

# FX Global Code Public Update on Adherence May 2016

## PUBLIC UPDATE ON ADHERENCE

The Foreign Exchange Working Group (FXWG) was established by the BIS Governors to strengthen code of conduct standards and principles in foreign exchange markets. The motivation for this work derives from the desire to promote integrity and restore confidence in the wholesale foreign exchange market (FX market) in light of the recent cases of misconduct.

The Global FX Code (Global Code) is intended to become an integral part of the FX market globally, and articulate the good practices with which Market Participants<sup>1</sup> and their counterparties are expected to conduct their business. For the Global Code to have the desired effect of promoting a robust, fair, liquid, open, and appropriately transparent FX market, it will need to be embraced and adopted by a wide range of Market Participants across various segments of the market. This will be bolstered if Market Participants are able to recognise benefits from embedding the standards of the Global Code in their business practices and demonstrating to others that they have done so.

The idea of a code of good practice setting out appropriate market behaviour and standards is not new: such codes have long existed in financial markets, including FX, as the basis for trade. Codes can serve an important role in well-functioning financial markets, by enabling participants to affirm norms of appropriate behaviour that go beyond those minimum standards that are established by local law and regulation. The Global Code builds on the existing set of best practices developed and/or endorsed by the various regional Foreign Exchange Committees (FXCs), such that all sections of the global FX market are able to confidently and effectively transact with a shared understanding of acceptable standards of behaviour.

The Global Code will not impose legal or regulatory obligations on Market Participants, nor will it supplant existing regulatory standards or expectations. There is already a substantial body of law and regulation that applies to the FX activities of many Market Participants, and this varies significantly across jurisdictions. This variation, coupled with the diverse nature of FX markets globally, means that a “one size fits all” approach to adherence would not be appropriate. However, adherence will need to strike the right balance between being adequately flexible to respect the existing diversity across different markets, and maintaining consistency with regard to what is a global initiative. In that regard, how Market Participants embed the Global Code in

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<sup>1</sup> Guidance on who is considered a ‘Market Participant’ for the purposes of the Global Code is set out in the Foreword to the draft Code at pages 4-5.

their culture and day-to-day practices, and demonstrate their adherence to it, should be proportionate and appropriate to the type of participant and the context of the local financial markets in which they operate. It is however important for all Market Participants to be open and transparent about how they adhere to the Global Code. This should provide a positive signal of their commitment to adopt and promote good market practices, and also facilitate market discipline.

The FXWG has undertaken some preliminary analysis of mechanisms that could be used to create incentives for individual adherence. Over the coming year the FXWG will work closely with a wide range of Market Participants and relevant associations to facilitate the development of market-based mechanisms to embed the Global Code within firms' culture and practices, as well as to monitor and demonstrate adherence to the Global Code as appropriate. This will build upon existing work and initiatives, and draw upon examples from outside the FX market, with the aim of ensuring that the Global Code becomes part of the fabric of the FX market.

## A strong commitment to the Global Code

Market Participants and central banks around the globe are working together to create a strong set of principles for the Code.<sup>2</sup> Both have made significant contributions to drafting the sections of the Global Code published today, demonstrating their shared commitment to promoting the integrity and effective functioning of the FX market.

### *Foreign Exchange Committees (FXCs)*

The regional FXCs have been actively involved in this process and have confirmed that their members intend to endorse and support widespread adherence to the Global Code when it is launched in May 2017. The FXWG expects the members of the regional FXCs to play a substantial role in promoting the effective and transparent adoption of the Global Code in the years ahead. Accordingly, the FXWG has suggested that the various committees consider over the next year whether adherence to the Global Code should become a pre-requisite for achieving and maintaining membership going forward.

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<sup>2</sup> To support the FXWG, a market participants group (MPG) was established, which draws on both the sell side and buy side of the market as well as FX trading platforms.

### *Market infrastructure*

Market infrastructures are a central component of the FX market and have an important role to play in encouraging and promoting adoption of the Global Code across the market. Accordingly, the FXWG has started to engage with a number of key infrastructure providers to support development of measures that will promote and facilitate adherence to the Global Code amongst their members.

### *Central banks*

Demonstrating their strong commitment to support and promote adherence to the Global Code, the central banks in the FXWG, where they act as Market Participants themselves, intend to adhere to the principles and standards of the Global Code after it is finalised, except where this would inhibit the discharge of their policy functions.

Further, when transacting in the FX market, these central banks will seek to benefit from the principles of good practice set out in the Global Code. As such, they will expect that their regular FX trading counterparties embed the Global Code in their culture and practices, and adhere to it. Subject to the effective discharge of their policy functions, central banks will take account of whether a Market Participant adheres to the Global Code when selecting their regular FX trading counterparties after the Global Code is finalised.

## **Adoption of the Global Code**

It will take time for some Market Participants to fully adopt the principles of the Global Code into their internal practices. Whilst it may be relatively easy to incorporate aspects of the Global Code into an internal policy or process, effectively embedding change in areas such as culture, training, system development, monitoring and assurance, will take longer. However, the FXWG expects that Market Participants will seek to adopt the Global Code expeditiously, and to support this, the FXWG will publish further guidance on the approach to adherence alongside the final Code in May 2017.

The sections of the Global Code published today are intended to be a strong indicator of the direction of travel, however, the text is not yet final, and Market Participants should note that some aspects may change before the final Code is published in May 2017. Nevertheless, the FXWG and MPG anticipate that Market Participants will promptly familiarise themselves with

these sections, and, to the extent that these sections extend beyond the scope of existing practices and standards, take account of them in the context of their FX activities.