

P.R.I.M.E. Finance

Panel of Recognized International Market Experts in Finance

Global FX Code



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Disclaimer: The views that I express are my own and do not necessarily represent those of the Federal Reserve Bank of New York or the Federal Reserve System.

Origin of Global FX Code Work

- Global market, fragmented regulatory and best practices framework
 - Regulation: FX Markets subject to varying degrees of regulation across different jurisdictions, players, and products.
 - FX spot market, in particular, is lightly regulated
 - Best Practices Recommendations: Developed over many years, often via central bank-sponsored Foreign Exchange Committees (FXCs) such as the FRBNY-sponsored New York FXC.
 - Regional FXCs have worked together on an informal basis
 - Increased collaboration resulted in 2015 “Global Preamble” published across the 8 central bank-sponsored FXCs
 - Global Preamble established global best practices for personal conduct, confidentiality and market conduct, and execution practices



Central Bank Governors Ask for Global Code

Economic Consultative Committee statement on FX market best practices

11 May 2015

Press release

Agustín Carstens, Chairman of the Economic Consultative Committee (ECC) and the Global Economy Meeting (GEM), issued the following statement after the meetings of the ECC and the GEM in Basel on 10-11 May:

"The BIS Governors welcome current initiatives of the foreign exchange committees to strengthen code of conduct standards and principles in foreign exchange markets."

"The BIS Governors have agreed to set up a working group under the auspices of the Markets Committee¹ to take these issues forward with a view to facilitating the establishment of a single global code of conduct standards and principles, promoting greater adherence to these standards and principles, and providing input into the wider official effort on market conduct coordinated by the Financial Stability Board."



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Objectives

1. Streamline and Globalize Across Existing Best Practices

- Move from fragmented set of regional best practice codes to a single, global code that firms can utilize to manage their global FX business

2. Update Content

- Provide more detailed guidance on certain topics highlighted as “grey areas” (e.g., info sharing, market color, mark-up, execution, pre-hedging, last look)

3. Broaden Reach

- Engage beyond the central bank-sponsored FXCs and strengthen guidance relevant to firms other than traditional FX dealers

4. Provide Framework for Adherence

- Develop tools to help promote adherence to the Code’s voluntary best practices.



FX Code Effort

- Public Sector
 - Central banks via FX Working Group (FXWG)
 - Workstream 1: Development of Code Text (led by Simon Potter, FRBNY)
 - Workstream 2: Adherence Framework (led by Chris Salmon, Bank of England)
- Private Sector
 - Market Participants Group (MPG) advise and support development of the Code text
 - MPG provides insight and expertise, and serves as private sector coordinating mechanism across respective FXCs and regional counterparts



GFXC Established

- Global Foreign Exchange Committee (GFXC) established in May 2017
- Formal committee composed of public and private sector representatives from 16 regional FXCs
- GFXC's core objectives:
 - Promote, maintain and update the Code, and consider good practices regarding effective mechanisms to support adherence
 - Promote collaboration and communication among the local FXCs and non-GFXC jurisdictions with significant FX markets
 - Exchange views and share information on trends and developments in global FX market structure and functioning



FX Code Text

- Published and adopted by FXCs in May 2017
- Contains 55 principles and illustrative examples on best practices in areas of ethics, governance, execution, information sharing, risk management and compliance, and confirmation and settlement
- Code written as principles; NOT regulation
 - Does not modify existing law or provide safe harbors for unlawful activity
 - Intended for use by market participants as benchmark for assessing internal procedures and controls
 - Adherence is voluntary



FX Code Text: “Grey Areas” Guidance

- Information Sharing
 - Market participants should **protect confidential information** by first identifying the information and then limiting external party access and use to those with a valid reason for receiving the information
 - Communications should be made in a manner appropriate for the intended audience and not be false or misleading
 - **Market Color** should only be shared if the information has been effectively aggregated and anonymized to prevent disclosure of confidential information



FX Code Text: “Grey Areas” (continued)

- Execution
 - Market participants should **disclose to clients**:
 - Whether the market participant is acting as a principal or agent
 - Order handling procedures and order types
 - Whether prices are firm or indicative
 - Rules, terms, or conditions of the execution
 - **Mark-ups** should be “fair and reasonable” and supported by adequate disclosures



FX Code Text: “Grey Areas” (continued)

- Execution
 - **Pre-hedging** of a client order should only be done when acting as Principal and for the purpose of benefitting the client
 - **Last Look:** Market participants should be transparent about their “last look” trading practices; purpose should be risk-control mechanism
 - Generally recommends against using information about a trade request during the last look “window” to engage in trading activity (includes exception for certain back-to-back trading)
 - GFXC revised last look recommendation in Dec. 2017 to include stronger language against trading on client info during last look window



Approach to Promoting Adherence

1. Maintain Relevance

- Market participants should want to use Code as benchmarking tool

2. Promote Awareness and Adoption

- Conduct outreach to industry associations and infrastructure providers
- Model “Statement of Commitment” appended to Code; market participants may voluntarily use to demonstrate their commitment to adherence
- GFXC’s Sept. 2017 survey of market participants shows 73% of respondents adopted/intend to adopt Code; 58% used/intend to use Statement of Commitment

3. Central Bank Commitment

- Central banks committed to adherence when acting as market participants
- Expect regular FX trading counterparties to adhere to the Code
- Linking membership on central bank-sponsored FXCs to Code adherence

4. Continued Engagement by Code’s Developers

- Public and private sector participants must stay active with Code and have means to keep it relevant



Other Key Information & Resources

- Global Foreign Exchange Committee, <https://www.globalfxc.org/>.
- FX Global Code, https://www.globalfxc.org/docs/fx_global.pdf.
- FXWG Report on Adherence to the FX Global Code (May 2017), https://www.bis.org/mktc/fxwg/adherence_report.pdf.
- James Bergin, FRBNY, “The Launch of the FX Global Code”, Remarks at the Forex Network New York (May 2017), <https://www.newyorkfed.org/newsevents/speeches/2017/ber170525>.
- Simon Potter, FRBNY, “The Foreign Exchange Global Code: Lessons Learned and Next Steps”, Remarks at the FX Week Conference (July 2017), <https://www.newyorkfed.org/newsevents/speeches/2017/pot170712>.

