



Speech by Economic Secretary on restoring trust in the financial system

Harriett Baldwin's keynote address at the 40th Annual Conference of the International Organization of Securities Commissions (IOSCO)

Good afternoon – and thank you, (Martin), for that kind introduction.

I'm delighted to be speaking at such a prestigious occasion – and I would like to welcome all delegates here to Westminster and London.

It's great to see so many financial regulators, and representatives of financial services firms, together here from all over the world.

I'd like to start by taking you back 51 years, to this day, a few miles down the River Thames.

When a ship came up the river from Japan and treated Londoners to a pretty special sight: the world's first floating trade fair, displaying 22,000 samples of Japanese goods.

Highlights included, and I quote: “A transistor radio set the size of two pennies”, “a portable television set so small it can be held between the thumb and forefinger of one hand”, and “a public telephone which can transmit pictures of the person you are talking to through a small screen in the phone booth”.

That would have been the stuff of science fiction in 1964! And from a country which, only nineteen years previously, had seen most of its industry and infrastructure destroyed. It was really impressive.

The UK reciprocated one year later, with an exhibition in Tokyo visited by ¾ of a million people. In 1971, the first Japanese firm opened a factory in Britain. Since then, reciprocal trade and investment has led to greater prosperity, and a greater standard of living, for both countries.

“Global cooperation” is the keyword here. Our markets – both in manufacturing and in services – are more interconnected than ever before.

The countries that choose to be open with the rest of the world are the ones that prosper the most.

The International Organisation of Securities Commissions (IOSCO) has done fantastic work to progress global cooperation.

For 40 years, you have promoted higher standards in financial markets worldwide.

You have quite literally helped markets function better.

That has had a day to day impact on countries' prosperity – which means people's lives.

On your 40th anniversary, that is something you can be proud of – and I know how pleased the Financial Conduct Authority (FCA), and the City of London, is to be hosting this event.

UK's place in the world

The UK has a proud and historic position as a world-leading financial services centre – a real international market place.

Over 2 million people are employed in the financial services sector and related professional services, and it represents 12.6% of UK economic output.

And this sector generates a significant trade surplus to the UK economy, estimated to be over £40 billion in 2013.

We host a greater presence of foreign banks than any other advanced economy.

We are the leading trading centre for key markets, including energy, gold, silver and other precious metals.

We are home to 40% of foreign exchange trading; 70% of trading in international bonds; and nearly 50% of trading in Over the Counter interest rate derivatives. Not to mention the presence of major derivatives exchanges, accounting for around a sixth of total commodities trading.

Vision for the sector

You can probably tell that I am hugely proud of UK financial services. The diversity of players here, as well as our tradition of openness and innovation, has enabled the global financial system to prosper and brought wealth to the UK.

This government doesn't just want to see this continue: our ambition is for it to go from strength to strength.

As Minister with responsibility for the sector, I have a clear vision for UK financial services and what we should be striving towards. I find it helpful to look at it in terms of four objectives.

I'd like to share those with you – because I think we have very similar goals.

First of all, the UK financial services sector should remain strong and stable, playing a leading role in securing our economic recovery.

Secondly, it should continue to be internationally competitive - maintaining our position as one of the best places in the world to do business.

Thirdly, it should deliver for the customer, and help people achieve their aspirations, at every stage of their lives.

Last and by no means least, it needs to be trusted, so that we can all move on from the mistakes of the past and see restored confidence in the sector.

Trust and integrity

Of course, these four objectives go hand in hand. But today, I'd particularly like to focus on the issue of trust and integrity.

Without being trusted, our securities markets won't function effectively. Participants in these markets demand real confidence in their integrity.

These markets are global. So we need strong regulatory standards applied internationally – that phrase “global cooperation” again.

Following the global financial crash, a lot of rebuilding has already been done. A lot more is still underway.

And I would like to thank all of the authorities present today for the collaborative way they have worked across international boundaries, to set these standards right.

