FX Global Code: May 2016 Update

This is 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) is being 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 is being 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 robust and clear policies, procedures, and organisational structure in place to promote responsible engagement in the 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.

- 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.

- Risk Management and Compliance: Market Participants are expected to promote and maintain a robust control and compliance environment to effectively identify, measure, monitor, 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 the laws and regulations applicable to them and to the FX Markets in which they conduct their business.

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 will 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, whether deliverable or non-deliverable and including but not limited to spot, forward, options, [futures[2]], swaps, 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

2 The relevance and applicability of the Global Code to FX futures activity is being evaluated as work toward the Global Code continues, particularly with regard to ongoing work on the execution section.

(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;
- quasi-sovereigns and supranationals;
- 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 high frequency trading strategies and/or offering algorithmic execution;
- brokers (including retail foreign exchange brokers), investment advisers, aggregators, and analogous intermediaries/agents;
- 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 and money changers, 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.

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.

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.

GOVERNANCE

GOVERNANCE LEADING PRINCIPLE:

Market Participants are expected to have robust and clear policies, procedures, and organisational structure in place to promote responsible engagement in the FX Market.

[This section is in development as content to be published May 2017 as part of phase 2 of this work. This section is expected to include content related to the policies and procedures to support the principles within the Global Code and other material relevant to Governance.]

INFORMATION SHARING

INFORMATION SHARING LEADING PRINCIPLE:

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

PRINCIPLE 1

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.

For a discussion of Market Colour, please see Principle 4 below.

PRINCIPLE 2

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;
- 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 3

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 4

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 broad;

- 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.

PRINCIPLE 5

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.

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.

(NOTE: Principles related to electronic trading (including algorithmic operators and users), Trading Venues, Brokers, prime brokerage, and unique features of FX swap, forward, and options transactions topics are in development as content to be published in May 2017 as part of phase 2 of this work. As this material is developed and additional feedback on the phase 1 text on execution is received, it will likely require changes to the text below.)

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. The phase 1 principles developed below focus on the activities of all Market Participants who are parties to transactions (or who act as direct Agents of a party to a transaction) and the execution of Client orders. Within the Global Code, Market Participants encompass both those who place, and those who execute such orders. We expect to enhance the articulation of good practices underlying the execution principles in phase 2 and will consider feedback on this material as appropriate.

The FX Market has traditionally operated as a Principal-based market, where Market Participants who handle Client orders and Clients both act in a Principal capacity, although Agency-based execution also takes place. The same Market Participant may handle Client orders in one instance and place orders with other Market Participants in another. Trading Venues may have different obligations that will be considered in phase 2 text.

PRINCIPLE 1

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 2

Market Participants should handle Client orders fairly and with transparency.

Market Participants are expected to handle Client orders with fairness and transparency. How this is done, and what the relevant good practices are, may vary depending upon the role in which those Market Participants are acting as described in Principle 1 above. As stated, the FX market has traditionally operated as a Principal-based market, though Agency-based execution also takes place. Accordingly, this principle takes into account both Principal and Agency models. In addition, certain order types may entail additional considerations, as described below.

Roles

Irrespective of their role, all Market Participants handling Client 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; 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.

Market Participants should make Clients aware of such factors as:

- 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, time-stamping policy, both when the order is accepted and when it is triggered or executed.

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 Information Sharing Principle 1.)

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 Information Sharing, Principles 1 and 2.)

PRINCIPLE 3

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.

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

- 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 4

Market Participants should not request transactions with the purpose of disrupting the market.

Market Participants should not request FX transactions with the intent to disrupt the market and Market Participants handling Client orders may decline a transaction where there are grounds to believe that the transaction is meant to disrupt the market.

There are certain transactions that may be required in the course of business, for example transactions related to merger and acquisition activity, which could have a sizable impact on the market. These transactions should be appropriately monitored and executed by the relevant Market Participants.

PRINCIPLE 5

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 order 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 6

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.

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, measure, monitor, manage, and report on the risks associated with their engagement in the FX Market.

[This section is in development as content to be published May 2017 as part of phase 2 of this work.]

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 1

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 2

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 3

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 4

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 5

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 Information Sharing Principle 2).

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 6

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 7

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 8

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 9

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 10

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.

PRINCIPLE 11

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.

PRINCIPLE 12

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 13

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 14

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 below are intended to help illustrate concepts drawn from the principles. They are highly stylised examples that could occur under many different circumstances. Accordingly, they are not intended to, and should not be understood to, provide safe harbour.

Information Sharing Section Examples on Market Colour

Examples of inappropriate communication of Market Colour include:

- ✗ Bank salesperson to hedge fund: We've just seen large USD/KRW demand from XYZ (where 'XYZ' is a code name for a specific Client).
- ✗ Asset manager to bank market maker: I hear that you've been a big buyer of GBP/USD. It is for the same UK corporate again?
- ✗ Broker to bank market maker: European banks are currently bidding for 1-month at-the-money USD/JPY volatility in size.
- ✗ Corporate to bank market maker: If you sold 500m EUR/USD for me now, how much do you think you could move the rate?

