RESERVE BANK OF AUSTRALIA

GLOBAL CODE OF CONDUCT FOR THE FOREIGN EXCHANGE MARKET: PHASE 1

Guy Debelle
Assistant Governor (Financial Markets)

Launch of Phase 1 of the Global Code of Conduct for the Foreign Exchange Market
New York – 26 May 2016

GLOBAL CODE OF CONDUCT FOR THE FOREIGN EXCHANGE MARKET: PHASE 1

I am very pleased to launch Phase 1 of the Global Code of Conduct for the Foreign Exchange Market. It has taken a concerted effort by a dedicated group of people, working on top of their normal responsibilities, to get us to this point today.

Before talking about the material we have put out today, let me remind you why this work is occurring. As I have stated on previous occasions, the foreign exchange (FX) industry has suffered from a lack of trust in its functioning. This lack of trust has been evident both between participants in the market, but at least as importantly, between the public and the market. The market needs to rebuild that trust, so that participants and the public have much greater confidence that the market is functioning appropriately.

A well-functioning foreign exchange market is very much in the interest of all market participants. This clearly includes central banks, both in their own role as market participants but also as the exchange rate is an important channel of monetary policy transmission. In a globalised world, the foreign exchange market is one of the most vital parts of the financial plumbing.

The Global Code sets out global principles of good practice in the foreign exchange market to provide a common set of guidance to the market, including in areas where there is a degree of uncertainty about what sort of practices are acceptable, and what are not. This should help to restore confidence and promote the effective functioning of the wholesale FX market.

To that end, one of the guiding principles underpinning our work is that the Code should promote a robust, fair, liquid, open, and transparent market. A diverse set of buyers and sellers, supported by resilient infrastructure, should be 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 work to develop the Global Code commenced in May last year, when the Bank for International Settlements (BIS) Governors commissioned a working group of the Markets Committee of the BIS to facilitate the establishment of a single global code of conduct for the wholesale FX market and to come up with mechanisms to promote greater adherence to the code.[1]

There are two important points worth highlighting: first, it's a single code for the whole industry and second, it's a global code. It's intended to cover all of the wholesale FX industry. This is not a code of conduct for just the sell side. It is there for the sell side, the buy side, non-bank participants and the platforms; its breadth is both across the globe and across the whole structure of the industry. The Code is intended to apply to all aspects of the wholesale foreign exchange market.

1 http://www.bis.org/press/p150511.htm

I am chairing this work, with Simon Potter of the Federal Reserve Bank of New York leading the work on developing the Code and Chris Salmon of the Bank of England leading the adherence work. Our Working Group comprises representatives of the central banks of all the major FX centres in both advanced and emerging economies, drawing on the membership of the Markets Committee which is comprised of heads of the market operations areas of the 15 major currency areas. Given our roles, we are all very much interested in the effective functioning of the FX market. Again, it is very much a global effort reflecting the global nature of the foreign exchange market.

This work is also very much a public sector-private sector partnership. In that regard, we are being ably and vigorously supported in this work by a group of market participants, chaired by David Puth, CEO of CLS. The group contains people from all around the world, on both the buy side, including corporates and asset managers, and the sell side, along with trading platforms, ECNs and non-bank participants, drawing from the various Foreign Exchange Committees (FXCs) and beyond. Hence all parts of the market are being involved in the drafting of the Code to make sure all perspectives and insights are heard and appropriately reflected. At the global meeting of the Foreign Exchange Committees yesterday, the eight regional FXCs unanimously endorsed the first phase of the Code.

At the outset we decided to split the topics we intend to cover in the Code into two parts. This first phase covers areas such as ethics, information sharing, aspects of execution and confirmation and settlement. The second phase will cover further aspects of execution including e-trading and platforms, prime brokerage, as well as governance, and risk management and compliance. We intend that the second phase will be completed in twelve months, such that the full Code can be published in May 2017.

One factor influencing our choice of which topics to cover in the first phase was our assessment of what issues the market was looking for clarity on sooner rather than later. We have attempted to provide greater clarity on issues such as information sharing and order handling in the document released today.

Alongside drafting the Code, we have also been devoting considerable time and effort to thinking about how to ensure widespread adoption of the Global Code by market participants. Clearly, that has been an issue with the various existing codes that have been in place in a number of markets over many years. It is evident that they were ignored on occasion, wilfully or otherwise.

As I said earlier, we are working with the industry to produce a principles-based code of conduct rather than a set of prescriptive regulatory standards. It will not impose legal or regulatory obligations on market participants, nor will it supplant existing regulatory standards or expectations. But we do expect the principles in the Code to be understood and adopted across the entire FX market.

So we are setting out today our overall approach to adherence to the Code and we intend to work closely with market participants in the coming year to facilitate the development of market-based mechanisms which demonstrably embed the Global Code within firms' culture and practices. These mechanisms need to be sensitive to existing law and regulation and to the diverse nature of FX markets globally. Hence a 'one size fits all' approach to adherence would not be appropriate. We need to strike the right balance between respecting the existing diversity across different markets, and establishing globally consistent and effective adherence mechanisms.

The success of the Global Code in promoting integrity and restoring confidence in the wholesale FX market lies in the hands of its participants. That is why the Global FXCs have issued today a joint statement of support making clear their intention for the Global Code to become an integral part of the wholesale FX market.

Furthermore the BIS central banks are today signalling their commitment by announcing that they themselves will follow the Code, and that they expect that their counterparties will do so too.