But the scandals of recent months have made it painfully clear that there is still more work to be done in this area before we regain public trust.

That is something we should all be focusing our attention on.

Fair and Effective Markets Review

Last June, the Chancellor announced the Fair and Effective Markets Review – a comprehensive review of the way the wholesale Fixed Income, Currency and Commodity markets (FICC) operate.

These markets are important for any functioning economy.

They help determine the costs of borrowing for businesses.

They set a country's exchange rate.

They help determine the costs of food and raw materials for the average household.

So it's vital that they work fairly, that they deliver for the customers that they serve, and that market players act in the interest of everybody.

Our objective was simple. What should we be doing better in order to rebuild trust?

And last week, we published the conclusions of the Review.

We drew on experts from the FCA, the Bank of England and HM Treasury. And we also engaged closely with international bodies, to strike the right balance between what can be done by authorities here in the UK, and what needs to be done internationally.

I'd like to take this opportunity to thank Martin Wheatley for co-chairing this excellent piece of work; and his co-chairs Minouche Shafik, the Deputy Governor of the Bank of England and Charles Roxburgh, the Director General of Financial Services in HM Treasury.

The Review has set far-reaching recommendations for individuals, industry and authorities to take forward. These include:

- raising standards of professionalism and accountability
- strengthening regulation in FICC markets, including in spot Foreign exchange markets
- creating a new FICC market standards board, to improve market-wide understanding of FICC trading practices

I particularly welcome the recommendation that international action should be taken to raise standards across global FICC markets.

It is clear that securing global consensus will be key – so that we can make sure multilateral standards are set, and that any regulatory arbitrage is avoided.

I therefore welcome IOSCO's agreement to consider what work might be done to improve conduct standards at a global level.

This approach is exactly in line with the approach outlined by the Financial Stability Board, and the recent Bank of International Settlements announcement to deliver a single global FX code.

I am confident that once implemented, these reforms will leave a lasting impression on the conduct and standards of wholesale fixed income, commodities and currency markets.

FICC Market Standards Board

I'd like to say a few words in particular about the FICC market standards board.

I've been delighted by how quick industry has been in coming together to set up this board – and by the broad cross-section of global and domestic firms in a variety of markets that have already signed up.

We have a good opportunity to really get things right here – to set the right tone and to make a fundamental cultural change.

In particular, we could make a substantive difference in improving the quality of market-wide trading practices, and in getting guidelines set in a language everybody can understand.

What I would add is that these markets evolve at a very fast pace – which carries risks as well as opportunities.

It is crucially important that innovation should contribute towards productive growth, and the risks from such innovation need to be quickly identified. And I see market practitioners as having an especially key role to play here.

Benchmarks

As well as implementing the outcomes of FEMR, I know that benchmarks will continue to be an important policy area over the coming years.

A major part of IOSCO's work over the last couple of years has been around developing standards for the governance of financial benchmarks such as LIBOR.

These benchmarks are at the heart of financial markets, so ensuring their integrity is of the utmost importance to the UK.

We strongly believe in raising standards for financial benchmarks, and that efforts to do so, such as the ongoing negotiation towards an EU Benchmarks Regulation, should align as closely as possible with the internationally agreed IOSCO standards.

I look forward to continuing to work closely with you on this important issue.

Restoring trust in the financial system is about getting the right structures as well as the right behaviour in place.

That is often technical, difficult work.

It requires important action by individuals, firms, regulators and governments.

The very nature of the work means that the results are perhaps not immediately "sellable" to a mass audience.

That should not deter us from working together to build on our existing achievements - and get the best system we can.

If we get it right, then we can achieve something pretty impressive.

Greater trust in the financial sector makes it stronger and more successful, and helps it deliver what the customer needs.

In turn, that is a major boost to financial stability – both nationally and globally.

And when the sector is seen to be playing a positive global role, then it is trusted all the more.

Working together – in the spirit of global cooperation – I believe we can achieve all this. And I look forward to a close and productive relationship as we move towards that bright future.

Thank you for listening.