

# Annual Report

2019/20



FCA

Markets  
Practitioner Panel



# Chair's foreword

Nikhil Rathi was the Chair of the Panel during the period covered by this report. However, due to his stepping down from the Panel on 30 June 2020 (following the announcement of his appointment as the Chief Executive of the FCA) and the timing of the report's publication, I am pleased to introduce the report, my first since becoming interim Chair of the Panel on 1 August 2020.

The FCA has a broad range of issues which sit within its regulatory remit and the decisions it takes on regulatory policy and practice have significant effects on financial markets. While the Panel has an interest across the broad spectrum of the FCA's work, in order to be of greatest value the Panel has to prioritise and focus on areas where its input can be of most use to the FCA.

In 2019-20, the Panel's work has been strongly focused on the implications of Brexit, and this will continue to be the case until the nature of the UK's long-term relationship with the European Union is clear. More recently, the impact of the Covid-19 pandemic has brought major challenges and has also had the effect of amplifying existing risks across the market. These and other major discussions are summarised in this report.

In February 2020, the Panel held its annual prioritisation exercise and revised its priorities to focus on the following areas of work in 2020-21, and has since added an additional priority in relation to Covid-19:

- Recovery from the Covid-19 pandemic
- The UK's regulatory framework post Brexit
- FCA transformation and the "Future of Regulation"

- LIBOR transition
- Sustainable finance
- Investment and private markets

The Panel also established the themes: "implications of major macroeconomic and geopolitical factors"; "international best practice framework"; and "targeted, proportionate, and effective regulation" through which it will consider new regulations, policy decisions and the FCA's approach.

I am pleased to note that the Panel has broadened and diversified its membership, with increased representation from the investor community. This will help to ensure that the Panel continues to provide a range of perspectives from across the market as well as effective support and constructive challenge to the FCA on issues affecting the wholesale sector.

The Panel's relationship with the FCA Board and Executive Committee continues to be strong and professional, and it looks forward to its regular engagement with the FCA Chairman, CEO and other Board and ExCo Members continuing in 2020-21.

I would like to thank all the FCA staff who have presented openly and thoughtfully to the Panel, the Secretariat who have supported the Panel over the last year, as well as Panel members for giving their time and sharing their expertise so freely. It is that experience and the open and constructive way in which it is shared that enables the Panel to be efficient and productive and to support the FCA in ensuring that relevant markets work well.

**Tim Waddell**  
Interim Chair, FCA Markets  
Practitioner Panel

# 1

## Introduction

The Markets Practitioner Panel is a statutory panel of the FCA. It is one of a number of panels that the FCA is required to establish and maintain under the Financial Services and Markets Act 2000 (as amended), and represents the interests of practitioners who are likely to be affected by the exercise of the FCA's functions relating to financial markets. The Panel meets formally six times each year and also holds sub-group meetings on specific topics as required, as well as other strategy meetings. During the Covid-19 pandemic, the Panel has held more frequent calls to take stock of market developments.

The Panel benefits from some of its members belonging to other panels. This broadens its understanding and encourages a closer working relationship across the panels. It has a constructive working relationship with the FCA Chairman and CEO. A number of FCA Executive Committee members attend Panel meetings regularly, and senior representatives from the FCA's Markets and Wholesale Policy team engage very closely and constructively with the Panel.

# 2

## The Covid-19 pandemic

The advent of the Covid-19 pandemic in Q1 2020 severely impacted the global economy and global markets. At the time of writing, the full depth of the impact and its longer-term implications remain highly uncertain. The pandemic has been a catalyst for structural changes in market valuations and practices; however, markets have generally continued to function well in the face of extremely high levels of volatility and volumes.

The Panel has continued to operate during the crisis, holding additional meetings on an informal basis given the quickly evolving nature of the situation, and has regularly engaged with the FCA to raise live and emerging issues. This has ranged from regulatory issues to more practical matters that affect the functioning of markets. For example, the Panel encouraged the FCA to show appropriate flexibility around the classification of “essential workers” in order to help firms to be able to respond swiftly to rapid market and liquidity issues and so better support their customers and the wider economy.

The Panel has commended the FCA for recognising the important role markets play and keeping markets open during this pandemic, and for its timely and proactive response to market issues, such as its statements on short selling and action to support capital raising. The Panel was impressed by the FCA’s high level of engagement and communication with a wide range of market participants, and by the close coordination with ESMA and other EU and international counterparts which it hopes will continue beyond the immediate crisis.

