# FX Global Code: DRAFT

*This is DRAFT content produced as part of the ongoing development of a single set of global principles of good practice for the wholesale FX market. Final publication of the complete FX Global Code is targeted for May 2017.*

# CONTENTS

FOREWORD

# I. What is the Global Code?

This set of global principles of good practice in the foreign exchange market (Global Code) has been developed to provide a common set of guidelines to promote the integrity and effective functioning of the wholesale foreign exchange market[1] (FX Market). It is intended to promote a robust, fair, liquid, open, and appropriately transparent market in which a diverse set of Market Participants, supported by resilient infrastructure, are able to confidently and effectively transact at competitive prices that reflect available market information and in a manner that conforms to acceptable standards of behaviour.

The Global Code does not impose legal or regulatory obligations on Market Participants nor does it substitute for regulation, but rather it is intended to serve as a supplement to any and all local laws, rules, and regulation by identifying global good practices and processes.

## The Global Code has been developed by a partnership between central banks and Market Participants from 16 jurisdictions around the globe.

- On the central bank side, the Foreign Exchange Working Group (FXWG) was established in July 2015 to facilitate the creation of the Global Code and to promote its adoption. It operates under the auspices of the Markets Committee, which is composed of senior officials responsible for market operations in 21 central banks representing the 15 largest currency areas. It is chaired by Guy Debelle (Reserve Bank of Australia) and it is located at the Bank for International Settlements.

- On the private sector side, the FXWG formed a Market Participants Group (MPG), chaired by David Puth, Chief Executive Officer of CLS Bank International, to help coordinate across the regional FXCs and representatives of the FX Market in other regions, in order to engage a broad and diverse set of Market Participants in the process of developing and promoting the Global Code.

[1] The foreign exchange committees (FXCs) and other central banks may continue to issue local standards where necessary to meet the specific circumstances of their markets.

The Global Code is organised around six leading principles.

- Ethics**:** Market Participants are expected to behave in an ethical and professional manner to promote the fairness and integrity of the FX Market.
- Governance**:** Market Participants are expected to have a sound and effective governance framework to provide for clear and comprehensive oversight of their FX Market activity and to promote responsible engagement in the FX Market.
- Execution**:** Market Participants are expected to exercise care when negotiating and executing transactions in order to promote a robust, fair, open, liquid, and appropriately transparent FX Market.
- Information Sharing**:** Market Participants are expected to be clear and accurate in their communications and to protect Confidential Information to promote effective communication that supports a robust, fair, open, liquid and appropriately transparent FX Market.
- Risk Management and Compliance: Market Participants are expected to promote and maintain a robust control and compliance environment to effectively identify, manage, and report on the risks associated with their engagement in the FX Market.
- Confirmation and Settlement Processes: Market Participants are expected to put in place robust, efficient, transparent, and risk-mitigating post-trade processes to promote the predictable, smooth, and timely settlement of transactions in the FX Market.

The Global Code will evolve, as required, over time as the FX Market evolves.

**Market Participants must be aware of, and comply with, the laws, rules, and regulations applicable to them and the FX Market in each jurisdiction in which they do business (Applicable Law). Market Participants remain responsible for having internal policies and procedures in place, designed to comply with such Applicable Law.**

**The content of this guidance in no way supplants or modifies Applicable Law. Similarly, this guidance does not represent the judgment nor is it intended to bind the discretion of any regulator, supervisor, or other official sector entities with responsibility over the relevant markets or Market Participants, and it does not provide a legal defence to a violation of Applicable Law.**

**This Global Code should serve as an essential reference for Market Participants when conducting business in the wholesale FX Markets and when developing and reviewing internal procedures. It is not intended to be a comprehensive guide to doing business in the FX Market.**

**Certain terms used in this Global Code may have specific definitions or meanings under Applicable Law, which may imply certain duties or obligations in a jurisdiction. Since this document is meant to serve as a code of good practice for Market Participants operating in different jurisdictions, it is not intended that the local meaning of terms in any one jurisdiction apply to the interpretation of this Global Code. For the avoidance of doubt, terms used in this Global Code should be read according to their commonly accepted meaning as terms of market practice in the FX Market and no specific legal or regulatory meaning should be imputed or ascribed to them.**

**Annex 2 contains a glossary of the capitalized terms featured throughout the Global Code.**

# II. Who does the Global Code apply to?

The FX Market features a diverse set of participants who engage in the market in different ways and across various FX products. The Global Code is written with this diversity in mind and is expected to apply to all FX Market Participants that engage in the FX Markets, including sell-side and buy-side entities, non-bank liquidity providers, operators of Trading Venues, and other entities providing brokerage, execution, and settlement services. While there can be no universal “one-size fits all” approach, given the diversity of the market, the Global Code is intended to establish a common set of guidelines for responsible participation in the market.

For the purposes of this document, a “Market Participant” is a person or organisation (regardless of legal form) that:

(i) is active in FX Markets as a regular part of its business and is engaged in the activity of the purchase or sale of one currency against another, or in transactions designed to result in gains or losses based upon the change in one or more FX rates, such as derivatives, whether deliverable or non-deliverable either directly or indirectly through other market participants; or

(ii) operates a facility, system, platform or organisation through which participants have the ability to execute the type of transactions described in (i); or

(iii) provides FX benchmark execution services; and

(iv) is not considered a retail market participant in the relevant jurisdiction(s).

As a guide, the following types of persons would generally be expected to engage in foreign exchange (FX) activities as Market Participants, as described in (i) – (iv) above:

- financial institutions;

- central banks, except where this would inhibit the discharge of their legal duties or policy functions[2];
- quasi-sovereigns and supranationals, except where this would inhibit the discharge of their organizational policy mandate;
- asset managers, including sovereign wealth funds, hedge funds, pension funds, and insurance companies;
- corporate treasury departments, or Corporate Treasury Centres entering into external (non-group) transactions either on its own account or on behalf of the parent companies, subsidiaries, branches, affiliates or joint ventures of the group it represents;
- family offices running treasury operations;
- benchmark execution providers;
- firms running automated trading strategies and/or offering algorithmic execution;
- brokers (including retail foreign exchange brokers), investment advisers, aggregators, and analogous intermediaries/agents;
- remittance businesses, money changers and money services businesses, in their interactions in the wholesale FX market;
- electronic trading platforms;
- affirmation and settlement platforms; and
- any entity classified as a FX Market Participant in the relevant jurisdiction(s).

As a guide, the following types of persons would not generally be expected to engage in FX activities as Market Participants, as described in (i) – (iv) above:

- pricing display platforms;
- remittance businesses, money changers and money services businesses, in their interactions with retail customers;
- private banking customers trading as individuals or via personal investment vehicles; and
- the general retail public.

The universe of Market Participants is considerably diverse in the type and level of engagement in the FX Market. The Global Code is expected to apply to all of these Market Participants, but the details of how it may apply can depend on their underlying activities.

[2] Note that transactions by central banks for the discharge of their legal duties or policy functions may be carried out by central banks themselves or through other Market Participants, including financial institutions and supranationals, who act on an agency basis on behalf of the central bank.

# ETHICS

ETHICS LEADING PRINCIPLE:

*Market Participants are expected to behave in an ethical and professional manner to promote the fairness and integrity of the FX Market.*

The ethical and professional behaviour of Market Participants underpins the fairness and integrity of the market. As such, the Global Code begins with high-level principles on appropriate conduct in the FX Market. These principles are fundamental to all aspects of behaviour and thus they are central to nearly each and every principle that follows. That said, this Global Code is not a comprehensive guide to doing business, and it is not possible for a set of principles on ethics to cover questions of conduct exhaustively. Applying judgement is fundamental to acting ethically and professionally, and Market Participants and their Personnel should be guided by the high-level principles below, both when applying the specific guidance in the Global Code and at all times when participating in the FX Market.

PRINCIPLE 1

**Market Participants should strive for the highest ethical standards.**

Market Participants should:

- act *honestly* in dealings with Clients and other Market Participants;
- act *fairly*, dealing with Clients and other Market Participants in a consistent and appropriately transparent manner; and
- act with *integrity*, particularly in avoiding and confronting questionable practices and behaviours.

Maintaining high standards of behaviour is the responsibility of:

- firms, who should promote ethical values and behaviour within the firm, support efforts to promote high ethical standards in the wider FX Market, and encourage involvement by Personnel in such efforts;
- senior and front-line management, who should be pro-active in embedding and supporting the practice of ethical values within the firm's culture and be prepared to give appropriate advice to Personnel; and

- Personnel, who should apply judgement when facing ethical questions, expect to be held accountable for unethical behaviour, and seek advice where appropriate. Personnel should report and/or escalate issues of concern to appropriate parties internally or externally, having regard to the circumstances.

PRINCIPLE 2

**Market Participants should strive for the highest professional standards.**

All Market Participants share a common interest in maintaining the highest degree of professionalism and the highest standards of business conduct in the FX Market.

High standards of conduct are underpinned by:

- having sufficient knowledge of, and complying with, Applicable Law;
- having sufficient relevant experience, technical knowledge, and qualifications;
- acting with competence and skill;
- applying professional judgment in following the firm's guidelines and operating procedures including, but not limited to, methods of execution, record keeping, and ethical behaviour; and
- engaging in efforts to strive for the highest standards of professionalism in the wider FX Market.

Market Participants should have Personnel who are appropriately trained and experienced to discharge their employment duties in a professional manner.

PRINCIPLE 3

**Market Participants should identify and address conflicts of interest.**

Market Participants should identify actual and potential conflicts of interest that may compromise or be perceived to compromise the ethical or professional judgement of Market Participants. Market Participants should eliminate these conflicts or, if this is not possible, effectively manage them so as to promote fair treatment of their Clients and other Market Participants, up to and including recusal from duties.

Personnel should be aware of the potential for conflicts of interest to arise and comply with their firm's policies in these areas.

Contexts in which conflicts may arise include, but are not limited to:

- situations where personal or firm interests may conflict with those of a Client or other Market Participant;
- personal relationships;
- gifts and corporate entertainment; and
- Personal Dealing.

Market Participants should put in place appropriate and effective arrangements to eliminate or manage conflicts of interest. This could include:

- Recusal of duties;
- Segregation of duties and/or reporting lines;
- Establishing information barriers (e.g. physical segregation of certain departments and/or electronic segregation);
- Providing training to relevant Personnel to enable them to identify and handle conflicts of interest;
- Establishing declaration policies and/or records for identified conflict of interests, personal relationships, as well as gifts and corporate entertainment received; and
- Having policies and controls on Personal Dealing.

Where a conflict of interest cannot be eliminated or managed, Market Participants should disclose such conflict to affected parties.

# GOVERNANCE

GOVERNANCE LEADING PRINCIPLE:

*Market Participants are expected to have a sound and effective governance framework to provide for clear and comprehensive oversight of their FX Market activity and to promote responsible engagement in the FX Market.*

Different firm's governance structures may vary in complexity and scope. The precise structure adopted should be commensurate with the size, complexity, type of engagement and level of risk undertaken by the Market Participant, taking into account Applicable Law.

PRINCIPLE 4

**The body, or individuals, who have ultimate responsibility for the Market Participant's FX business strategy and financial soundness should put in place adequate and effective structures and mechanisms to provide for appropriate oversight, supervision, accountability, and checks and balances in respect of their FX market activity.**

The body, or individuals, who have ultimate responsibility for the Market Participant's FX business strategy and financial soundness should:

- maintain an operational structure with clearly defined and transparent lines of responsibility for FX activity;
- provide effective challenge to those with day to day responsibility for the FX activity of the Market Participant; and
- maintain independent control and challenge functions to assess whether the FX activities of the Market Participant are conducted in a manner that reflects the Market Participant's operational risk and conduct requirements. Such functions should have sufficient stature, resource and access to the body or individuals who have ultimate responsibility for the Market Participant's FX business strategy and financial soundness.

In implementing the above, consideration should be given to the types of activities that the Market Participant engages in, including if the Market Participant involves in Electronic Trading Activities or provision or usage of Prime Broker services.

PRINCIPLE 5

**Market Participants should embed a strong culture of ethical and professional conduct with regard to their FX activities.**

Market Participants should, among other things:

- ensure that senior decision makers are highly visible in articulating and role modelling the desired practices, values and conduct;
- take appropriate steps to communicate to relevant Personnel the sets of values and the ethical and conduct standards that should be adhered to in their engagement in the FX market, for example through conducting introductory and regular communications;
- take appropriate steps to promote and reinforce all relevant Personnel's awareness and understanding of (i) acceptable and unacceptable practices; and (ii) Applicable Law that is relevant to them, for example through promulgation of internal codes of conduct and provision of introductory and regular training on such matters;
- make all relevant Personnel (including senior management) aware that disciplinary or other actions may result from unacceptable behaviours and transgressions of the Market Participant's policies; and
- have in place appropriate remuneration and promotion structures (see Principle 6 for further guidance).

PRINCIPLE 6

**Market Participants' remuneration and promotion structures should promote market practices and behaviours that are consistent with ethical and professional expectations.**

Market Participant's remuneration and promotion structures should encourage such behaviour and should not incentivise Personnel to conduct inappropriate behaviour or practices, or taking risks beyond the overall business risk parameters of the Market Participant.

Factors that should be taken into account include but are not limited to:

- the balance of the fixed and variable components;
- the form and timing of payment of the variable component;
- whether the remuneration structure is aligned with the long-term interests of the Market Participant, rather than focused on short-term gains; and
- having appropriate mechanisms to discourage questionable behaviours.

PRINCIPLE 7

**Market Participants should have policies and procedures to handle and respond to conduct matters effectively.**

Such policies and procedures should aim to (i) provide secure channels for relevant parties to raise concerns on conduct matters; (ii) set out how such reports of concerns should be investigated; and (iii) set out how to respond to such reports.

Specifically, Market Participants should be clear with relevant Personnel and external parties about where and how to report concerns about suspected cases of illegal, unethical, or questionable practices confidentially and without fear of reprisal.

Such reports should be investigated by impartial parties. Such parties should possess sufficient skills and experience - and be given the necessary resources and access - to conduct the investigation.

Market Participants should complete the investigation and determine the appropriate outcome within a reasonable timeframe, taking into account the nature and complexity of the matter in question. The reports and results should be brought to the attention of the appropriate individuals within the Market Participant, and if appropriate, to relevant regulatory or public authorities.

# EXECUTION

EXECUTION LEADING PRINCIPLE:

*Market Participants are expected to exercise care when negotiating and executing transactions in order to promote a robust, fair, open, liquid, and appropriately transparent FX Market.*

The FX execution landscape is diverse, with execution taking place through many different channels and with Market Participants taking on different roles with regard to that execution. All FX Market Participants, regardless of their role in the execution of transactions, should behave with integrity to support the effective functioning of the FX Market.

