

MEMO# 30738

June 9, 2017

Central Banks and Market Participants Publish a Global Code for Foreign Exchange Markets

[30738]

June 9, 2017 TO: ICI Members

ICI Global Members SUBJECTS: Derivatives

Fixed Income Securities

International/Global

Trading and Markets RE: Central Banks and Market Participants Publish a Global Code for Foreign Exchange Markets

A coalition of central banks—known as the Foreign Exchange Working Group—in partnership with a group of private sector market participants, recently published a global code of good practices for the wholesale foreign exchange (FX) market.[\[1\]](#) This FX Global Code aims to promote a robust, fair, liquid, open, and appropriately transparent global wholesale FX market where market participants can confidently and effectively transact and conform to standards of behavior.

Application of the FX Global Code

Adherence to the FX Global Code is voluntary; the code imposes no legal or regulatory obligations on market participants.[\[2\]](#) Rather it is intended to serve as a supplement to local laws, rules, and regulations by identifying global good practices and processes. Any participant in the wholesale FX market can adhere to the FX Global Code, including sell-side and buy-side entities, non-bank liquidity providers, operators of electronic trading platforms, and other entities providing brokerage, execution and settlement services.

To adhere to the FX Global Code, a market participant would sign a “Statement of Commitment” form supporting the objectives of the code, enhancing transparency, efficiency, and functioning within the FX market.[\[3\]](#) The statement of commitment represents that a market participant (1) has made an independent determination to support the code and recognizes it as a set of principles of good practice for the wholesale FX market, (2) is committed to conducting its wholesale FX market activities in a manner that is consistent with the principles of the code, and (3) considers that it has taken appropriate steps, based on the size and complexity of its activities, and the nature of its engagement in the wholesale FX market, to align its activities with the principles of the code. The steps that different market participants take to align their activities with the principles of the FX

Global Code would depend upon the size and complexity of the market participants' FX market activities and the nature of their engagement.

Principles of the FX Global Code

The FX Global Code is organized around six leading principles: (1) ethics, (2) governance, (3) execution, (4) information sharing, (5) risk management and compliance, and (6) confirmation and settlement processes. Each leading principle is described below and explained more thoroughly in the code through additional, related principles.

- **Ethics.** Market participants are expected to behave in an ethical and professional manner to promote the fairness and integrity of the wholesale FX market.
- **Governance.** Market participants are expected to have a sound and effective governance framework to provide for clear responsibility for and comprehensive oversight of their FX market activity and to promote responsible engagement in the wholesale 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 wholesale FX market. The execution principle addresses, among other issues, a common electronic trading practice in FX markets known as "last look." Last look gives a market participant receiving a trade request a final opportunity to accept or reject the request against its quoted price. Essentially, last look lets a market maker refuse to trade, even if a potential counterparty wants to trade at the market maker's quoted price. Principle 17 of the FX Global Code states that market participants that employ the practice of last look should be transparent regarding its use and provide appropriate disclosures to clients.[\[4\]](#) To learn more about last look practices, the Global Foreign Exchange Committee recently issued a consultation requesting feedback on trading activity during the last look window.[\[5\]](#)
- **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 wholesale 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 wholesale 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 wholesale FX market.

An annex to the FX Global Code provides more information about each leading principle, including examples of how the principles would apply in various situations.[\[6\]](#) Two of the examples address the concept of last look, including its use as a risk control mechanism and appropriate disclosures for last look practices.[\[7\]](#) The examples also provide guidance for pre-hedging client orders and illustrate certain potential information sharing responsibilities for asset managers.[\[8\]](#)

endnotes

[1] See Foreign Exchange Working Group, FX Global Code at 1, (May 25, 2017) *available at* http://www.globalfx.org/fx_global_code.htm (FX Global Code). The wholesale FX market is the institutional portion of the FX market.

[2] See *id.* at 2. The FX Global Code defines a market participant as a person or organization that: (1) is active in wholesale FX markets as a regular part of its business and is engaged in the purchase or sale of one currency against another or in transactions designed to result in a gain or loss based upon changes in rates, (2) operates a facility or platform where participants can execute different types of transactions, (3) provides FX benchmark execution services, and (4) is not considered a retail market participant. The types of entities not expected to be FX market participants include pricing display platforms, remittance businesses and money services businesses, private banking customers, and the general retail public.

[3] See *id.* at 72.

[4] See *id.* at 20. The principle provides guidance on four related topics: (1) the purpose of last look, (2) governance and controls designed to limit the use of last look beyond its intended purpose, (3) the use of information from a client request through trading activity in the “last look window,” and (4) client transparency regarding the functioning of last look.

[5] See Global Foreign Exchange Committee, GFXC Request for Feedback on Last Look Practices in the Foreign Exchange Market (May 25, 2017) *available at* http://www.globalfx.org/docs/consultation_process.pdf.

[6] See FX Global Code at 50.

[7] See *id.* at 59.

[8] See *id.* at 54.