These communications are not properly aggregated or anonymised. It is inappropriate to communicate or solicit information related to an individual flow or related to a specific Client, to associate individual flows with a Client directly or using code names, to discuss intention to trade at specific levels, or suggest an intention to disrupt the market.

Examples of appropriate communication of Market Colour include:

- ✓ Bank salesperson to hedge fund: We saw large USD/KRW demand from Real Money names this morning.
- ✓ Asset manager to bank market maker: Can you give me some colour around the 100 point rally in GBP/USD in the past hour?
- ✓ Broker to bank market maker: We've seen strong demand for 1-month at-the-money USD/JPY volatility from European banks this morning.
- ✓ Corporate to bank market maker: What is liquidity like in EUR/USD at the moment in terms of market depth for EUR 50m, 100m or 200m?

These examples of communication and solicitation of Market Colour are appropriate so long as they are properly aggregated or anonymized and restricted to seeking information on market liquidity and sharing market views and opinions without disclosing specific trading positions or intention to trade.

Examples of inappropriate communication of Confidential Information include:

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

- ✗ Bank market maker to another bank market maker: I'm being asked to quote a two way price in USD 150m in USD/MXN. What does your bank's pricing matrix show in terms of spread?

These communications share some form of Confidential Information. It is inappropriate to communicate information contained in unpublished research, share sensitive information received on other Market Participants' axes or flows, share proprietary spread matrix information, or share order information, including around upcoming fixing activity, to individuals without a valid reason for that information.

Examples of appropriate communication safeguarding Confidential Information include:

- ✓ Bank 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.
- ✓ Asset manager to bank market maker: Thanks for calling to see if we have interest in EUR/SEK. We don't have interest today and I will keep the information to myself.
- ✓ Bank market maker to another bank market maker: We don't market make in USD/MXN. Can you quote me a two way price in USD 150m?

These communications deal sensitively with some form of Confidential Information. It is appropriate to communicate information contained in research only after it is published, handle information received on other Market Participants' axes sensitively, solicit pricing and spreads from other market makers when seeking liquidity and not serving in a position as a competitor market maker sharing pricing structures, communicate internally on orders only when appropriate.

Execution Section Examples on handling a Client Stop Loss Order

An example of inappropriate handling of a Client Stop Loss Order includes:

- ✗ Asset manager leaves an order with XYZ Bank to sell 50m USD/CAD at 1.27 on a stop-loss with vague or no instructions. The XYZ Bank helps trigger the stop-loss by selling ahead of the level and informs the Client 30 minutes after the order is executed that it was done at 1.2685, citing gappy price action when in fact a lot of volume went through between 1.27 and 1.2685.

An example of appropriate handling of a Client Stop Loss Order includes:

- ✓ Asset manager leaves an order with XYZ Bank to sell 50m USD/CAD at 1.27 on a stop-loss with instructions to execute the order once 1.27 trades. XYZ Bank starts executing the order once 1.27 trades in the market. XYZ Bank immediately notifies the Client that the stop-loss order has been executed and is filled at 1.2695, which is in line with the Client's expectation based on the time of the day and the volume traded at the time the order is executed.

Execution Section Examples on Pre-Hedging

Examples of inappropriate Pre-Hedging practices include:

- ✗ XYZ Fund indicates to a salesperson at a bank that they will need to buy 500m EUR/USD at the market and shortly after, sends a trade instruction to ABC Bank requesting execution of the specified FX transaction. ABC Bank accepts the order request but enters the market and begins to buy 200 mEUR/USD for its own account ahead of working the Client's order while ignoring XYZ Fund's order request and without filling any of the Client's order.

Execution Section Examples on Mark Up

Examples of inappropriate Mark Up practices include:

- ✕ A Market Participant receives a Client order to stop sell GBP/USD at 1.5000. As 1.5000 was traded in the market, the Market Participant executes the stop-loss order covering at 1.4998. The Market Participant fills the Client at a rate at 1.4990 after taking Mark Up and without disclosure to the Client that the all-in price may include Mark Up.

Market Participants should be clear and transparent about the application of Mark Up when acting in a Principal capacity. They should disclose where the inclusion of Mark Up will impact the potential execution of a Client's order.

- ✕ A Client asks a Market Participant to fill an order to sell 50m USD/JPY and to confirm the details at a later time period. The Market Participant adds a higher Mark Up than normal, by filling the order further away from the actual executed rate, but within the day's trading range.

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 decided by the daily range of the day. If the Mark Up details are requested by the Client, the Market Participant should make the best effort to explain the factors that help determine the Mark Up.

ANNEX 2: GLOSSARY OF TERMS

Agent: A Market Participant that negotiates or executes a trade on behalf of a Client.

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.

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.

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: As defined 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 or indirect benefit (e.g. for their immediate family members or other close parties).

Personnel: Staff within a Market Participant.

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

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