PRINCIPLE 8

**Market Participants should be clear about the capacities in which they act.**

Market Participants should understand and clearly communicate their roles and capacities in managing orders or executing transactions. Market Participants may have a standing agreement or other terms of business as to their roles that governs all trades, or may manage their relationship by determining their roles on a trade-by-trade basis. If a Market Participant wishes to vary the capacity in which it or its counterpart acts, any such alternative arrangement should be expressly agreed by both parties.

A Market Participant receiving a Client order may:

- act as an Agent, executing orders on behalf of their Clients pursuant to the Client mandate, and without taking on market risk in connection with the order; or

- act as a Principal taking on one or more risks in connection with an order, including market and credit risk. Principals act on their own behalf and there is no obligation to execute the order until both parties are in agreement. Where the acceptance of an order grants the Principal executing the order some discretion, it should exercise this discretion reasonably, fairly and in such a way that is not designed or intended to disadvantage the Client.

PRINCIPLE 9

**Market Participants should handle orders fairly and with transparency.**

Market Participants are expected to handle orders with fairness and transparency. How this is done, and what the relevant good practices are vary depending upon the role in which those Market Participants are acting as described in Principle 8 above. While the FX market has traditionally operated as a Principal-based market, Agency-based execution also takes place. Accordingly, this principle takes into account both Principal and Agency models as well as E-Trading Platforms and Interdealer Brokers (IDBs). In addition, certain order types may entail additional considerations, as described below.

**Roles**

Irrespective of their role, Market Participants handling orders should:

- have clear standards in place that strive for a fair and transparent outcome for the Client;
- be truthful in their statements;
- use clear and unambiguous language;
- make clear whether the prices they are providing are firm or merely indicative;
- have adequate processes in place to support the rejection of Client orders for products they believe to be inappropriate for the Client;
- not enter into transactions with the intention of disrupting the market (see Principle 11 in Execution for further guidance); and
- provide all relevant disclosures and information to a Client before negotiating a Client order, thereby allowing the Client to make an informed decision as to whether to transact or not. In respect of Prime Brokerage arrangements, executing dealers, as pricing agents for prime brokerage trades, should disclose trade pricing policies with prime brokerage Clients.

Market Participants should make Clients aware of such factors as:

- how orders are handled and transacted, including whether orders are aggregated or time prioritized;
- the potential for orders to be executed either electronically or manually, depending on the disclosed transaction terms;
- the various factors that may affect the execution policy, which would typically include positioning, whether the Market Participant managing Client orders is taking on the associated risk themselves or not, prevailing liquidity and market conditions, other Client orders and/or trading strategy that may affect the execution policy;
- where discretion may exist or may be expected, and how it may be exercised; and
- whenever possible, what the time-stamping policy is, and whether it is applied both when the order is accepted and when it is triggered or executed (see Principle 36 in Risk Management and Compliance for further guidance)

Market Participants handling Client orders in a Principal role should:

- disclose the terms and conditions under which the Principal will interact with the Client, which might include:
    - that the Principal acts on its own behalf as a counterparty to the Client;
    - how the Principal will communicate and transact in relation to requests for quotes, requests for indicative prices, discussion or placement of orders and all other expressions of interest that may lead to the execution of transactions; and
    - how potential or actual conflicts of interest in Principal-dealing and market-making activity may be identified and addressed;
- establish clarity regarding the point at which market risk may transfer;
- have market-making and risk management activity, such as hedging, commensurate with their trading strategy, positioning, risk assumed, prevailing liquidity and market conditions; and
- have internal Mark Up policies consistent with applicable guidelines elsewhere in this Global Code.

Market Participants handling Client orders in an Agent role should:

- communicate with the Client regarding the nature of their relationship;
- seek to obtain the result requested by its Clients;
- establish a transparent order execution policy which should supply information relevant to the Client's order that may include:
    - information on where the firm may execute Client's orders;
    - the factors affecting the choice of execution venues; and
    - information as to how the Agent intends to provide for the prompt, fair and expeditious execution of Client orders;
- be transparent with its Clients about its terms and conditions, which clearly sets out fees and commissions applicable throughout the time of the agreement; and
- share information relating to orders accepted on an Agency basis with any market-making or Principal trading desks only as required to request a competitive quote. (See Principle 19 in Information Sharing for further guidance.)

Market Participants operating FX E-Trading Platforms should:

- have rules which are transparent to users and against which users are held accountable;
- disclose any restrictions or other requirements that may apply to the usage of the electronic quotations;
- disclose the point at which trade affirmation on any transaction is determined, including any application of last look mechanisms; and

- Have appropriate disclosure about subscription services being offered and any associated benefits, including market data. Clients should have the opportunity to select among all services they are eligible for.

Market Participants acting as Interdealer Brokers (IDBs) should:

- meet similar expectations as described above for Market Participants handling Client orders in an Agent role.

IDBs may operate via voice, such as voice brokers, or may operate either partially or wholly electronically. Those with an electronic component are also considered FX e-Trading Platforms and thus should also meet the expectations described for Market Participants operating FX e-Trading Platforms.

**Order Types**

Market Participants should also be aware of how different order types may have specific considerations for execution.

Market Participants handling a Client's Stop Loss Order should:

- obtain from the Client the information required to fully define the terms of a Stop Loss Order, such as the reference price, order amount, time period and trigger; and

- disclose to Clients whether risk management transactions may be executed close to a Stop Loss Order trigger level and that those transactions may impact the reference price and result in the Stop Loss Order being triggered.

*Indicative Examples of Unacceptable Practices:*

- trading or otherwise acting in a manner designed to move the market to the stop loss level; and

- offering Stop Loss Orders on a purposefully loss-making basis

See Annex 1 for a set of stylised examples regarding handling of Stop Loss Orders for illustrative purposes.

Market Participants filling a Client order, which may involve a partial fill, should:

- be fair and reasonable based upon prevailing market circumstances, and any other applicable factors disclosed to the Client, in determining if and how a Client order is filled, paying attention to any other relevant policies;

- make a decision on whether, and how, to fill a Client order, including partial fills, and communicate that decision to the Client as soon as practicable; and

- fully fill Client orders they are capable of filling within the parameters specified by the Client, subject to factors such as the need to prioritise among Client orders and the availability of the Market Participant's credit line for the Client at the time.

Market Participants handling a Client's order to transact at a particular fixing rate (Fixing Order) should:

- understand the associated risks and be aware of the appropriate procedures;
- not, whether by collusion or otherwise, inappropriately share information or attempt to influence the exchange rate;
- not intentionally influence benchmark fixing rate to benefit from the fixing, whether directly or in respect of any Client related flows at the underlying fixing; and
- behave consistently with the Financial Stability Board's Foreign Exchange Benchmark Report Recommendations[3], including but not limited to:
    - pricing transactions in a manner that is transparent and is consistent with the risk borne in accepting such transactions; and
    - establishing and enforcing internal guidelines and procedures for collecting and executing Fixing Orders.

*Indicative Examples of Acceptable Practices:*

- transacting an order over time before, during or after its fixing calculation window, so long as not to intentionally negatively impact the market price and outcome to the Client.
- collecting all Client interest and executing the net amount.

*Indicative Examples of Unacceptable Practices:*

- buying or selling a larger amount than the Client's interest within seconds of the fixing calculation window with the intent of inflating or deflating the price against the Client.
- buying or selling an amount shortly before a fixing calculation window such that there is an intentionally negative impact on the market price and outcome to the Client.
- showing large interest in the market during the fixing calculation window with the intent of manipulating the fixing price against the Client.
- informing others of a specific Client dealing at a fixing rate.
- acting with other Market Participants to inflate or deflate a fixing rate against the interests of a Client. (See Principles 19 and 20 in Information Sharing for further guidance.)

Finally, Market Participants handling orders that have the potential to have sizable market impact should do so with particular care and attention. For example, there are certain transactions that may be required in the course of business, such as those related to merger and acquisition activity and/or central bank intervention, which could have a sizable impact on the market. These transactions should be appropriately monitored and executed by the relevant Market Participants.

3 See the Financial Stability Board Final Report on Foreign Exchange Benchmarks, September 30 2014.

PRINCIPLE 10

**A Market Participant should only Pre-Hedge Client orders when acting as a Principal, and should do so fairly and with transparency.**

Pre-Hedging is the management of the risk associated with one or more anticipated Client orders, designed to benefit the Client in connection with such orders and any resulting transactions.

Market Participants may Pre-Hedge for such purposes and in a manner that is not meant to disadvantage the Client or disrupt the market. Market Participants should communicate their Pre-Hedging practices to their Clients in a manner meant to enable Clients to understand their choices as to execution.

- In assessing whether Pre-Hedging is being undertaken in accordance with the principles above, a Market Participant should consider prevailing market conditions (such as liquidity) and the size and nature of the anticipated transaction.

- While undertaking Pre-Hedging, a Market Participant may continue to conduct on-going business, including risk management, market making, and execution of other Client orders. When considering whether Pre-Hedging is being undertaken in accordance with the principles above, Pre-Hedging of a single transaction should be considered within a portfolio of trading activity, which takes into account the overall exposure of the Market Participant.

- When a Market Participant is acting as an Agent, the Market Participant may not Pre-Hedge.

See Annex 1 for an example regarding Pre-Hedging for illustrative purposes.

PRINCIPLE 11

**Market Participants should not request transactions, create orders or provide prices with the intention to disrupt market functioning or hinder the price discovery process.**

Transactions should be conducted at prices or rates consistent with prevailing market conditions. Market Participants providing quotations should always do so with a clear intent to trade. Reference prices should clearly be labelled as such.

Market Participants should avoid trading strategies with the intent to hinder market functioning or compromise market integrity. Such strategies include those that may cause undue latency, artificial price movements, or delays in other participants' executions and result in a false impression of market price, depth, or liquidity. Such strategies also include manipulative practices, including those in which a trader enters a bid or offer with the intent to cancel before execution such as "spoofing", "flashing", or "layering" and practices that create a false sense of market price, depth or liquidity such as "quote stuffing" or "wash trades" .

Market Participants should give appropriate consideration to market conditions and the potential impact of their transactions and orders and provide adequate information to their Clients as to how an order may impact the market. Market Participants handling Client orders may decline a transaction where there are grounds to believe that the intent is to disrupt or distort market functioning.

See Annex 1 for a set of stylised examples regarding handling of orders and market disruptions for illustrative purposes.

PRINCIPLE 12

**Market Participants should bilaterally disclose how market reference prices, including highs and lows, are established in connection with their transactions and or orders.**

Market Participants should disclose to Clients how market reference prices, including highs and lows would be established in connection with their transactions and/or orders. In the event that a third party pricing source is an input in establishing this reference price, both parties should understand how that pricing measure is determined and what the contingency arrangements are in the event that the third party pricing is unavailable.

PRINCIPLE 13

**The Mark Up applied to Client transactions by Market Participants acting as Principal should be fair and reasonable.**

Mark Up is the spread or charge that may be included in the final price of a transaction in order to compensate the Market Participant for a number of considerations, which might include risks taken, costs incurred, and services rendered to a particular Client.

Market Participants should promote transparency by documenting and publishing a set of disclosures regarding their FX business that, among other things:

- makes it clear to Clients that their final transaction price may be inclusive of Mark Up;
- makes it clear to Clients that different Clients may receive different prices for transactions that are the same or similar;
- helps Clients understand the determination of Mark Up, such as by indicating the factors that may contribute to the Mark Up (including those related to the nature of the specific transaction and those associated with the broader Client relationship, as well any relevant operating costs); and
- discloses to Clients how Mark Up may impact the pricing and/or execution of any order linked to or triggered at a specific level.

Market Participants should have policies and procedures that enable Personnel to determine an appropriate and fair Mark Up. These policies and procedures should include, at a minimum:

- guidance that prices charged to Clients should be fair and reasonable considering applicable market conditions and internal risk management practices and policies; and
- guidance that Personnel should always act honestly, fairly, and professionally when determining Mark Up, including not misrepresenting any aspect of the Mark Up to the Client.

Market Participants should have processes to monitor whether their Mark Up practices are consistent with their policies and procedures, and their disclosures to Clients. Mark Up should be subject to oversight and escalation within the Market Participant.

See Annex 1 for a set of stylised examples regarding Mark Up for illustrative purposes.

PRINCIPLE 14

**Clients should be aware of the risks associated with the transactions they request and undertake, and should regularly evaluate the execution they receive.**

Clients should clearly communicate expectations of the Market Participants who execute their orders. They should hold them accountable against the guidance contained within this Global Code as well as against other relevant standards. Clients should complete appropriate due diligence around their execution.

PRINCIPLE 15

**Market Participants should identify and remedy discrepancies in a timely manner to contribute to a well-functioning FX market.**

Market Participants should have effective policies, procedures and infrastructure designed to minimise the number of discrepancies arising from their FX activities and manage such discrepancies promptly in accordance with documentation requirements.

Market Participants acting as Prime Brokers play a unique role in assuming the credit risk of authorised trades executed by their prime brokerage Clients. Prime brokerage Clients and executing dealers are responsible for resolving trade discrepancies to achieve timely amendments and matching of trade terms through the Prime Broker.

PRINCIPLE 16

**Market Participants acting as voice brokers should employ name switching in limited circumstances, where required, sensitive to market conditions at the time.**

Voice brokers may seek to replace one counterparty to a transaction with another, referred to as name switching, in the event of unavailability of credit lines. Voice brokers that undertake name switching should:

- have proper controls and appropriately monitor such transactions;
- have proper approvals;
- execute such transactions as promptly as possible within credit limits and policy guidelines; and
- maintain proper records of such activity.

A Dealer should in no case seek or accept favors from the Broker for switching names.

PRINCIPLE 17

**Market Participants employing last look should be transparent regarding its use and provide appropriate disclosures to Clients.**

Last look is a practice whereby a Market Participant handling a Client order has a final opportunity to accept or reject a Clients request to trade against its quoted price. Market Participants handling a Client orders that use last look should have in place governance and controls around its design and use, consistent with disclosed terms. This may include appropriate management and compliance oversight.

A Market Participant should be transparent regarding its last look practices in order for the Client to be able to make an informed decision as to the manner in which last look is applied to their trading. The Market Participant should disclose, at a minimum, explanations regarding if and how symmetry is applied to the price check and the role of latency buffers and hedging, if any.

Last look should only be used as a risk control mechanism in order to verify factors such as validity and price. The validity check should be intended to confirm that the transaction details contained in the request to trade are appropriate from an operational perspective and that the legal entity submitting the request to trade has sufficient available credit to enter into the transaction contemplated by the trade request. The Market Participant may reject the request to trade if it would fail their risk controls.

Last look should not be used for purposes of information gathering with no intention to trade on the Client request to trade.

Hedging activity specific to the Client's request to trade during the trade matching process creates a conflict of interest between the two parties. Consistent with Principle 10 on pre-hedging, while a particular request to trade is undergoing the trade matching process by the Market Participants, they should not engage in hedging activity specific to the Client's request to trade, unless such hedging activity (i) is disclosed and made transparent by the Market Participant to the Client; and (ii) is not designed to disadvantage the Client.

