Mr Guy Debelle
Chair
Global Foreign Exchange Committee

30 January 2020

Assessment of the effectiveness of the FX Global Code

Dear Guy

When the FX Global Code (Code) was launched in 2017, the Global Foreign Exchange Committee (GFXC) announced that it would undertake a review of the Code at least every three years, such that it would remain relevant and reflect evolving developments in the global FX market. The first review would take place in 2020.

The BIS Markets Committee (MC) was also asked by the Governors of the BIS Global Economy Meeting (GEM) to assess the effectiveness of the Code, with recommendations to be provided to the GFXC as input to its review of the Code. In this letter, I would like to share with you the key takeaways and recommendations from our assessment.

The scope of the assessment included: (a) breadth of Code adoption; (b) effectiveness of adherence mechanisms; and (c) effect of the Code on market behaviours and market functioning. The assessment exercise leveraged findings from the GFXC surveys of market participants and other market information, as well as discussions at MC meetings.

For the Code to be successful, it is vital that market participants from all segments recognise that adherence to the Code is an implicit part of their participation in the global FX market. An important tool to publicly demonstrate adherence to the Code is the Statement of Commitment (SoC). Since the launch of the Code, we are encouraged to have seen a significant and growing number of market participants adopting the Code and publishing their SoC on the Global Index of Public Registers (Global Index), which is on the GFXC website.[1]

Another positive development has been the expansion of the GFXC membership, with 10 new Local Foreign Exchange Committees (LFXCs) being established since the launch of the Code. The GFXC membership represents a major portion of global FX turnover, which will support the GFXC's outreach efforts in getting more market participants to embrace, adopt and adhere to the Code. The Code has also become the "de facto reference or focal point" for FX-related issues, and has featured prominently in industry conferences and journals.

1 www.globalfxc.org.

Adherence to the Code has also been facilitated by the efforts of, and the many useful tools developed by, the market and the GFXC. These include the launch of public registers and the Global Index, the publication of educational and guidance material on the GFXC website, and the provision of training and consultancy services by the market. In the process, an industry ecosystem centred on the Code has been created, which has helped to shift mindsets on improving behaviour in the FX market as the Code becomes increasingly embedded in the FX market. We also acknowledge that the effect of the Code on market behaviour has been broadly positive based on market feedback and takeaways from the GFXC annual surveys. Looking ahead, the GFXC, in cooperation with relevant market participants, could further study the Code's impact on market functioning.

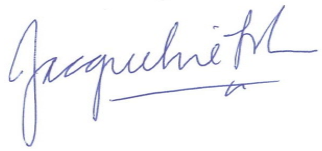
While a lot has been accomplished since the launch of the Code, there are areas for improvement. To date, only a fraction of the largest buy-side participants, such as asset management firms, have adopted the Code. As their share in global FX trading increases further, it is important that they adopt the Code to ensure a fair and effective FX market for all. To that end, while the GFXC has been actively encouraging buy-side adoption through various initiatives, it could explore additional ways to further embed the Code, eg to mobilise public authorities and market participants to make the case for signing up at the most senior levels of buy-side firms. The GFXC could also explore enhancements of existing adherence mechanisms, such as by providing increased clarity on the principle of proportionality.

Moreover, transparency and disclosure of trading practices on anonymous trading platforms and of the roles and responsibilities of different market participants, including prime brokers, can be further improved. In addition, guidance relating to disclosures on algorithmic trading or aggregation services can also be enhanced in terms of their breadth, quality and consistency.

For the Code to have its intended effect, the GFXC and LFXCs should continue to strengthen their engagement with market participants, eg through industry outreach events, the annual GFXC surveys, and tailored content such as webinars, to facilitate the GFXC's communication and enhance the Code's standing in the FX market. Furthermore, the GFXC should remain forward-looking in considering future adjustments and additions to the Code, while taking into account the burden imposed on the market. This will be helpful in reflecting the changing FX market landscape and market behaviours to ensure that the Code continues to be a relevant and dynamic platform on which to discuss evolving issues.

We look forward to the GFXC's review of the Code in 2020. Good market practices benefit both the individual institution and the FX market as a whole. We strongly believe that the Code will continue to play an important role in shifting mindsets and enhancing market behaviours and market functioning.

Yours sincerely



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