The Panel looks forward to further engagement with the FCA on the logistical steps involved as the lockdown eases. During this period, the Panel’s advice will focus on how to ensure market stability, and on the longer-term impact of the crisis on firms, liquidity, markets, working practices and the FCA’s own organisation and priorities.

# 3

The UK's exit from the European Union (Brexit) and future regulatory framework



Brexit and the nature of the UK's future relationship with the EU continued to be a major focus for the Panel due to the risks and uncertainties it poses for financial markets. This topic will remain a priority until the terms of the UK's future relationship with the EU become clearer, and as such this topic is a standing agenda item at Panel meetings.

The Panel discussed how firms and regulators were managing the business, regulatory and political uncertainty associated with Brexit. It welcomed the FCA's plan to exercise a period of forbearance and judgment in its supervision and enforcement approach. This was especially relevant where firms were taking reasonable steps to comply with rules. The Panel noted that a pragmatic approach by the FCA would help firms adapt as the regimes became clearer and would reduce the risk of ongoing volatility or disruption in the markets.

The Panel also discussed the UK's future regulatory framework post-Brexit. The Panel considered that the most effective solution would be for the UK's regulatory framework post-Brexit to maintain high standards, taking into account the specificities of the UK market, including its size and international nature. Such an approach should lead to a situation where the UK is "equivalent" in terms of outcomes, even if the detailed rules are not identical. It encouraged the FCA to impress on the government the importance of this and of developing contingency plans, which would allow the UK to continue to have well-functioning markets, based on high global standards, in the event that the EU would not find the UK regulatory framework "equivalent". The Panel advised that, regardless of the outcome on "equivalence", the FCA's relationships with its counterparts in Europe and globally would become even more important, and was pleased to hear that such relationships continue to be strong and remain a priority for the FCA.

# 4

## FCA transformation and the “Future of Regulation” initiative

The Panel has actively engaged in this important initiative during the year, including through participation in several cross-panel subgroup meetings on specific aspects.

The Panel noted that public and political expectations of the regulator had increased in the last few years. It viewed this initiative as an opportunity for the FCA to establish a set of reasonable principles and expectations by which it conducted its business, and to transform itself into a more cohesive, efficient, and technology-driven regulator to meet the challenges of the future.

The Panel supported the initiative's proposed direction of travel towards a more pragmatic, agile and cost-effective regulatory regime based on principles, judgment and outcomes, whilst still maintaining the highest international standards. In order for such a shift to be effective, the Panel encouraged the FCA to reflect on its regulatory perimeter and on the different nature of the retail and wholesale sectors; to advance in its own use of technology and digital tools; to communicate openly and regularly with the market as this would help build mutual trust and confidence and the market's understanding about its approach and expectations; and to ensure that its supervisors had the capability and skills to engage effectively with firms.

The Panel looks forward to engaging further on this initiative.

# 5

## LIBOR transition

This has continued to be one of the Panel's strategic priorities given the potentially significant impact that the transition to new reference rates could have on markets and their users.

The Panel highlighted the considerable challenges involved in achieving a successful transition by the end of 2021 given the significant use of LIBOR globally, in contracts totalling several trillion dollars. The Panel noted that elements of the process for converting legacy contracts from LIBOR to new reference rates remained unclear and raised the risk of significant transfers of wealth between market participants, market manipulation, and litigation. The Panel also emphasised the additional risks to market and economic stability if there was insufficient liquidity and continuity in the new reference rates by the end of the transition period. This would be further exacerbated if new reference rates did not reflect credit risk, given the potential systemic risks of adopting risk-free rates for banks.

The Panel discussed with the FCA the implications of signalling a complete cessation of LIBOR, the legal risks involved alongside the potential benefits of providing clarity to the market and incentivising the transition to new reference rates. The Panel encouraged the FCA to continue to engage closely with its US and other counterparts to ensure that a consistent international approach is taken in at least the main jurisdictions.

# 6

## Sustainable finance

The Panel intensified its discussions of this fast-growing sector, a key priority for the Panel and industry as a whole.

The Panel supported the FCA's efforts to develop a fuller and more accurate disclosure and transparency regime, based on a "comply or explain" approach, for "green" assets and funds. This would enable investors to make better judgements and decisions, and thereby reduce the risks of investor detriment or to market integrity, and to address the risks of "greenwashing". The Panel, however, expressed its concern that the biggest challenge to "complying" was the lack of consistent and comparable green data, and encouraged the FCA to time any new regulation in a way that ensured the industry had built up sufficient capability to be able to comply in a meaningful way.