It is good practice to have ongoing dialogue between both parties regarding how their orders have been handled, including the appropriate treatment of information associated with those orders, including any relevant hedging. Such dialogue should include provision and discussion of a relevant set of metrics that facilitate transparency around the pricing and execution of the Client's trade requests and assist a Client in evaluating the handling of its trade requests.

See Annex 1 for a set of stylised examples regarding last look for illustrative purposes.

PRINCIPLE 18

**Market Participants providing algorithmic trading or aggregation services to Clients should provide adequate disclosure regarding how they operate.**

Market Participants may provide Clients with algorithmic trading services which normally involve little or no human intervention and rely on computer algorithms to make decisions regarding the generation of orders, as well as the order execution process. Algorithmic decisions are made based on a pre-defined set of instructions in terms of order generation, and may also encompass order routers which use algorithms that determine the parameters of the order.

Market Participants may also provide aggregation services to Clients, a service that provides access to multiple liquidity sources or execution venues and which may include order routing to those liquidity sources or venues.

Market Participants providing algorithmic trading or aggregation services to Clients should disclose the following:

- a clear description of the algorithmic execution strategy or the aggregation strategy;
- whether the algorithm provider or the aggregation service provider can execute as principal;
- the fees applicable to the provision of the services;
- in the case of algorithmic trading services, the specific order routing parameters for executing algorithmic orders, including the execution venue parameters; and
- in the case of aggregation services, information on the specific liquidity sources to which access may be provided, or the relevant venue's execution parameters.

Market Participants that provide algorithmic trading services to Clients should provide data or other information to enable the Client to evaluate the performance of the service, and should ensure that the algorithms perform in the manner disclosed to the Client. Clients of algorithmic trading providers should use such data and disclosed information in order to evaluate, on an ongoing basis, the appropriateness of the trading strategy to their execution strategy.

Clients who use an aggregator to access trading venues should understand the parameters that will define the prices displayed by the aggregator. Market Participants providing aggregation services should ensure that the aggregators perform in the manner disclosed to the Client.

# INFORMATION SHARING

<u>INFORMATION SHARING LEADING PRINCIPLE:</u>

*Market Participants are expected to be clear and accurate in their communications and to protect Confidential Information to promote effective communication that supports a robust, fair, open, liquid and appropriately transparent FX Market.*

## I. Handling Confidential Information

<u>PRINCIPLE 19</u>

**Market Participants should clearly and effectively identify and appropriately limit access to Confidential Information.**

Market Participants should help Personnel identify Confidential Information. Confidential Information refers to the following information not in the public domain received or created by a Market Participant:

(i) FX Trading Information**.** Information relating to the past, present, and future trading activity or positions of the Market Participant itself or of its Clients, including related information that is sensitive and is received or produced in the course of such activity. This can take various forms, including but not limited to:

- details of a Market Participant's order book;
- other Market Participants' Axes;
- spread matrices provided by Market Participants; and
- orders for benchmark fixes.

(ii) Designated Confidential Information. Market Participants may agree to a higher standard of non-disclosure with respect to confidential, proprietary, and other information, which may be formalised in a written non-disclosure or a similar confidentiality agreement.

Market Participants should limit access to and protect Confidential Information.

- Personnel should not disclose Confidential Information to any individual under any circumstances where it appears likely that such individual will misuse the information.
- Personnel should not disclose Confidential Information except to those individuals who have a valid reason for receiving such information, such as to meet internal risk management, legal, and compliance needs.

- Confidential Information obtained from a Client, prospective Client, or other third party is to be used only for the specific purpose for which it was given, except as provided above or otherwise agreed with a Client.
- Market Participants acting as Prime Brokers should separate their prime brokerage activity from other sales and trading business within the same institution to meet the appropriate standards of confidentiality and mitigate conflicts and disclose information handling procedures to Clients.
    - To avoid any potential conflict of interest a Prime Broker should ensure that the information to which they are privy as a result of conducting a prime brokerage business remains only within authorised areas of the business.
    - Appropriate levels of separation between information systems and Personnel should exist between FX Trading/Sales and prime brokerage Personnel, with particular attention paid to information related to trading activity.

For a discussion of Market Colour, please see Principle 22 below.

<u>PRINCIPLE 20</u>

**Market Participants should not disclose Confidential Information to external parties, except under specific circumstances.**

Market Participants should disclose Confidential Information only under certain circumstances. These may include, but are not limited to, disclosure:

- to agents, market intermediaries (such as brokers or trading platforms), or other Market Participants to the extent necessary for executing, processing, clearing, novating, or settling a transaction;
- with the consent, or at the request, of the counterparty or Client;
- of a Market Participant's own prior positions and/or trading activity so long as it does not reveal any other party's Confidential Information and the information is not shared in order to influence market prices or negatively impact market functioning;
- required to be publically disclosed under Applicable Law, or as otherwise requested by a relevant regulatory or public authority;
- as requested by a central bank acting for policy purposes; and
- to advisors or consultants on the basis that they protect the Confidential Information in the same manner as the Market Participant that is disclosing the Confidential Information to such advisors or consultants.

When determining whether to release Confidential Information, Market Participants should take into account Applicable Law, as well as any agreed-to restrictions that may limit the release.

# II. Communications

PRINCIPLE 21

**Market Participants should communicate in a manner that is clear, accurate, professional, and not misleading.**

Communications should be easily understood by their intended recipient. Therefore, Personnel should use terminology and language that is appropriate for the audience and should avoid using ambiguous terms. To support the accuracy and integrity of information, Personnel should:

- attribute information derived from a third party to that third party (e.g., a news service);
- identify opinions clearly as opinions;
- not communicate false information;
- exercise judgement when discussing rumours that may be driving price movements and not start rumours with the intention of moving markets or deceiving other Market Participants; and
- not provide misleading information in order to protect Confidential Information, for example when executing partial orders. Accordingly, Market Participants could, if asked, decline to disclose whether their request to transact is for the full amount rather than inaccurately suggest that it is for the full amount.

Market Participants should be mindful that communications by Personnel reflect on the Market Participant they represent as well as the industry more broadly.

PRINCIPLE 22

**Market Participants should communicate Market Colour appropriately and without compromising Confidential Information.**

The timely dissemination of Market Colour between Market Participants can contribute to an efficient, open, and transparent FX market through the exchange of information on the general state of the market, views, and anonymised and aggregated flow information.

Market Participants should give clear guidance to Personnel on how to appropriately share Market Colour. In particular, communications should be restricted to information that is effectively aggregated and anonymised. To this end:

- communications should not include specific Client names, other mechanisms for communicating a Client's identity or trading patterns externally (e.g., code names which implicitly link activity to a specific Market Participant), nor information specific to any individual Client;
- Client groups, locations, and strategies, should be referred to at a level of generality that does not allow Market Participants to derive the underlying Confidential Information;
- communications should be restricted to sharing market views and levels of conviction, and should not disclose information about individual trading positions;

- flows should be disclosed only by price range, and not by exact rates relating to a single Client or flow, and volumes should be referred to in general terms, other than publically reported trading activity;

- option interest should be discussed in terms of broadly observed structures and thematic interest, other than publically reported trades and strikes;

- references to the time of execution should be general, except where this trading information is broadly observable;

- Market Participants should take care when providing information to Clients about the status of their orders to protect the confidentiality of the rest of the order book (particularly true when there are multiple orders at the same level or in close proximity of one another); and

- Market Participants should not solicit Confidential Information.

See Annex 1 for a set of stylised examples of Market Colour communications for illustrative purposes.

<u>PRINCIPLE 23</u>

**Market Participants should provide Personnel with clear guidance on approved modes and channels of communication.**

Market Participants should communicate with other Market Participants via approved methods of communication which allow for traceability, auditing, record-keeping and access control. Standards of information security should apply regardless of the specific mode of communication in use. Where possible, Market Participants should maintain a list of approved modes of communication and it is recommended that communication channels be recorded, particularly when being used to transact or share Market Colour. Market Participants should give consideration, under certain circumstances (e.g., in an emergency and for business continuity purposes), to allowing unrecorded lines and provide guidance to Personnel regarding the use of such unrecorded lines or devices.

# RISK MANAGEMENT AND COMPLIANCE

RISK MANAGEMENT AND COMPLIANCE LEADING PRINCIPLE:

*Market Participants are expected to promote and maintain a robust control and compliance environment to effectively identify, manage, and report on the risks associated with their engagement in the FX Market.*

## I. Frameworks for Risk Management, Compliance and Audit

Risk management, compliance and audit methodologies vary in complexity and scope. The sophistication and scope of the methodologies adopted should be commensurate with the size, complexity, type of engagement and level of risk undertaken by the Market Participant. Periodic independent reviews of risk and compliance controls should be undertaken, including a review of the qualitative and quantitative assumptions within the risk management system.

Market participants should manage and mitigate the risks that arise from their activities in the FX market. They should ensure compliance with all Applicable Law and with internal policies, external codes[4] and other relevant guidance[5] (standards). In this regard, the responsibility rests with the business unit which owns the risk it incurs in conducting its activities. In addition, there is often both a risk management function that oversees risk-taking activities and assesses those risks independently from the business line, and an independent compliance function that monitors compliance with Applicable Law and standards. Finally, there is often an audit function that provides independent review of, among other things, internal control systems and the activities of the business unit and the risk management and compliance functions. How this approach, or other appropriately robust structures, may be operationalized will depend on the business model and risk profile of the Market Participant.



4The FX Global Code and any annexes to the Code published by regional FX committees or jurisdictions.

5The relevant publications of international organizations such as the Bank for International Settlements (BIS) and the Financial Stability Board (FSB).

PRINCIPLE 24

**Frameworks for risk management and compliance include effective oversight, the appropriate segregation of duties, independent reporting lines, and adequate resources.**

More specifically, these frameworks include:

- Effective oversight at an appropriately senior level including support for the stature and independence of risk management and compliance. In particular:
    - An appropriately senior level should make strategic decisions on the risk appetite of an institution.
    - Senior management is accountable for the establishment, communication, enforcement and regular review of a risk management and compliance framework that clearly specifies authorities, limits and policies. Risks should be managed prudently and responsibly in accordance with established principles of risk management and Applicable Law.
- The provision of concise, timely, accurate and understandable risk-related and compliance information to an appropriately senior level.
- The appropriate segregation of duties and independent reporting lines, including the segregation of trading from risk management and compliance and from deal processing, accounting and settlement. While risk managers and compliance staff may work closely with business units, the risk management and compliance functions should be independent of the business unit and should not be directly involved in revenue generation, and staff should not be compensated in relation to the performance of the trading desk.
- Adequate resources and employees with clearly specified roles, responsibilities and authority, including appropriate access to information and systems. Staff should have appropriate qualifications, knowledge, experience and training.

PRINCIPLE 25

**Market Participants should maintain appropriate risk management systems and internal controls to identify, measure, monitor, manage and mitigate the FX risks they face.**

Effective risk management starts with the identification and understanding by Market Participants of the various types of risks to which they are exposed (see the section on Key Risk Types below), and typically involves the establishment of risk limits and monitoring mechanisms, and the adoption of risk mitigating and other prudent practices. An effective risk management framework could comprise, but is not limited to:

- An appropriate and well-documented approval process for the setting of risk limits.
- A comprehensive and well-documented strategy for the identification, measurement, aggregation and monitoring of risks across the FX business.
- Documented policies, procedures and controls, which are periodically reviewed and tested, to manage and mitigate risks.
- The clear communication of risk management policies and controls within the institution to promote awareness and ensure compliance, as well as processes and programs to facilitate the understanding of such policies and controls by staff.

- Information systems to facilitate the effective monitoring and timely reporting of risks.
- Effective incident management including appropriate escalation, mitigating actions and lessons learnt.
- Rigorous risk assessment and approval processes for new products, services and procedures to identify new or emerging risks.
- Sound accounting policies and practices encompassing prudent and consistent valuation methods and procedures.

PRINCIPLE 26

**Market Participants should familiarise themselves with, and abide by, all Applicable Law and standards that are relevant to their FX activities and should also have an appropriate compliance framework in place that provides independent oversight of and control over the Market Participant's compliance with Applicable Law and standards.**

The functions of an effective compliance framework could comprise, but are not limited to:

- Identification of Applicable Law and standards that apply to the FX business.
- Appropriate processes to prevent and detect market abuse, fraud and financial crime, and to mitigate material risk that could arise in the general conduct of the FX business .
- Capturing and retaining adequate records to enable effective monitoring of compliance with Applicable Law and standards.
- Consideration of the need to periodically restrict relevant staff's dealing access through measures such as mandatory vacation. During the period of mandatory leave, staff should not be allowed to trade or access the dealing room or dealing systems, and there should be appropriate restrictions and governance around interactions with customers and colleagues.
- The provision of advice and guidance to senior management and staff on the appropriate implementation of Applicable Law, external codes and other relevant guidance in the form of policies and procedures and other documents such as compliance manuals and internal codes of conduct.
- Mandatory training and/or attestation processes to ensure awareness of and compliance with Applicable Laws and standards.
- Ensuring that compliance programs are implemented and utilised, processes are established to ensure that daily activities are compliant, and operations are monitored.
- The periodic review and assessment of compliance functions and controls, including mechanisms to alert senior management about material inadequacies or breakdown in controls. Senior management should oversee the timely resolution of any issues.

Market Participants are responsible for their own adherence to the FX Global Code. To the degree that a Prime Broker becomes aware of breaches of the FX Global Code by their PB Client, the Prime Broker should address these directly with their PB Client. Prime Brokers could also incorporate intentions to adhere to the principles of the FX Global Code within client on-boarding.

PRINCIPLE 27

**Market Participants with active trading desks should have practices in place to limit, monitor and control the risks related to their FX trading.**

These practices could comprise, but are not limited to:

- The regular surveillance of trading activities, including the identification and reporting of failed, cancelled, amended or erroneous trades.
- Automated or manual monitoring systems to detect actual or attempted market misconduct and market manipulation. Trade surveillance staff should be trained to detect trading patterns that may suggest unfair or manipulative practices. Market Participants may use certain statistics or metrics to flag behaviour warranting further review, such as message counts, repetitive orders and unusually small or large orders. There should be appropriate processes whereby suspicious practices can be promptly reviewed and reported.
- Verification by staff, who are independent of the business unit which owns the risk, of the valuations used for risk management and accounting purposes.
- Independent reporting on a regular and timely basis of risk positions and trader profit/loss statements to the relevant risk management function or senior management, as appropriate, including a review of exceptional deviations of profit/loss from expected levels.
- Transactions should be promptly and accurately captured so that risk positions can be calculated in an accurate and timely manner for monitoring purposes.
- There should be regular reconciliations of front, middle and back office systems, with differences identified and their resolution tracked by staff independent of the business unit.
- Timely reporting to senior management when risk limits have been breached, including follow-up action to bring exposures back within limits, and any appropriate measures to prevent a recurrence.
- Appropriate controls to ensure proper order and quote submission, such as kill switches or throttles in the case of electronic trading submissions. These controls should be designed to prevent the entry or transmission of erroneous orders or quotes that exceed pre-set size and price parameters as well as financial exposure thresholds.

