Markets Committee | BIS

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Markets Committee Chair

Email

18 January 2024

Mr Gerardo Garcia
Chair
Global Foreign Exchange Committee

Markets Committee input into the upcoming review of the FX Global Code

Dear Gerardo,

The terms of reference of the Global Foreign Exchange Committee (GFXC) stipulate to review the case for and, when judged appropriate, undertake a comprehensive review of the FX Global Code (the Code) every three years. The last review concluded in 2021, and the next one will take place in 2024.

The BIS Markets Committee (MC) serves as a conduit between the BIS Governors and the GFXC by receiving an annual update from the GFXC and participating in the triennial review of the Code. As MC chair, I therefore send you this letter. It acknowledges some of the significant accomplishments of the GFXC and other FX market participants since the last review. It also highlights the MC's priorities for the upcoming review.

The purpose of the Code is to promote a robust, fair, liquid, open and appropriately transparent FX market. Achieving this objective requires that a diverse group of market participants adheres to the Code. The MC recognizes the accomplishments made by the GFXC in increasing the number of firms that have adopted the Code, especially amongst buy-side institutions. For its part, the inclusion of the Code in the CFA Level I syllabus is a particularly commendable achievement that will further increase the Code's visibility and educate market participants on globally recognised best practices in the FX market and their benefits.

The last review identified the need to provide increased clarity on the concept of proportionality. In this respect, the development and successful launch of the Proportionality Self-Assessment Tool should greatly simplify the process of adhering to the Code, especially for buy-side firms or smaller FX market participants.

The amendments to the Code in 2021 to encourage greater transparency and more standardised disclosures by electronic trading platforms and algorithms have provided clarity and greater visibility into how these firms engage in FX transactions. The standardized Disclosure Cover Sheets developed by the GFXC have enabled market participants to better evaluate and compare trading platforms and make more-informed trading decisions.

For the upcoming review, there are three areas the GFXC should focus on. In evaluating these three areas, the GFXC should consider whether changes to the Code itself are merited (for example, changes to principles, comments, examples, etc) or whether other outputs are more appropriate for addressing the topic (for example, topical papers, new workstreams, tools,

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areas of outreach, etc). The three areas are the following:

1) Educating a broader set of market participants on the Code and increasing adoption should remain a key priority. Since the last review, the number of buy-side firms that have signed the Statement of Commitment has increased. More can be done to increase adherence by a diverse set of institutions that are active in the FX market. With the increased importance of environmental, social and governance (ESG) mandates within firms, the GFXC should continue to engage with relevant market participants to examine ways to include adherence to the Code in the "G" rating for good governance.

2) The GFXC should continue its work on reducing FX settlement risk. The amendments to the Code in 2021 to reduce FX settlement risk, by emphasizing the usage of payment-versus-payment (PvP) settlement mechanisms where possible and discouraging "strategic fails", were a useful first step. The MC welcomes the ongoing efforts by the GFXC to strengthen FX settlement data integrity and consistency, and to promote market-based solutions to increase PvP settlement and reduce FX settlement risk.

3) We encourage the GFXC to provide additional clarity and guidance on the appropriate use of FX market data. The 2020 MC report on FX Execution Algorithms and Market Functioning identified the importance of and challenges to accessing relevant FX market data. Closing the gaps in data availability is essential to improving market transparency and creating a level playing field for all market participants. The MC welcomes that the GFXC continues to analyse FX settlement risk and to engage with market participants to address this important topic.

The Code has contributed notably to better transparency and functioning in the FX market. We recognize the significant investment of time and effort that has gone into ensuring the Code remains relevant and fit for purpose in an evolving FX market, and it is crucial that this investment is maintained going forward. We look forward to the outcome of the review of the Code in 2024.

Yours sincerely

John C. Williams

John Williams
Chair, Markets Committee