The Panel also encouraged the FCA to help bring together relevant market participants and influential bodies and organisations from across the many green and climate-related initiatives to create common international standards and approaches and to develop innovative technological solutions to support the sector's overall growth.

# 7

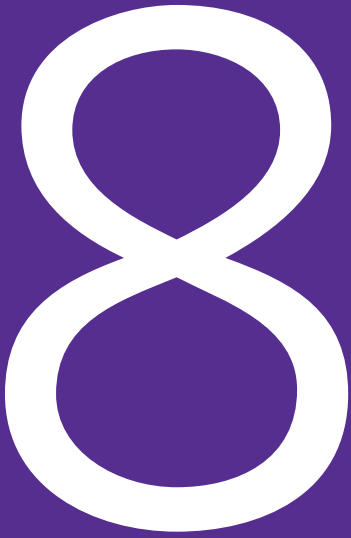
## Investing in illiquid and less liquid assets



The Panel discussed the impact of the suspension and ultimate collapse of the LF Woodford Equity Income Fund on the wider market for funds that invested in illiquid or less liquid assets.

The Panel agreed that the FCA would need to take significant regulatory steps in light of these events. The Panel looked forward to working with the FCA so that any changes do not inadvertently lead to barriers to investment in longer term, or “patient”, capital, especially at the small- and mid-cap end of the market, as these firms were an important part of a healthy economy, even more so as part of the recovery from the Covid-19 pandemic.

The Panel encouraged the FCA to promote greater transparency, within the existing disclosure framework, to help investors and the wider market better understand such funds’ “gating” mechanisms and potential liquidity and other risks associated with these funds, to help inform their decisions. Whilst the Panel considered that this should not be prescriptive or seek to disrupt investment in illiquid funds, it was of the opinion that there were elements of the governance structure that could be improved with the onus on the industry to implement stress testing and communicate effectively with clients, with the FCA’s role to provide guidance on good practice and to monitor this through its supervision work.



# FCA Strategic Initiatives

The Panel has also advised the FCA on strategic initiatives such as its Business Plan, cyber and information resilience strategy, review of the Credit Default Swap and UK corporate bond markets, and its regulatory reporting and data strategy, amongst others.

The Panel welcomed the FCA's collaborative approach to help develop its thinking and encouraged it to ensure that its business planning was sufficiently flexible to accommodate Brexit and Covid-related pressures. The Panel stressed that the FCA should always consider whether UK regulation is targeted and proportionate, encouraging a judgement-based and outcome-focused approach. It believes that the UK and the firms operating in its financial markets benefit enormously from being seen to be well-regulated and being overseen by a world-leading regulatory authority, and that this will be a key component of supporting the success of the UK as a leading and international financial centre in the years ahead.

# Members of FCA Markets Practitioner Panel

(1 April 2019 – 31 March 2020)

**Nikhil Rathi – Chairman**

since 1 July 2019

CEO, London Stock Exchange plc

**John Trundle – Chairman**

until 30 June 2019

CEO, Euroclear UK & Ireland

**Philippe Le Barrois d’Orgeval**

(since 1 June 2019)

Head of AXA Investment Management UK

**Marisa Drew**

CEO, Impact Advisory and Finance Department, Credit Suisse

**Suvro Dutta**

Partner, Financial Services, KPMG LLP

**Duncan Ford**

Chief Operating Officer, Marshall Wace LLP

**Richard Haas (since 1 February 2020)**

CEO, Capeview Capital LLP

**Rachel Lord (since 1 July 2019)**

Senior Managing Director and Head of EMEA, Blackrock

**Dermot McDonogh**

EMEA COO and CFO, Goldman Sachs International

**Hannah Meakin (since 1 June 2019)**

Partner, Norton Rose Fulbright LLP

**Bernard Mensah**

President for EMEA and Co-Head of Global FICC Trading, Bank of America Merrill Lynch

**Abdallah Nauphal**

(until 30 April 2019)

CEO, Insight Investment Management

**Tim Throsby**

Former President of Barclays International and CEO Corporate and Investment Banking

**Alan Trotter (until 30 April 2019)**

CFO, Invesco Perpetual

**Tim Waddell**

Chair of the FCA’s Listing Authority Advisory Panel; Vice Chair, Global Corporate and Investment Banking EMEA, Bank of America; and member of the Takeover Panel’s Code Committee.

**Stuart Williams**

President, ICE Futures Europe, Intercontinental Exchange Inc.

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