Market Participants should be aware of the risks associated with reliance on a single source of liquidity and incorporate contingency plans as appropriate. Examples include Market Participants accessing the FX market through a single counterparty, electronic platform provider or Prime Broker.

PRINCIPLE 28

**Market Participants should have in place an audit function to provide independent assurance of the effectiveness of and adherence to the risk management and compliance processes.**

- Audits should be performed regularly, with any audit findings recorded and corrective action tracked.
- Audits should be comprehensive in covering all material risk related to FX activities, using appropriate assessment methodology.

- The audit team should be given the necessary mandate and support, including adequate Personnel with requisite experience or expertise.
- Audit findings should be reported to an appropriately senior level for review and follow-up.

# II. Key Risk Types

Market Participants may be subject to different risks, and to varying degrees, depending on their size, complexity and engagement in the FX market. Some of the key risk types applicable to FX activities are outlined below.

**Credit/Counterparty Risk**

PRINCIPLE 29

**Market Participants should have adequate processes to manage counterparty credit risk exposure, including where appropriate, through the use of internationally recognised master netting agreements and credit support annexes (CSA).**

The use of master netting agreements and CSAs helps to strengthen the smooth functioning of the FX market. Other measures to manage counterparty credit risk include, the accurate and timely assessment of a counterparty's credit-worthiness prior to a transaction, sufficiently diversifying counterparty exposure where appropriate, the prompt setting and monitoring of counterparty exposure limits, and the acceptance of transactions only if they fall within approved limits. Credit limits should be set independently of front office staff, and should reflect the established risk appetite of the Market Participant.

Market Participants should maintain records material to their counterparty relationships, in as accurate a manner as possible. This could include records of conversations, and written correspondence, and retention policies should be aligned with Applicable Law.

**Market Risk**

PRINCIPLE 30

**Market Participants should have processes to measure, monitor and report market risk in an accurate and timely way.**

Changes in FX rates could give rise to market risk, which could have an adverse effect on the financial condition of Market Participants. Market risk measurement should be based on generally accepted measurement techniques and concepts, including the use of stress-testing. Such measurement techniques should be periodically and independently reviewed and audited. The measurement of market risk should take into account hedging and diversification effects.

Market Participants should be aware of, monitor and where appropriate, mitigate the liquidity risk that could arise from their transactions in the FX market.

Market Participants should set guidelines that specify staff that is authorized to deal in after-hours or off-premise transactions, the limit and type of transactions permitted. A prompt written reporting process should be developed, wherever possible. Appropriate records should be kept.

<u>PRINCIPLE 31</u>

**Market Participants should have independent processes in place to mark-to-market trading positions to measure the size of their profit and losses, and market risk arising from trading positions.**

In marking-to-market trading positions, quoted market prices where available, are generally the best guide. When obtaining external data for valuation purposes:

- useful sources of data include screen services, brokers and other third party providers;
- a function independent of the front office should check that prices are measured accurately and regularly;
- there should be understanding of what the data represents e.g. if the price was the last actual trade, when the last trade was executed, and if prices were not actual trades how these were calculated.

Market Participants should have an internal agreed close of business for each trading day against which end-of-day positions can be monitored and evaluated.

Where reference market prices are not available (e.g. in marking-to-marking complex derivatives or exotic instruments), internal models can be used to guide the appropriate pricing of risks.

## Operational Risk

<u>PRINCIPLE 32</u>

**Market Participants should have processes to identify and manage operational risks that may arise from events affecting the effective operation of the infrastructure, processes and controls, and information systems on which they rely.**

Market Participants should also take into consideration operational risks arising from a global cross-border environment, such as time differences or differences in industry conventions. Such events could include those arising from human error, misconduct, or unforeseen external circumstances.

Market Participants should put in place strict security measures to address the vulnerability of trading areas and infrastructure to possible operational disruptions, terrorism or sabotage. Access to the dealing room by non-dealing Personnel and external visitors should be limited, with procedures in place that specify time constraints, security checks and management approvals.

PRINCIPLE 33

**Market Participants should have business continuity plans (BCPs) in place that are appropriate to the nature, scale and complexity of their business and that can be implemented quickly and effectively in the event of large-scale disasters, loss of access to significant trading platforms or other critical services, or other market disruptions.**

BCPs could comprise, but are not limited to, the following elements:

- Contingency plans that ensure business continuity across the FX business.
- The regular review, updating and testing of contingency plans, including drills to familiarize senior management and Personnel with the arrangements under a contingent situation. This should include the regular review of potential scenarios which would require the activation of such plans.
- Disaster recovery plans that identify requisite systems and procedural backups. All critical automated processes should have a documented automated and/or manual contingency.
- An understanding of the BCPs of settlement system operators and other infrastructure and critical service providers, as well as the proper inclusion of these plans, or other back-up processes, into Market Participants' own BCPs.
- Emergency contact information for both internal and external dependencies. Communication tools should be secure and if phone systems fail, backup systems should exist.
- Non-primary location backup sites that can accommodate essential Personnel, systems and operations, and that are maintained and tested on a regular basis.

The greater the FX market disruption or systemic risk caused by the absence of a Market Participant, the more important it is for that Market Participant to have adequate contingency plans in place.

## Technology Risk

PRINCIPLE 34

**Market Participants should have in place processes to address potential adverse outcomes arising from the use of or reliance on technological systems (hardware and software).**

Market Participants should have processes in place to assign clear ownership of every system on which they rely, and changes, particularly significant changes, should be approved according to internal policies. Any system should be thoroughly tested before release into actual production, with an audit trail of all actions taken saved and available for review. This should apply to the development, testing, deployment and subsequent updates of trading systems and algorithms,

Market Participants operating trading platforms must be responsible for monitoring the intra-day health of the platform (e.g. capacity utilization) and should conduct periodic capacity testing of critical systems to determine such system's ability to process transactions in an accurate, timely, and robust manner.

Market Participants involved in electronic trading should put in place appropriate and proportionate controls to reduce the likelihood of generating or acting upon electronic quotations that may result in erroneous transactions or market disruption such as off-market quotes or trades, fat finger errors, unintended or uncontrolled trading activity arising from technological failures, logical flaws in the trading logic, unexpected or extreme market conditions.

Market Participant should not knowingly generate or attempt to act upon quotations in a way that is beyond the technical capabilities of the recipient or inconsistent with its advertised protocols. Excessive message rates that are known to approach or breach the limitations of the platform should be controlled, for instance via the application of throttling logic and/or circuit breakers. Any identified platform flaws or features that may risk its continued operation or result in unfair access should be escalated appropriately.

The inclusion of a third party into the electronic workflow between those participants generating and acting upon quotations does not remove either parties obligations. Market Participants, such as aggregators and multibank venues that may perform both the function of distributing and acting upon electronic quotations should abide by all relevant principles.

**Settlement Risk**

PRINCIPLE 35

**Market Participants should take prudent measures to manage and reduce their settlement risks, including prompt resolution measures to minimize disruption to trading activities.**

Settlement fails can expose Market Participants to liquidity and credit risks. Market Participants should ensure that settlement exposures to counterparties are properly monitored and limited.

Where applicable, Market Participants should consider close out netting and bilateral obligation netting to reduce settlement risks.

Please also see the Confirmation and Settlement section for further details on this topic.

**Compliance Risk**

PRINCIPLE 36

**Market Participants should keep a timely, consistent and accurate record of their market activity to facilitate, appropriate levels of transparency and auditability.**

Market Participants should keep an accurate and timely record of orders and transactions that have been accepted and triggered/executed, to enable effective auditability and transparency to clients.

This record may include, but is not limited to, the following – the date and time, product type, order type (e.g. a stop-loss order, or an order where price is subject to last look), quantity, price, trader and client identity. Market Participants should apply sufficiently granular and consistent time-stamping for recording both when an order is accepted and when it is triggered/executed.

Market Participants should ensure appropriate data storage and retention of such detail.

Information should be made available to customers, where needed, to provide sufficient transparency of their orders and transactions to facilitate informed decisions regarding their market interactions. Information may also be used in resolving trade disputes. Records should allow Market Participants to effectively monitor their own compliance with internal policies, as well as adherence to appropriate market behaviour standards.

PRINCIPLE 37

**Market Participants should perform "know-your-customer" (KYC) checks on their counterparties to ascertain that their transactions are not used to facilitate money laundering, terrorist financing or other criminal activities.**

Market Participants should have appropriate measures in place to enforce the KYC principle. For example, third party payments would generally not be regarded as best practice given the potential money laundering risk, and the release of any third party payment should be done only if internal compliance procedures are followed.

Market Participants should have a clear understanding of all Applicable Law on the prevention of money laundering and counter terrorist financing.

Market Participants should have internal processes in place to facilitate the prompt reporting of suspicious activities (e.g. to the compliance officer or appropriate public authority, as necessary). Effective training should be provided for relevant Personnel, to raise awareness of the serious nature of these activities, and reporting obligations, while not revealing their suspicions to the entity or individual suspected of illegal activities. Such training should be regularly updated to keep pace with the rapidly changing methods of money laundering.

**Legal Risk**

PRINCIPLE 38

**Market Participants should have processes in place to identify and manage legal risks arising in relation to their FX activities.**

Market Participants should have an understanding of where Applicable Law or regulation may affect the legality or enforceability of rights and obligations with other Market Participants and take steps to mitigate material legal risks.

Where required, Market Participants should have in place  legal documents with their counterparties, and should use standard terms and conditions, wherever possible. Market Participants should maintain a record of the agreements they have in place with their counterparties.

When trading, Market Participants should make clear if standard terms are used, and if changes are proposed. Where changes are substantial, these should be agreed before any transaction. Where standard terms do not exist, Market Participants should take more care in the negotiation of these terms. Market Participants should strive to finalise documentation promptly.

## Considerations Related to Prime Brokerage Activities

PRINCIPLE 39

**Prime Brokerage participants should monitor and control trading permissions and credit provision in real-time at all stages of transactions in a manner consistent with the profile of their activity in the market to reduce operational risk to all parties.**

Prime brokerage participants should strive for real time operation of robust control systems that include the allocation, monitoring, amendments and/or termination of credit limits and permissions and adequately manage associated risks.

- Prime brokerage Clients should strive for real-time monitoring of their available lines and permitted transaction types and tenors to ensure only trades within permitted parameters are executed.
- Executing dealers should strive for real-time monitoring of designation limits to validate trade requests prior to execution.
- Prime Brokers should strive for real-time monitoring of trading activity on a post-trade give-up basis.

Prime Brokers should be in a position to accept trades based on terms and conditions within prime brokerage agreements and designation notices.

Prime Brokers should document procedures for limit breach exceptions, limit changes, amendments and novations; and these procedures should be known by prime brokerage client service staff, risk managers and senior PB management.

## Considerations Related to Electronic Trading Activities

PRINCIPLE 40

**Market Participants should ensure that they generate a timely and accurate record of transactions undertaken to enable effective monitoring and auditability.**

At the request of a Client, Market Participants should be able to provide detailed information regarding the actions taken in handling a specific transaction. The information should be sufficiently granular and accessible. Each Market Participant should, if requested, engage in a dialogue with another Market Participant that has a trading relationship with it regarding whether any specific action (or inaction) was in accordance with the FX Global Code.

Clients requesting data from a Market Participant are expected to do so in a reasonable manner, avoiding spurious or extraneous requests. When requesting data a Client should outline the reason for the request. Market Participants should have processes in place to respond to client requests for this data.

PRINCIPLE 41

**Market Participants should have in place reasonable policies and procedures (or governance and controls) to ensure that trading access, either direct or indirect, is limited to authorized access only.**

Market Participants should maintain trader or desk mandates, which detail what products each trader is permitted to trade, as well as post-trade surveillance in order to detect exceptions from the trader's mandate.

Market Participants should set guidelines that specify staff that are authorized to deal in after-hours or off-premise transactions, the limit and type of transactions permitted. A prompt written reporting process should be developed, wherever possible. Appropriate records should be kept.

Market Participants should periodically review trading access on a risk basis in order to confirm that either direct or indirect, is limited to authorized access only.

Market Participants should implement monitoring practices designed to detect the concealment or manipulation of (or the attempt to conceal or manipulate) profit and loss and/or risk using trades or adjustments that are not for a genuine business purpose.

# CONFIRMATION AND SETTLEMENT

CONFIRMATION AND SETTLEMENT LEADING PRINCIPLE:

*Market Participants are expected to put in place robust, efficient, transparent, and risk-mitigating post-trade processes to promote the predictable, smooth, and timely settlement of transactions in the FX Market.*

The principles below relate to systems and processes surrounding the confirmation and settlement of FX trades. These principles should be applied in a manner consistent with the Market Participant's engagement in the market.

## I. Overarching Principles

PRINCIPLE 42

**Market Participants should establish consistency between their operating practices, their documentation, and their policies for managing credit and legal risk.**

Operating practices (including processes for confirming and settling trades) should be consistent with legal, and other, documentation. Similarly, the use of mitigants for credit risk should be consistent with this documentation and with the Market Participant's credit risk policies.

PRINCIPLE 43

**Market Participants should institute a robust framework for monitoring and managing capacity in both normal and peak conditions.**

At a minimum, Market Participants should have sufficient technical and operational capability employed to support end-to-end FX processing in both normal and peak market conditions without undue impact on the processing timeline.

Market Participants should have defined mechanisms in place to respond to extreme changes in demand, as required and on a timely basis. Furthermore, clearly defined and documented capacity and performance management processes should be in place and reviewed regularly, including with external vendors.

PRINCIPLE 44

**Market Participants are encouraged to implement straight-through automatic transmission of trade data from their front office systems to their operations systems.**

Such transfer of trade data should be facilitated via secure interfaces where the transmitted trade data cannot be changed or deleted during transmission. When trade data cannot be transmitted automatically from the front office to the operations system, adequate controls should be in place so that trade data are captured completely and accurately in the operations system.

PRINCIPLE 45

**Market Participants should conduct any novations, amendments, and/or cancellations of transactions in a carefully controlled manner.**

Processes for novating, amending, or cancelling transactions should be clearly defined and should provide for the maintenance of appropriate segregation between operations and sales and trading staff. Reporting on amendments and cancellations should be made available to management in these areas on a regular basis.

