel argued.

Although NDFs require net settlement of the contract while deliverable forwards settle both legs of the swap, Patel claimed that in practice many market participants often just offset exposure for value date by broker currency pair to make one net wire movement.

"So while the technical distinction exists, it is not a practical one as both types of forwards behave the same from a settlement perspective for a large percentage of market participants," she added.

Patel said that a further complication for asset managers was that numerous trading facilities were forced to register as SEFs under the Dodd-Frank regulations, requiring buy side firms to sign up with these SEFs if they want to continue executing NDFs electronically on their platform.

However, the SEF rulebooks were so problematic for many asset managers to agree to that many firms chose to move their NDF trading to voice desks, according to Patel.

Additionally, she claimed that the NDF market wasn't ready for electronic SEF trading and that in some cases orders were sent electronically, only to then be picked up by a person who then walked to another part of the desk, manually priced the product and then walked back and manually re-entered the trade.

"While not broken to the point of dysfunction, a once liquid and robust part of the derivatives market uses a less efficient execution method for one of the most volume orientated trading instruments," said Patel.

Although she conceded that these regulations were designed to make the financial system safer, and may do so in the long-term, Patel cautioned against future regulatory changes that don't provide an immediate safety benefit.

"This is like trying to repair the car while it is travelling on the road," she said.

Indeed, Patel argued in her address that the currency markets need less, not more, attention from the regulators.

"To be very clear, we are in favour of ensuring appropriate regulation and risk mitigation for financial markets. The impact of regulation on the market system is ideally meant to increase transparency and safety while not compromising liquidity. In the short-run, that ideal is not being met in the FX market," Patel concluded.