## II. Confirmation Process

PRINCIPLE 46

**Market Participants should confirm trades as soon as practicable, and in a secure and efficient manner.**

Market Participants should confirm FX trades as soon as practicable after execution, amendment, or cancellation. The use of automated trade confirmation matching systems, when available, is strongly recommended. Market Participants should also implement operating practices that segregate responsibility for trade confirmation from trade execution.

Confirmations should be transmitted in a secure manner whenever possible, and electronic and automated confirmations are encouraged. When available, standardised message types and industry-agreed templates should be used to confirm FX products. Trades arranged via a Broker should be confirmed directly between both parties to the transaction. Market Participants should receive an affirmation from a Broker to assist in accurately booking trades.

Open communication methods such as e-mail can significantly increase the risk of fraudulent correspondence or disclosure of Confidential Information to unauthorised parties. If confirmations are communicated via open communication methods, those methods should comply with information security standards (and also see Principle 20 in Information Sharing).

If Market Participants bilaterally choose to match trades using front-end electronic dealing platforms in place of exchanging traditional confirmation messages, the exchange of trade data should be automated and flow straight-through from the front-end system to operations systems. Strict controls should be in place so that the flow of data between the two systems is not changed and that data are not deleted or manually amended. Any agreements between the parties to use electronic dealing platforms for trade matching rather than exchanging traditional confirmation messages should be documented in the legal agreement between the parties.

PRINCIPLE 47

**Market Participants should review, affirm, and allocate block transactions as soon as practicable.**

Block transaction details should be reviewed and affirmed as soon as practicable following execution. Investment managers or others acting as Agent on behalf of multiple counterparties may undertake block transactions that are subsequently allocated to specific underlying counterparties. Each underlying counterparty in a block transaction should be an approved and existing counterparty of the dealer-counterparty prior to allocation. Each post-allocation transaction should be advised to the counterparty and confirmed as soon as practicable.

PRINCIPLE 48

**Market Participants should identify and resolve confirmation and settlement discrepancies as soon as practicable.**

Market Participants that identify discrepancies between received confirmations or alleged trades and their own trade records should investigate internally and inform their counterpart with the aim to resolve such discrepancies as soon as practicable. Market Participants should also carefully reconcile all alleged trades and inform senders of unknown confirmations that the recipient cannot allocate to any internal trade record.

Escalation procedures should be established to resolve any unconfirmed or disputed terms as a matter of urgency, and processes should be in place to detect and report adverse trends that emerge in the discrepancies.

Escalation procedures should also include notification to trading and other relevant internal parties so that they know which counterparties may have practices that do not align with best practices regarding confirmation of trades. Senior management should receive regular information on the number and latency of unconfirmed deals so that they can evaluate the level of operational risk being introduced by maintaining dealing relationships with their firms' counterparties.

PRINCIPLE 49

**Market Participants should be aware of the particular confirmation and processing features specific to life cycle events of each FX product.**

Market Participants should establish clear policies and procedures for the confirmation, exercise, and settlement of all FX products in which they transact, including those with unique features. Where applicable, Market Participants should familiarise staff responsible for operations with the additional terms and conditions associated with various FX products and the protocols and processes around life cycle events in order to reduce operational risk. Market Participants should also be fully versed in the appropriate terminology, contract provisions, and market practices associated with FX products.

# III. Netting and Settlement Processes

PRINCIPLE 50

**Market Participants should measure and monitor their settlement risk and seek to mitigate that risk when possible.**

Market Participants should develop timely and accurate methods of quantifying their FX settlement risk. The management of each area involved in a participant's FX operations should obtain at least a high-level understanding of the settlement process and the tools that may be used to mitigate settlement risk.

The netting of FX settlements (including the use of automated settlement netting systems) is encouraged. Where used by Market Participants, a process of settling payments on a net basis should be supported by appropriate bilateral documentation. Such netting may be bilateral or multilateral.

The initial confirmation of trades to be netted should be performed as it would be for any other FX transaction. All initial trades should be confirmed before they are included in a netting calculation. In the case of bilateral netting, processes for netting settlement values used by Market Participants should also include a procedure for confirming the bilateral net amounts in each currency at a predetermined cut-off point that has been agreed upon with the relevant counterparty. More broadly, settlement services that reduce settlement risk —including the use of payment-versus-payment settlement mechanisms—should be utilised whenever practicable.

PRINCIPLE 51

**Market Participants should utilise standing settlement instructions (SSIs).**

SSIs for all relevant products and currencies should be in place for counterparties with whom a Market Participant has a trading relationship. The responsibility for entering, authenticating, and maintaining SSIs should reside with staff clearly segregated from a Market Participant's trading and sales staff and ideally from those operational staff responsible for trade settlement. SSIs should be securely stored and provided to all relevant settlement systems so as to facilitate straight-through processing. The use of multiple SSIs with the same counterparty for a given product and currency is discouraged. Because of the settlement risks it introduces, the use of multiple SSIs with the same counterparty for a given product and currency should have appropriate controls.

SSIs should be set up with a defined start date and captured and amended (including audit trail recording) with the appropriate approvals, such as review by at least two individuals. Counterparties should be notified of changes to SSIs with sufficient time in advance of their implementation. Changes, notifications and new SSIs should be delivered via an authenticated, and standardised, message type whenever possible.

All transactions should be settled in accordance with the SSIs in force on the value date. Trades that are outstanding at the time SSIs are changed (and have a value date on or after the start date for the new SSIs) should be reconfirmed prior to settlement (either bilaterally or through an authenticated message broadcast).

Where SSIs are not available (or existing SSIs are not appropriate to the particular trade), the alternate settlement instructions to be used should be delivered as soon as practicable. These instructions should be exchanged via an authenticated message or other secure means and subsequently verified as part of the trade confirmation process.

<u>PRINCIPLE 52</u>

**Market Participants should request Direct Payments.**

Market Participants should request Direct Payments when conducting FX transactions and recognise that Third-party Payments may significantly increase operational risk and potentially expose all parties involved to money laundering or other fraudulent activity. Market Participants engaging in Third-party Payments should have clearly formulated policies regarding their use and any such payments should comply with such policies.

At a minimum, these policies should require the payer to be furnished with a clear understanding of the reasons for Third-party Payments and for risk assessments to be made in respect of anti-money laundering, counter-terrorism financing, and other Applicable Law. Arrangements for Third-party Payments should also be agreed upon and documented between the counterparties prior to trading. In the event a Third-party Payment is requested after a trade has been executed, the same level of due diligence should be exercised and relevant compliance and risk approvals should be sought and secured.

<u>PRINCIPLE 53</u>

**Market Participants should have adequate systems in place to allow them to project, monitor, and manage their intra-day and end-of-day funding requirements to reduce potential complications during the settlement process.**

Market Participants should have clear procedures outlining how each of their accounts used for the settlement of FX transactions is to be funded. Whenever possible, those Market Participants with nostro accounts should be projecting the balance of these accounts on a real-time basis, including all trades, cancellations, and amendments for each tenor (value date) so that they can diminish the overdraft risk from the nostro account.

Market Participants should send payment instructions as soon as practicable, taking into consideration time zone differences as well as instruction receipt cut-off times imposed by their correspondents. Market Participants should communicate expected receipts (via standardized message types, when possible) to allow nostro banks to identify and correct payment errors on a timely basis and aid in the formulation of escalation procedures.

Market Participants should communicate with their nostro banks to process the cancellations and amendments of payment instructions. Market Participants should understand when they can unilaterally cancel or amend payment instructions and should negotiate with their nostro banks to make these cut-off times as close as possible to the start of the settlement cycle in the relevant currencies.

# IV. Account Reconciliation Processes

PRINCIPLE 54

**Market Participants should perform timely account reconciliation processes.**

Market Participants should conduct a regular reconciliation process to reconcile expected cash flows against actual cash flows on a timely basis. The sooner reconciliations are performed, the sooner a Market Participant can detect missing or erroneous entries and know its true account balances so that it can take appropriate actions to confirm that its accounts are properly funded. Reconciliations should be carried out by staff members who are not involved in processing transactions that would affect the balances of accounts held with correspondent banks.

Full reconciliation should occur across nostro accounts as early as possible. To aid in the full reconciliation of their nostro accounts, Market Participants should be capable of receiving automated feeds of nostro activity statements and implement automated nostro reconciliation systems. Market Participants should also have measures in place to resolve disputes.

Escalation procedures should be in place and initiated to deal with any unreconciled cashflows and/or unsettled trades.

PRINCIPLE 55

**Market Participants should identify settlement discrepancies and submit compensation claims in a timely manner.**

Market Participants should establish procedures for detecting non-receipt of payments, late receipt of payments, incorrect amounts, duplicate payments, and stray payments and for notifying appropriate parties of these occurrences. Escalation procedures should be in place for liaising with counterparties that fail to make payments and more broadly for the resolution of any disputes. Escalation should also be aligned to the commercial risk resulting from fails and disputes. Market Participants that have failed to make a payment on a value date or received a payment in error (e.g. stray payment, duplicate payment) should arrange for proper value to be applied or pay compensation costs in a timely manner.

All instances of non-receipt of payment should be reported immediately to the counterparty's operations and/or trading units. Market Participants should update their settlement exposure with the most recent projected cash flow movements. Market Participants may wish to consider a limited dealing relationship with counterparties that have a history of settlement problems and continue to fail on their payments.

# ANNEX 1: ILLUSTRATIVE EXAMPLES

The examples provided in the FX Global Code are intended to illustrate the principles and situations in which the principles could apply. The examples are highly stylized and are not intended as, nor should be understood as, precise rules, prescriptive or comprehensive guidance. The examples are not intended to provide safe harbour nor are they an exhaustive list of situations that can arise.

The examples are grouped under leading principles based on the key principle that is being illustrated. However, in many cases a number of leading principles may apply to each illustrated example. The Examples Annex can be expected to be updated over time as features of the foreign-exchange market evolve.

All sections of the FX Global Code are to be interpreted by Market Participants in a professional and responsible manner. Participants are to exercise good judgment, understanding the impact that their actions will have on other Market Participants and the broader market, and to act with appropriate intentions.

**New examples and Phase 2 material in yellow**

# Execution

***Market Participants should be clear about the capacities in which they act (Principle 8)***

---

- ✓ A Client asks a market maker to buy EUR/NOK "at best". The market maker has an agreement with the Client stating it acts as an Agent and that its pre-disclosed policy is to add 50 pips to the average price. The market maker executes the order in the market, showing a post trade execution analysis of the fills and adding the pre-disclosed 50 pips to the price.

Market Participants should be clear about the capacities in which they act and handle Client orders fairly and with transparency. In this example, the parties have made clear in advance the capacities in which they act and the fees that they charge. The bank executes the Client's request in an agent capacity and is transparent about the nature of execution and the associated cost.

---

- ✓ A Client asks a bank to buy EUR/NOK "at best". The bank and the Client have a principal-based relationship, stipulated in their terms and agreement. The bank fills the Client's order, possibly using its own inventory and the available liquidity in the market.

Market Participants should be clear about the capacities in which they act and should handle Client orders fairly and with transparency. In this example, the parties have made clear in advance the capacities in which they act and the bank executes the Client's request in a principal capacity.

---

***Handling Client orders fairly and with transparency (Principle 9)***

- × A Market Participant has orders from several Clients to buy USD/ZAR. The Market Participant has stated in its policy that electronic orders are processed in the order in which they are received from Clients according to time-stamping. The Market Participant fills first an order of a major customer even though that order was received after other orders.

Market Participants should ensure that Clients are aware of their policies with respect to their execution process, which may include aspects such as whether discretionary execution may be expected and time-stamping procedures. In this example, the Market Participant has violated its own internal policy regarding order processing.

---

- × An asset manager leaves an order with a bank to sell USD/CAD on a Stop Loss. The bank sells ahead of the level with the intention to trigger the Stop Loss and fills the order below the stop loss level.

The execution provided by the bank is neither fair nor transparent. It is unacceptable practice to trade to intentionally move the market to the stop loss level. In the acceptable example below, the Client has provided information that fully defines the terms of the stop loss order. The Client is promptly informed about execution and the slippage incurred in filling the order.

- ✓ An asset manager leaves an order with a bank to sell USD/CAD at a particular level on a stop-loss with instructions to execute the order once that level trades. The bank starts executing the order once the level trades in the market.

---

- × A Client calls a bank to execute a series of trades, stating that it is relying on the agency agreement they have in place which includes a pre-negotiated transaction fee. While executing the trades, the execution desk includes an additional undisclosed 0.5 pip to every trade they execute, resulting in the Client paying above the pre-negotiated transaction fee.

The behaviour in this example does not represent fair or transparent execution on behalf of the Client, with the fee charged in excess of the pre-negotiated fee and undisclosed to the Client.

---

- × A Dealer is working an order on behalf of a Client. The Client has instructed the Dealer to sell 100m EUR/USD at a given price or better. The Dealer successfully sells 50 million at the price instructed by the Client before the price falls. However, the Dealer only executes 10 million with the Client, keeping the balance, 40 million, in the Dealer's inventory to benefit from the favourable price action.A Dealer is working an order on behalf of a Client. The Client has instructed the Dealer to sell 100 EUR/USD at a given price or better. The Dealer successfully sells 50 million at the price instructed by the Client before the price falls. The Dealer executes the full 50 million with the Client.

The behaviour in the first example above is termed "under-filling". It is not considered fair execution as the market-market does not act in the customer's interest, rather benefits at the customer's expense. The second example shows correct behaviour.

---

- × Dealer A tells Voice Broker B he has a large amount to do at the fix and wants some help establishing a favorable rate. Broker B then informs Dealer C who has a similar order and they all agree to combine their orders so as to make a greater impact in the fix window.

The behaviour represent unacceptable and collusive attempts to manipulate a fixing.

---

- × A sell-side institution receives a large order to buy a certain currency pair on behalf of a preferred client. Given the risks involved in execution, the trader discreetly calls a few competitor institutions to see if they also have similar orders, and builds a small coalition of parties to all execute their orders in such a way as to move the market profitably. The clients' interests are not considered as the primary factor in this execution.

- ✓ A sell-side institution receives a number of client orders that are all to buy a certain currency pair at the preferred time requested by the clients. Understanding the sensitivity of these orders, and to execute the clients' business in a professional manner, the institution maintains full confidentiality both internally and externally. The orders are executed for the clients, and shared fairly amongst them. Every effort is made to maintain an orderly market during the execution phase.

---

- × A sell-side bank has a large amount of an illiquid currency pair to sell. The senior person on the desk instructs his team to contact as many other banks and clients as possible to say that they are hearing of a very large buyer, with the hopes of attracting more bidders into the market to offset the sale. The senior person also puts some bids into the voice brokers to create more noise around this side, and then pulls these bids just before executing the large amount.

- ✓ A buy-side institution reads an article that refers to the risks being undertaken at a large firm, and recognises the systemic concerns that this may raise. Moments later, a sell-side contact calls to say that they are hearing that the same large firm is about to be closed down, but that they cannot substantiate this. The buy-side person refrain from acting in any way, or discussing this outside of their own firm until such a time as this can be validated, and they do not mention this to any other party.

---

***A Market Participant should only Pre-Hedge Client orders when acting as a Principal, and should do so fairly and with transparency (Principle 10)***

---

- ✓ A bank receives a large order from a fund to sell EUR/PLN at the London 4pm fix. According their pre-agreed terms and conditions, the bank and the Client have agreed that the bank will act as a principal and may pre-hedge transactions depending on market conditions. The bank pre-hedges some of the amount before the fixing window because the bank judges that the 5 minute window is too short to clear such a large amount without affecting the market rate to the Client's disadvantage. The bank keeps some of the risk on its book and doesn't clear everything in the market.

This behavior is considered acceptable pre-hedging. The Client is informed and has consented to the possible use of pre-hedging and the bank trades around the fixing window in the Client's favour using its capacity as a principal to pre-hedge and use its inventory to match.

---

- × A bank and a Client have pre-agreed that the bank acts as principal and may pre-hedge depending on market conditions. The bank has a large stop loss buy order for the Client. The market trades close to the order level, but looks well offered. The bank starts buying aggressively with the intention to push up and trigger the order. The market touches the level and the bank notifies the Client that the stop loss has been executed at the stop loss level.

This case is considered unacceptable pre-hedging. The bank should not try to move market for the intention to trigger Client stop loss order.

- ✓ A bank and a Client have pre-agreed that the bank acts as principal and may pre-hedge depending on market conditions. The bank has a large stop loss buy order for the Client. The bank expects that there are many similar orders in the market at this important technical level and recognizes the risk for substantial slippage for the execution. The bank decides to pre-hedge and starts buying in advance without any intention for pushing up market. The market spikes through the stop loss level and the order is triggered but as a result of pre-hedging the bank is able to provide the execution rate very close to the stop loss level.

This behavior is considered acceptable pre-hedging. In many cases stop loss orders are placed at significant chart point and price gap is created thorough the level. Banks acting as principal can control their inventory in advance to protect Clients from slippage.

---

× A corporate treasury calls a bank and informs them that they will need to buy a large amount of GBP/SEK at 11:00 am tomorrow and wants the bank to act in a principal capacity. The Client is informed that the bank might pre-hedge the transaction. The bank buys aggressively an amount of GBP/SEK just before 11:00 am for their own position with the intent of profiting from the information, and fills the Client’s order at a much higher level from their newly acquired inventory at 11:00 am.

This behavior is not considered acceptable pre-hedging. It is not appropriate for a trader to execute transactions for his or her own trading book ahead of working a Client order. Moreover, the bank has used confidential information to trade with the intent to benefit the bank and potentially disadvantage the Client.

✓ A corporate treasury calls a bank and informs them that they will need to buy a large amount of GBP/SEK at 11:00 am tomorrow and wants the bank to act in a principal capacity. The Client is informed that the bank might pre-hedge the transaction. To manage risks of unexpected market volatility and pockets of illiquidity at 11:00 am, the bank starts to buy smaller parcels of GBP/SEK during the morning to limit market impact. The bank fills the Client’s order at 11:00 am informing them of the rate based on the bank’s prior transactions and the agreed transaction mark-up.

This behavior is considered acceptable pre-hedging. The bank has traded in a manner that manages its own risks and seeks to advantage the Client.

---

× A bank and a Client agree that the bank acts as principal and may pre-hedge in the Client’s interest. The Client leaves a large take-profit order to sell EUR/USD. The market is well offered and the bank builds up short positions with the backing of Client order. The level is traded many times but the market goes down again and the bank chooses to under fill the order.

This case is considered unacceptable pre-hedging. Bank market makers acting as principal should manage their inventory for the Client interest. In the acceptable example below bank manages its inventory and seeks to give the best fill for the Client.

✓ A bank and a Client have pre-agreed that the bank acts as principal and may pre-hedge depending on market conditions. The Client leaves the bank a large take profit limit order to sell EUR/USD. The market is well offered and the bank believes the best fill would be achieved by starting to manage the inventory ahead of order. As a result, the bank starts to build up a short position. The Market actually trades the level only a few times. Although the bank cannot sell full amount of the order at the level, it fills the whole order for the Client at the stipulated price.

---

***Market Participants should not request transactions with the purpose of disrupting the market (Principle 11)***

× The market is waiting for a significant data release. Just ahead of the data release, a Client calls several banks and asks for a price to try to create volatility and uncertainty. The Client's intention is to then trade into a thinner market to have a greater market impact.

Market Participants should not request transactions deliberately intended to disrupt the market, nor create unwarranted volatility and uncertainty. In the acceptable example below, the Client refrains from trading at this moment.

✓ The market is waiting for a significant data release. Mindful of the volatility a transaction could cause at this time, and having no immediate need to trade, the Client waits for a better moment to transact.

---

× A Fund has a USD/ZAR barrier option at a particular level. The fund places orders with several Market Participants to buy USD/ZAR at the fixing, expecting them to pre-hedge their risk and drive the market in the direction that will trigger the barrier. The fund cancels the orders just minutes before the fix and after the option is knocked in.

The Client acts in a manner intended to move the market and influence the barrier event but with no intention to trade. Market Participants should not request transactions deliberately intended to disrupt the market. Nor is it appropriate to leave an order without the intent to trade the full amount.

---

× A Market Participant intends to sell a large amount of USD/MXN. It first pushes up the market by buying successive small amounts of USD/MXN on an interdealer electronic trading platform with the intention of moving the price higher and inducing others to buy USD. The Market Participant then sells the intended large amount of USD through multiple venues at a higher price.

Market Participants should not enter into transactions with the intent of disrupting the market or misleading other Market Participants.

× A Market Participant intends to sell a large amount of USD/MXN. It repeatedly inputs small offers on a widely viewed interdealer electronic trading platform. The Market Participant colludes with another branch of the same institution that has a different dealing code to lift these successive higher offers with the intention to mislead the market.

This is an extension of the previous example to include a form of self-dealing. The behaviour gives the false impression of multiple counterparts participating in a rally whereas they are actually from the same institution. In the acceptable examples below, the Market Participant executes their transactions in a manner that do not give misleading signals about pricing or trading intentions.

✓ A Market Participant intends to sell a large amount of USD/MXN and executes the order in smaller clips by trading with various market makers.

✓ A Market Participant intends to sell a large amount of USD/MXN and executes the order by leaving an algorithmic order with another Market Participant.

---

× A Client stands to gain by moving the market ahead of the 4:00 pm fix for a particular currency pair. They call a bank at 3.45pm and disclose the full size of the order. They then instruct the bank to "buy the amount as quickly as possible in the first minute of the fix calculation window in order to have the greatest possible market impact."

Market Participants should not intentionally seek to influence benchmark fixing rates (see Principle 9) nor request transactions with the purpose of disrupting the market.

---

× A hedge fund is long an exotic Euro put with a knock-in which was originally set 5 percent below the rate at that time with bank A. The currency has been weakening towards the knock-in level over the past day. Knowing that liquidity is worse for this currency pair during the Asian time-frame, and especially since there is a major Asian holiday coming up, the hedge fund leaves a very large stop-loss sell order with bank B for the Asian open at a price just above the knock-in level with the intent of knocking in the option. At the same time they leave a limit buy order with bank C for the same amount of Euros but at a level just below the knock-in level.

Market Participants should not request or enter into transactions with the purpose of manipulating or disrupting the market.

---

✓ Bank A is involved in an M&A transaction on behalf of a Client that involves selling a very large amount of USD/NOK. In order to advise the Client on the execution strategy, the bank sets up an insider register for the project and "wall crosses" the salesperson and trading head for their advice. Matching of internal flows, timing of execution, use of algo and pre-hedging are discussed with the Client for its consent. The transaction is then executed in the pre-agreed manner. The bank's Compliance department performs a post-deal review to ensure that the Client's best interest is protected.

The bank recognizes that this transaction, which is in the ordinary course of business, could have a sizeable impact on the market. The transaction is appropriately monitored and handled. The steps taken ensure that the Client's best interests were handled.

---

× A Client wishes to execute 5 billion USD/JPY at the 4pm fix as part of a cross-border M&A transaction. At 3:55pm, dealer buys 300 million for her own book with the intention of pushing the fix higher, and then executes the full Client's full order on the fix.

✓ A Client wishes to execute 5 billion USD/JPY at the 4pm fix as part of a cross-border M&A transaction. To minimise market impact, the dealer agrees with the Client to monitor the market and work part of the order over longer time period ahead of the fixing.

In the first example above, the dealer attempts to disrupt the market by pushing the fix higher. In the second example, the dealer executed the transaction respects market integrity.

---

- × A broker quotes a price from Dealer X to Dealer Y, at the same time as Dealer X is cancelling the price. Dealer Y attempts to trade on the price. The broker says “nothing done” to Dealer Y as the price has been removed. Dealer Y insists that it is filled and leaves the broker with a position.

The practice of holding a voice broker to a quoted price when the price has been withdrawn by the market maker is sometimes known as "stuffing" the broker. It is analogous to an "in flight miss" in electronic trading.

- ✓ Dealer X quotes a price to a broker. The broker quotes that price to Dealer Y, at the same time as Dealer X is cancels the price. Dealer Y attempts to trade on the price. The broker says to Dealer Y “nothing done” as the price has been removed. Dealer Y accepts that the price was missed and nothing has been done.

---

- × A voice broker quotes a price without any instruction from a Dealer. When a Dealer attempts to hit or lift the price, the broker says “nothing done”.

This is unacceptable behavior, misleads the market by implying there is more liquidity than is actually available. It is sometimes known as “flying a price”.

- × An electronic broker shows a price that does not correspond to a quotation from a Client in order to attract others to join the market. When a Dealer attempts to hit the price, she is informed that she missed the price.

This is the electronic equivalent of a voice broker “flying a price”. It misleads the market by implying there is more liquidity than is actually available.

---

***Market Participants should bilaterally disclose how market reference prices, including highs and lows, are established in connection with their transactions and or orders. (Principle 12)***

- × After a sharp downward move in USD/JPY, a market-maker notices that the low dealt on ECN X is lower than the lows observed on several other ECNs and electronic inter-Dealer brokers. Furthermore, ECN X is not known to be among the most active in USD/JPY. The market-maker uses low on ECN X as justification to trigger a customer's stop-loss. The market-maker then squares the risk at a profit.
- ✓ After a sharp downward move in USD/JPY, a market-maker notices that the low dealt on ECN X is lower the lows observed on several other ECNs and electronic inter-Dealer brokers. Furthermore, ECN X is not known to be among the most active in USD/JPY. The market-maker does not use the low dealt on ECN X as the basis for further action.

When determining highs and lows, market-makers should use consistent data and be able to justify its relevance to Clients, if necessary. In this example, it is not reasonable to use an outlier printed on an ECN not known for the currency being traded as a material print.

***Mark-up should be fair and reasonable Mark Up (Principle 13)***

- × A salesperson receives a limit order from a Client to buy 25 million GBP/USD at a specific price. In an attempt to make some additional profit, the salesperson asks his trader to watch the order one pip lower without disclosing to the Client that the bank will be watching the order at a different level than the one originally stipulated by the Client.

Market Participants should disclose if the application of mark-up will require an order to be watched away from the original level requested by a Client.

✓ A salesperson receives a limit order from a Client to buy 25 million GBP at a specific price. The salesperson wishes to be compensated for the service that they provide. Before taking the order, the salesperson informs the Client that in order to fill the bid at the requested price, it will need to trade one pip lower in the market. The Client acknowledges this point and the salesperson then instructs his trader to watch the order at the lower price.

---

× A bank receives a Client stop loss sell order for GBP/USD at a certain level. When that level is traded in the market, the bank executes the stop-loss order with some slippage. However, the bank fills the Client at a slightly lower rate after taking Mark Up and without having previously disclosed to the Client that the all-in price for executing a stop loss was subject to Mark Up.

Market Participants should be clear and transparent about the application of Mark Up when acting in a Principal capacity. That Mark Up can be added but should be disclosed in advance in the terms and conditions, as well as how the Mark Up will impact the potential execution of a Client's order.

---

× A Client asks a Market Participant to fill an "at best" order to sell USD/JPY and to confirm the details at a later time. The Market Participant adds an excessive and unfair Mark Up by filling the order not based upon the actual traded prices executed to fill the order but by basing it on the high and low of the trading day .

The Market Participant should be clear and transparent about the application of Mark Up. The Market Participant should inform the Client in advance that the Mark Up will be added after executing the whole order and, if a level is agreed, the Dealer should not change the Mark Up. Moreover the Mark Up should not be based upon the daily range of the day.

---

× A bank charges a small corporate higher markup than other corporates of the same size, credit risk and relationship, exploiting the small corporate's relative lack of sophistication in understanding and challenging the pricing of its bank.

It is not appropriate to discriminate between Clients based on their perceived level of sophistication or charge more to one Client than to another with the same level of service. Any Mark Up that is applied should be reflective of a number of considerations, which might include risks taken, costs incurred and services rendered to the Client. Personnel should act honestly, fairly and professionally when determining Mark Up.

✓ A bank charges small corporates of similar size and credit standing different mark-up because the volumes of business these Clients transact with the bank are of very different magnitudes.

Mark Up should be reflective of a number of considerations, which might include risks taken, costs incurred and services rendered to the Client. In this case, the volume of business of the different Clients affects the costs incurred by the bank in executing their transactions.

---

***Market Participants should identify and remedy discrepancies in a timely manner to contribute to a well-functioning FX market (Principle 15)***

- × A hedge fund executes a trade through an executing Dealer for give-up to its Prime Broker. The material terms of the trade provided by the hedge fund to its PB do not match those provided by the executing Dealer. When notified by the PB that there is a discrepancy on the trade details, the hedge fund responds that the executing Dealer has made a mistake and that the PB should resolve the discrepancy with the executing Dealer. A fund manager executes a series of trades with a counterparty XYZ, using a PB facility set up with a separate PB. After executing the trades, the fund manager receives a confirmation that does not agree with her own expectations. As the trade was done with counterparty XYZ, the fund manager calls her contact at XYZ and resolves the discrepancy. Both parties then agree the trades with the PB, but do not involve the PB in the resolution of the discrepancy. Once the discrepancy has been resolved, the PB agrees to settle both sides of the trade.

Prime brokerage Clients and executing Dealers are the parties that know the true intent of the trades. They must therefore be responsible for resolving trade discrepancies to achieve timely amendments.

---

- × A G10 bank trader is holding risk inventory in anticipation of Client demand during a highly watched market event. The outcome of the event surprises the market resulting in one-sided Client flows that further add to Trader's position. The overall position breaches Market Risk limits, but the Trader decides to run the position to avoid having to realise the losses which have accrued on the position. The position is not flagged to the Risk function until official reports are generated.
- ✓ A G10 bank trader is holding risk inventory in anticipation of Client demand during a highly watched market event. The outcome of the event surprises the market resulting in one-sided Client flows that further add to the trader's position. Anticipating that the overall position may breach market risk limits, the trader reaches out to the bank's risk function for a temporary limit increase in order to allow for an orderly reduction of the position without substantial market impact.

In the first example, the dealer anticipates the need for greater limits given the exceptional market situation to ensure service to the Client. In the second, the dealer breached limits risking the outcome for the Client, if the bank's risk controls were to block the trade. This example is also an example of behavior that should be detected in Principle 9 (operational risk),

---

***Market Participants acting as voice brokers should employ name switching in limited circumstances, where required, sensitive to market conditions at the time. (Principle 16)***

- ✓ A broker advises Dealers A and B that they have matched on a quote. The broker passes the details to Dealers A and B so that they can settle. Dealer A advises the broker that it does not have credit for Dealer B and requests that the broker finds a name who can act as a credit intermediary. The broker then introduces Dealer C who has credit for both Dealer A and B who will execute back-to-back transactions at no cost to Dealer C.

Name switching is used in voice markets where the identities of the counterparties are not known during the matching process.

---

***Market Participants employing last look should be transparent regarding its use and provide appropriate disclosures to all Clients. (Principle 17)***

- ✓ A corporate Client sends a trade requests to buy 5 million EUR/USD from a small regional bank, the Client's only liquidity provider. The bank offsets the entire market risk to a larger market maker. The corporate Client's trade request is subject to a 100ms last look window before it is accepted and confirmed by the bank counterparty. Within this 100ms – prior to confirming acceptance of the trade – the bank counterparty sends a trade request to buy 5 million EUR/USD to the bank market maker. If this request is accepted by the bank market maker, the small bank counterparty passes the fill in its entirety on to its Client at a marked-up rate. If the bank market maker rejects the trade request, the bank counterparty will in turn reject the corporate's trade request. This mechanism is clearly explained in writing to the Client in advance.

This example illustrates appropriate use of hedging within the last look window. While the small bank is unable to warehouse market risk or price the trade itself but facilitates the trade, conditional on it being able to source the liquidity itself from its liquidity provider and the corporate is made aware of this mechanism in advance and can elect whether to proceed.

---

- × A market taker sends a trade request to an anonymous liquidity provider to buy 1 million EUR/USD at a price of 13 via an ECN while the displayed price is 12 / 13. This trade request is subject to a 100ms last look window before it is accepted and confirmed by the anonymous liquidity provider. During this 100ms window the same anonymous liquidity provider places passive buy orders at levels below the 13 price. For example 12.5, raising to 12.6, eventually raising to 12.9. It is observed by the ECN's surveillance team that when these buy orders are filled the liquidity provider confirms and fills the taker's trade request but, when these orders are not filled, neither is the taker's trade request – despite the reference rate remaining largely unchanged. In this case the orders are not filled and so neither is the taker's trade request.

This example illustrates inappropriate use of hedging within the last look window for two reasons (i) the fact that the liquidity provider hedges in the last look window has not been disclosed; and (ii) the hedging is designed to disadvantage the marker taker. The liquidity provider is using the taker's trade request information to make a risk-free profit with no intention to fill the request if it cannot obtain said profit. The taker is disadvantaged because the information within its request was leaked to the market without it deriving the benefit of a fill – likely causing market impact and a higher cost of purchase when it must resubmit the trade request after the last look window expires and it receives confirmation its request was not accepted. The ECN should also take action to against the liquidity provider to remove such activity.

---

X A retail broker combines multiple liquidity providers via aggregation software, typically splitting one parent trade request into multiple child executions. On this occasion the parent trade request is to buy 10 million EUR/USD and it sends five separate requests to buy two million EUR/USD to five separate counterparties. These requests are each subject to a 100ms last look window before they are accepted and confirmed by the liquidity providers. Within this 100ms – prior to confirming acceptance of the trade – one liquidity provider places orders in the market designed to hedge the imminent transaction.The liquidity provider does not disclose this action either pre-trade or post-trade.

This example illustrates inappropriate use of the last look window. The liquidity provider's hedging during the last look window has not been adequately disclosed, and the hedging is designed to disadvantage the market taker.

---

X An asset manager wishes to gradually trade into a larger position, splitting a buy trade request of 500 million EUR/USD into ten individual 50 million clips to be bought subsequently. The trade request for each clip will be sent every hour to the bank market maker. The size of this parent request is not known to the bank market maker in advance but, from past experience, it can be inferred as likely that each clip is part of a larger total and that subsequent clips will follow, as this is how the asset manager has typically previously traded. The asset manager sends its first trade request for 50 million to a bank counterparty. The trade request is subject to a 100ms last look window before it is accepted and confirmed by the bank counterparty. Within this 100ms – prior to confirming acceptance of the trade – the bank counterparty sends multiple aggressive trade requests to buy EUR/USD into the market in a manner that prior experience would suggest is likely to result in a larger amount filled than the total order size and is filled for a total of 80 million. The liquidity provider does not disclose this event either pre-trade (in terms of execution policy) or post-trade.

This example illustrates inappropriate use of the last look window. The liquidity provider's hedging during the last look window has not been adequately disclosed, and the hedging is designed to disadvantage the marker taker.

✓ A Client sends trade requests that are subject to last look and is aware that its selected liquidity provider has disclosed it may hedge such requests during the last look window. The Client reviews data related to its average fill ratios on such transactions. The data provided suggests that its average fill ratio is far lower than expected. The Client follows up with its liquidity provider to discuss reasons for this. In particular, the Client asks whether this is an indication that the liquidity provider may not have a legitimate intention to trade or is employing hedging designed to disadvantage the Client.

This example illustrates disclosure by the liquidity provider of its use of last look and hedging in the last look window. Additionally, it shows a Client exercising its right to disclosure by seeking further information.

---

***Market Participants providing algorithmic trading or aggregation services to Clients should provide adequate disclosure regarding how they operate. (Principle 18)***

X An Aggregator routes an order to an ECN that is presently showing a price worse than that shown on other ECNs so that the provider of the Aggregator can benefit from brokerage rebates that have been offered to the provider of the Aggregator.

Unless specific financial arrangements with market-makers and ECNs that could have a material impact upon a customer's execution are disclosed to the Client, order routing should not reflect such arrangements.

✓ An Aggregator routes orders to an ECN notwithstanding that the ECN does not offer brokerage ebates to the provider of the Aggregator.

---

# *Information Sharing*

***Handling Confidential Information (Principles 19 and 20)***

---

× Asset manager to bank market maker: Bank ABC just called me with an axe to buy EUR/SEK. Are you seeing buying as well?

This communication inappropriately shares Confidential Information with an external Market Participant. Information about other Market Participants' axes or flows is Confidential Information and should not be solicited or disclosed except to those individuals who have a valid reason for receiving such information. In the acceptable example below, the asset manager refrains from soliciting confidential information.

✓ Bank ABC to Asset manager: We have an axe in EUR/SEK Spot. Do you have any interest?
Asset manager to bank market maker: Thanks for calling to see if we have interest in EUR/SEK but we don't have interest today.

---

× Hedge fund to bank market maker: Are you long Sterling?

Market Participants should not knowingly solicit Confidential Information, including information on current positioning or specific flows without a valid reason to do so. In the acceptable example below, the hedge fund asks for market views and not specific positioning.

✓ Hedge fund to bank market maker: What do you think of Sterling here?

---

× A bank has been asked by a Client to provide a quote for 50 million USD/MXN. The bank does not actively market make in this currency pair. The bank market maker calls to another bank market maker: I'm being asked to quote a two way price for 150 million USD/MXN. Can you show me your USD/MXN pricing matrix so that I can get a feel for the spread to quote?

This communication inappropriately solicits Confidential Information from another Market Participant, in this case proprietary spread matrix information. In the acceptable example below, the bank requests only information pertinent to their needs.

✓ A bank has been asked by a Client to provide a quote for 150 million in USD/MXN. The bank does not have a franchise in this pair, so their market maker calls another bank market maker: Can you give me a two-way price for 150 million in USD/MXN?

---

✓ Hedge fund to bank market maker: What do you think of the Brazilian Real at these levels? I was long into the US election but got out after the surprise win. However, I think it has gone too far now.

Market Participants can disclose their own past positions, provided their internal policy allows this, and the intent of this disclosure is not to collude, manipulate, cause dislocation or disruption to price discovery.

---

× A bank has implemented an institution-wide policy designating trade recommendations produced by the FX Research Department as confidential until published to all Clients simultaneously. Bank FX research analyst to hedge fund: Our view on USD/JPY has shifted in line with our new central bank rate forecasts and I'm publishing a new bullish trade recommendation later today.

This communication inappropriately shares designated Confidential Information with an external party. Such information should not be disclosed where it appears likely that the recipient will misuse the information. In the acceptable examples below, the FX research analyst and Bank market maker disclose research after it has been published.

✓ Bank FX research analyst to hedge fund: I'm calling to check that you've received our bullish USD/JPY trade recommendation published an hour ago in line with our new central bank rate forecasts.

✓ Bank market maker to pension fund: I like USD/JPY at these levels as our recent published FX research indicates that the currency is 5% undervalued and the technicals are also very supportive.

---

✓ Bank salesperson to asset manager: I am not sure if you saw but our technical strategist put out a trade recommendation yesterday to buy the Swiss Franc against the Euro when the 20 day moving average crossed the 200 day. It happened at 9:16am this morning. The strategist recommended having a stop at 55 pips above.

This communication is acceptable even though the sales person specifically refers to an exact time since this information is readily observable to all Market Participants.

---

× A hedge fund manager attends a portfolio review with a large Client. At the review, the manager learns that the Client will soon be shifting part of their currency allocation into another currency pair. The manager is asked for advice, but not awarded the allocation mandate. Upon leaving the meeting, the manager makes a call to his own trading desk to inform them of the impending trade.

This communication inappropriately shares Confidential Information. The planned currency re-allocation is Confidential Information and has been disclosed to the hedge fund manager for his advice only. There is no valid reason to disclose this information to his trading desk.

---

× A trader is informed by the Investment Banking unit of her bank that they have been awarded the FX transaction for a large cross-border acquisition, involving the purchase of a specific currency. She is also told that the Client does not want any pre-hedging and that the trade is to be ratified in the coming hours. After hearing this information, the trader immediately purchases a sizeable block of the currency for her own book.

This example illustrates inappropriate use of Confidential Information. The upcoming FX transaction is Confidential Information and is to be used only for the specific purpose for which it was given.

---

× A fund asks a bank to work a large buy order of EUR/PLN for a fixing. Immediately after the call, the bank contacts a different Client hedge fund and says "I have a large buy order of EUR/PLN to work ahead of the fixing for a Client, I think this may move the market upwards in the next 20 minutes, and I can work some flow for you as well."

This example involves inappropriate sharing of Client Confidential Information and inappropriate collusive behaviour. Past, present and future Client trading activity is Confidential Information which should not be disclosed to other Market Participants except under specific circumstances.

---

X Dealer A contacts Dealer B and advises him that he has a large Client order that he is about to execute. Dealer A tells Dealer B he can trade, with this knowledge ahead of the order and they will split the profit and loss later with back to back trades.

This example involves inappropriate sharing of Client Confidential Information and inappropriate collusive behaviour. Past, present and future Client trading activity is Confidential Information which should not be disclosed to other Market Participants except under specific circumstances

---

X A large asset management Client of a bank has a PB relationship with the bank's prime brokerage group for some of its underlying accounts. The bank's sales coverage of the asset manager, in seeking to understand better her traction with the account, calls the PB sales team to request information on the percentage of the overall PB account activity traded directly with the bank versus other executing Dealers.

Information related to a PB Client's trading activity with its executing Dealers is Confidential information and should not be shared with Personnel in the sales and trading business of the same entity. In the acceptable examples below, the bank and the Client appropriately protect Confidential information.

- ✓ A large Prime Brokerage (PB) Client has the capability to execute trades with both the PB division and the Sales & Trading division of a bank counterparty, and has separate credit and operational arrangements with both areas. The general manager of both divisions can access aggregated information on all of this activity for the purposes of risk oversight, but ensures that staff in neither division can see the activities of the other.
- ✓ A relationship manager from a bank sales team seeks to do more business with a PB Client, and meets with the PB Client in person. At the meeting, the relationship manager asks the Client to talk about their trading activities so as to better understand the Client's needs. The PB Client takes care to discuss only the business done with the banks' Sales & Trading division and refrains from disclosing any other activity.

---

***Communicating in a clear, accurate and not misleading manner (Principle 21)***

---

- × An asset manager calls three banks and says "Can I get a price in 50 million GBP/USD please? This is my full amount." The asset manager buys the full 50 million GBP from all three banks.

In this example the asset manager deliberately misleads the banks in order to secure better pricing. In the acceptable example below, the asset manager conducts their business and refrains from giving directly misleading information. It is acceptable for the bank to ask whether the trade is for the full amount as it will potentially impact the pricing that the bank provides.

- ✓ An asset manager calls three banks and says "Can I get a price in 50 million GBP/USD please?" One bank asks "Is this your full amount?" The asset manager responds "No". (The asset manager could also have acceptably declined to comment.)

***Communicating Market Color appropriately (Principle 22)***

---

- ✓ A corporate Client has left a 24 hour call level for the Yen with a counterparty and the call level has been just breached. Bank salesperson to corporate Client: The Yen just traded through your call level. The market has dropped 200 ticks in the last 15 minutes, there has been large selling across a variety of names and prices have been gapping. The market continues to be better offered, but the move seems to be limited to just the Yen. We don't know the trigger but there has been some chatter on the internet about an earthquake but it has not been confirmed on any of the main news channels.

This communication is an acceptable example of providing valuable market colour. The information about market developments is sufficiently aggregated and the information from a third party has been attributed clearly.

---

- × Bank salesperson to hedge fund: We've seen large USD/KRW demand from XYZ (where 'XYZ' is a code name for a specific Client) this morning.

This communication inappropriately shares Confidential Information. It is inappropriate to communicate or solicit information related to an individual flow or related to a specific Client. The information should be aggregated and anonymized. In the acceptable example below, the information that is communicated is generalized in terms of Client category so that the Client cannot be identified.

- ✓ Bank salesperson to hedge fund: We've seen large USD/KRW demand from Real Money names this morning.

---

- × Asset manager to bank market maker: I hear that you've been a big buyer of GBP/USD. Is it for the same UK corporate(s) again?

This communication inappropriately requests Confidential Information. It is inappropriate to solicit information related to an individual flow or related to a specific Client. In the acceptable example below, the request for information is for generalized market colour, not Client or trade specifics.

- ✓ Asset manager to bank market maker: Can you give me some colour around the 100 point rally in GBP/USD in the past hour?

---

- × Market maker to hedge fund: Yen liquidity has deteriorated. Just now it took me 15 ticks to cover my sale of 100 million USD/JPY to a Japanese corporate.

This communication of market colour inappropriately shares Confidential Information. It is inappropriate to communicate FX trading information, including specific past or present trading activity of the Market Participant or its Clients. The information should be aggregated and anonymized. In the acceptable example below, the reference to the timing of execution is broad and the type of Client is generalized.

- ✓ Market maker to hedge fund: Yen liquidity has deteriorated. Last week I was able to trade 100 million USD/JPY for only 3 ticks, but today it took 15 ticks and twice as long.

---

***Providing Personnel with guidance on approved modes of communication (Principle 23)***

---

- × A sales person has a number of filled orders to confirm to the customer but has left the office early. Not having access to a recorded line he subsequently texts his confirmations from his own unrecorded personal cell phone to the Client.

This example illustrates inappropriate use of a mode of communication. It is recommended that communication channels be recorded, particularly when being used to transact. In the acceptable example below, the transactions are confirmed via recorded means.

✓ A sales person has a number of filled orders to confirm to the customer but has left the office early. Not having access to a recorded line the sale person subsequently contacts his colleagues in the office who then contact the customer to confirm the transactions using recorded means.

---

# *Risk management and Compliance*

**Market Participants with active trading desks should have practices in place to limit, monitor and control the risks related to their FX trading.** ***(Principle 27)***

X A PB Client assumes that the FX Global Code does not apply directly to it as the fund trades in the market in the name of its Prime Broker through electronic trading venues. The Client's personnel are not trained to ensure that they adhere to the FX Global Code, assuming that it is their PBs responsibility.

Market Participants are responsible for their own adherence to the FX Global Code. Prime Brokers are not responsible for their Clients' overall behaviour.

---

X A PB Client of a bank accesses FX market liquidity only through the electronic trading venue offered by the sales/trading business of the Prime Broker and without a sales coverage contact within the sales/trading business at the bank. In response to an unexpected market event, the bank dynamically adjusts the liquidity provided through its electronic trading venue. As the PB Client has no contingency in place to access the market and no relationship with the sales/trading business, her ability to trade is compromised.

Market Participants should be aware of the risks associated with a single source of liquidity and incorporate contingency plans as appropriate for their business.

✓ A Client has been dealing in the market through a single Prime Broker. Due to increased market volatility and some unfortunate positioning, the PB seeks to dramatically reduce or even cease all of the Client's trading as quickly as possible. The Prime Broker has the discussion with the Client as early as possible, and seeks to advise the Client to help reduce market exposures. The PB also encourages the Client to establish other Prime Broker or other credit relationships in order that the cessation of the Client activity with the PB can be managed without disrupting the market.

---

✓ A Client repeatedly breaches its authorised limits through an executing broker. The executing broker notices this thanks to routine, embedded controls, and informs the Client, with a warning. The executing broker also informs the PB that these breaches have been discovered, and asks that all three Market Participants to remain vigilant, while accepting that the responsibility for monitoring Client trading rests with each of the parties

This illustrates appropriate monitoring of risk controls and appropriate information sharing among the affected parties.

---

X Market Participant X has a significant Client franchise (for example a retail aggregator with a high market share in a country or a pension fund) and decides, for cost efficiency, to maintain a single FX Prime Broker with which to access the market. It maintains no bilateral liquidity relationships. The FX Prime Broker decides to terminate its agreement with Market Participant X at short notice, as it is exiting that Client segment. Market Participant X does not have enough time to set up a new FX Prime Broker or to establish bilateral agreements to satisfy the needs of its Client base, leading to significant financial and reputational damage.

✓ Market Participant X has a significant Client franchise (for example a retail aggregator with a high market share in a country or a pension fund). It maintains several channels to access liquidity, including two FX Prime Brokers and some bilateral agreements. One of the FX Prime Brokers decides to terminate its agreement with Market Participant X at short notice, as it is exiting that Client segment. Market Participant X can still access sufficient liquidity to serve its Client needs through the remaining Prime Broker and the bilateral relationships while it negotiates another Prime Broker agreement with a different provider.

Market Participants should not rely on a single source of liquidity or market access.

---

X Market Participant X has a significant Client franchise (for example a retail aggregator with a high market share in a country or a pension fund). It maintains several channels to access liquidity, including two FX Prime Brokers and some bilateral agreements.  For operational efficiency, however, Market Participant X routes all of its flows through just one of the Prime Brokers, referring to it as the "primary PB" and leaves the other channels dormant, as back up facilities.  The "primary PB" decides to terminate its agreement with Market Participant X at short notice, as it is exiting that Client segment. Market Participant X finds that it is unable to route orders to its secondary Prime Broker and bilateral partners as those channels had not been used for a long time; there were technical issues and limits were not in place at all points in the workflow. For several days Market Participant X could not service its Clients and incurred financial and reputational damage.

✓ Market Participant X has a significant Client franchise (for example a retail aggregator with a high market share in a country or a pension fund). It maintains several channels to access liquidity, including two FX Prime Brokers and some bilateral agreements.  For operational efficiency Market Participant X routes the majority, but not all, of its flows through one of its Prime Brokers which it refers to as its "primary PB", but ensures that a smaller but representative part of its portfolio is channeled regularly to its second Prime Broker and to its bilateral relationships. The “primary PB” decides to terminate its agreement with Market Participant X at short notice, as it is exiting that Client segment. Market Participant X immediately routes its flows through its second PB and its bilateral relationships while it negotiates another Prime Broker agreement with a different provider.

The only way to be sure Prime Broker and liquidity relationships will function effectively when they are needed urgently is to use them regularly to ensure they are functional.

---

***Market Participants should have processes to identify and manage operational risks (Principle 32)***

X A small proprietary trading fund copies the risk checks that are those specified by its prime broker to ensure it stays within prudent limits, including Net Open Position (NOP) and Daily Settlement Limits (DSL). The fund discovers that, despite these limits, it incurs losses that threaten the survival of the fund.

✓ The small proprietary trading fund ensures that its risk checks will protect against erroneous loss-making or runaway algorithms for their specific circumstances.

Market Participants should have processes to identify and manage operational risks specific to its circumstances. In this case, net open position and daily settlement limit limits do not alert to a decline in position value. In the extreme, an algorithm that loses, rather than earns money, can be wholly within NOP and DSL limits.

---

***Market Participants should have Business Continuity Plans (BCPs) (Principle 33)***

X A Market Participant uses a back-up site in the same region and relies on staff in the same region as its primary site. The Market Participant finds it is unable to access both primary and backup sites due to a common telecommunications path.

The example above shows a business continuity plan that is not sufficiently robust to possible disruptions.

✓ A Market Participants selects a backup site that is geographically very distant, for example on a different continent, and whose infrastructure can be controlled by staff in the distant region. This greatly increases the probability of implementing BCP plans quickly.

---

**Prime Brokerage participants should monitor and control trading permissions and credit provision in real-time at all stages of transactions in a manner consistent with the profile of their activity in the market to reduce operational risk to all parties.** ***(Principle 39)***

X A prime brokerage Client is provided with exposure limits for each of its executing Dealers under its PB agreement. The Client assumes that the executing Dealers are monitoring these limits and does not incorporate pre-trade compliance checking procedures within its internal processes. The PB Client trades on behalf of a number of underlying accounts in a bulk ticket, providing the executing Dealer with the PB account portion of the deal post-trade. The Client breaches its PB exposure limit with the executing Dealers and is only made aware by the executing Dealer at the point of providing the breakdown.

Market Participants should strive for real-time monitoring of their available lines. Where an executing Dealer is unaware of the precise account breakdown on a bulk transaction, the Client should have pre-trade compliance monitoring procedures in place to ensure that only trades that fit within the designation limits are requested of executing Dealers.

---

X Due to difficult market conditions, a PB decides to quickly reallocate credit lines. With very little notice, the PB terminates all PB Client relationships with immediate effect, and instructs its Client to exit all positions, irrespective of their present profitability.

This is highly disruptive to the market and inconsistent with Prime Brokers' duties under to reduce operational risk to all parties.

---

✓ A Prime Broker has revisited its global strategy, and makes decisions that will reduce its overall risk appetite for certain Clients. As it is aware of the risk of removing these PB Clients, it provides advance notice to the PB Clients, and works to facilitate a smooth transition to another PB provider of the Client's choice, including the voluntary help to enable operational ease

This gradual and orderly transition is consistent with Prime Broker's duties to reduce operational risk to all parties.

---

# *Confirmation and Settlement*

---

× A corporate treasurer has had a busy morning in meetings. They have ten trades to do, including some block trades with sub-allocations for the pension fund. The treasurer calls one of their counterparties by phone, completes all ten trades with just enough credit and plans to put all of the trades into the system as soon as they return from their next meeting.

The practices in this example are not consistent with the principles of timely, secure and efficient confirmation. Moreover, Market Participants should review, affirm and allocate block transactions as soon as possible.

---

✓ A Client executes a transaction in spot USD/JPY on a single-bank platform and is immediately provided with a trade confirmation via the bank's platform. After having checked the trade details received from the bank, the Client is able to immediately send a confirmation message for the trade to the bank.

The practice in this example is consistent with the principles of timely, secure and efficient confirmation. The bank's straight-through-processing and initiation of the confirmation process results in the Client being able to send a corresponding confirmation message within a short timeframe.

- ✓ 'A local entity (e.g. subsidiary, local co-operative bank) executes an FX deal with its central entity (e.g. co-operative bank, holding company) via phone. Both the central entity and the local entity confirm the deal directly thereafter in the way agreed between both parties e.g. via a common secured electronic platform.'

Confirmations should be transmitted in a secure manner whenever possible. In this example, both entities agreed to use a common secured electronic platform to confirm the deal, and comply with the principles of timely, secure and efficient confirmation. The common secured electronic platform is used alternatively to market-wide automated trade confirmation matching systems, to which small entities normally have no access to.

# 1 ANNEX 2: GLOSSARY OF TERMS

**Agent:** A Market Participant that executes orders on behalf of their Clients pursuant to the Client mandate, and without taking on market risk in connection with the order.

**Applicable Law:** As defined in the Foreword.

**Axe:** An interest that a Market Participant might have to transact in a given product or currency pair at a price that may be better than the prevailing market rate.

**Broker:** An Agent with responsibilities to both counterparties to a transaction.

**Client:** A Market Participant requesting transactions and activity through other Market Participants.

**Confidential Information:** Information that is to be treated as confidential, including FX Trading Information and Designated Confidential Information.

**Corporate Treasury Centre:** A Market Participant within a group of mainly non-financial companies that enters into external (non-Group) transactions as a client (unless it explicitly declares otherwise) either on its own account or on behalf of the parent companies, subsidiaries, branches, affiliates or joint ventures of the Group it represents.

**Designated Confidential Information:** Confidential, proprietary, and other information for which Market Participants may agree to a higher standard of non-disclosure, which, at their discretion, may be formalised in a written non-disclosure or similar confidentiality agreement.

**Direct Payment:** The transfer of funds in settlement of a FX transaction to the account of the counterparty to the transaction.

**E-Trading Platform:** Any system that allows Market Participants to execute trades electronically in the FX market.

**Electronic Trading Activities:** This may include operating an E-Trading Platform, making and/or taking prices on an E-Trading Platform, and providing and/or using trading algorithms on an E-Trading Platform.

**FX:** Foreign exchange.

**FX Market:** The wholesale foreign exchange market.

**FX Trading Information:** Information relating to trading activity or positions of the Market Participant itself or its Clients.

**FXC:** The foreign exchange committees. Has the meaning given to the term in the Foreword.

**Fixing Order:** An order to transact at a particular fixing rate.

**Global Code:** A set of global principles of good practices in the foreign exchange market.

**Interdealer Broker (IDB):** A financial intermediary that facilitates transactions between broker-dealers, dealer banks and other financial institutions rather than private individuals. This includes voice brokers, electronic brokers, and hybrid voice-electronic brokers. Brokers with any degree of electronic execution are also a sub category of E-Trading Platforms.

**Limit Order:** An order to fill at the best rate possible during the relevant transaction window with a minimum or maximum price to the specified level.

**Mark Up:** The spread or charge that may be included in the final price of a transaction in order to compensate the Market Participant for a number of considerations, which might include risks taken, costs incurred, and services rendered to a particular Client.

**Market Colour:** A view shared by Market Participants on the general state of, and trends in the market.

**Market Order:** A counterparty instructs a Market Participant to execute an FX transaction at the current available level. A market order is placed without any limit price and the entire order will be executed at a fair and transparent price and in a reasonable time frame.

**Market Participant:** See detailed definition provided in the Foreword.

**Market Quote:** A Market Quote occurs when counterparty asks for a quote or bid/offer from a Market Participant and then executes the transaction against this quote.

**NDF:** Non-deliverable forward.

**Personal Dealing:** Where Personnel deal for their personal account or indirect benefit (e.g. for their immediate family members or other close parties).

**Personnel:** Staff within a Market Participant.

**Post Trade Life Cycle Controls:** TBD

**Pre-Hedging:** The management of the risk associated with one or more Client orders.

**Prime Broker (PB):** An entity that offers itself as credit counterparty to two or more parties to a trade based on pre-agreed terms and conditions governing the provision of such credit. Thus the primary service provided by the Prime Broker is that of a credit intermediary with subsidiary or allied offerings including operational and technology services. The parties to a PB trade can be any of the following entities: liquidity provider (bank or non-bank), liquidity taker, participant on an electronic trading venue, another prime provider or any other party seeking to transact with another party utilizing a credit intermediary. Other prime providers within the scope of this definition of Prime Broker include Prime of Prime (PoP) entities whose purpose includes facilitating FX trading by a Client and is either a Prime Broker that for some or all of its PB business arranges that the settlement risk of certain FX transactions will be assumed by another Prime Broker, or an entity that assumes the settlement risk of Clients and for some or all of its business arranges that the settlement risk of certain FX transactions will be assumed by a Prime Broker.

**Prime Brokerage Participant:** a Market Participant that is either (i) a Prime Broker, (ii) a Client using the services of a Prime Broker, or (iii) a Market Participant acting as an executing dealer between the Prime Brokerage client and the Prime Broker.

.

Principal: A Market Participant who transacts for its own account.

SSI: Standing settlement instruction.

Stop Loss Orders: A contingent order, which triggers a buy or sell order for a specified notional amount when a reference price has reached or passed a pre-defined trigger level. There are different variants of Stop Loss orders, depending on the execution relationship between counterparties, reference price, trigger and nature of the triggered order. A series of parameters are required to fully define a Stop Loss order, including the reference price, order amount, time period and trigger etc.

Trading Venue: A Market Participant that provides a facility on which Market Participants have the ability to execute the FX transactions covered in this Global Code.

Third-party Payment: The transfer of funds in settlement of a FX transaction to the account of an entity other than that of the counterparty to the transaction