

## Jacqueline Loh: The FX Global Code – one year on

Keynote address by Ms Jacqueline Loh, Deputy Managing Director of the Monetary Authority of Singapore, at the 14th FX Week Asia Conference, Singapore, 29 August 2018.

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Ms Eva Szalay, Editor, FX Week,

1 Ladies and gentlemen, good morning. How time flies. It did not seem too long ago when I was invited to speak at last year's conference and I am very happy to be here again at the 14th FX Week Asia Conference.

2 Last year, I shared the launch of the FX Global Code (or the Code), its unique features and the elements that have been put in place to promote industry adherence. One year has passed, and it is timely to review developments since the launch of the Code and its impact on the global FX industry. More importantly, I would like to share with you, the priorities ahead to further embed the Code within the global FX market.

### **FX Global Code: Overview**

3 I am sure that by now, most of you would have heard of the Code. But for the benefit of those who may not have, let me provide a quick overview.

4 The Code was launched in May last year by the Bank for International Settlements (or BIS) as a single, global code of conduct for the wholesale FX market.

- ♦ It was developed over 2 years through a public-private partnership between central banks and key FX market participants.
- ♦ The Code's content reflects good practices where clarity is needed, and applies to all wholesale market participants, including sell-side, buy-side, trading platforms and other market infrastructure.
- ♦ The Code incorporates the principle of proportionality, given the diverse nature of market participants.
- ♦ The Code is now owned and maintained by the local Foreign Exchange Committees (or FXCs), through the Global Foreign Exchange Committee (or the GFXC).
  - ♦ The GFXC is chaired by Mr Simon Potter, Executive Vice President of the Federal Reserve Bank of New York, and has two newly appointed Co-Vice Chairs from the private sector – Mr Adrian Boehler, Global Co-Head of FX Local Markets & Commodity Derivatives at BNP Paribas, and Mr Akira Hoshino, Managing Director and Head of Global Markets Trading at MUFG Bank.

### **FX Global Code: A Look Back**

5 Since the launch of the Code, we have been fully committed to promoting adherence in our respective markets by market participants, from both sell- and buy-sides, to the Code. One year on, the GFXC has done a "stock-take" of our achievements, and I will share some of these with you today.

6 First, on awareness and commitment to the Code. On this front, the GFXC, together with the FXCs in each jurisdiction, has made good progress.

- ♦ A key part of the Code is the Statement of Commitment. This is a single, common basis by which each market participant can demonstrate that it commits to adhere to the Code.
- ♦ One year on, we have seen a significant number of market participants from all over the

world using the Statement as a means to demonstrate adherence to the Code.

- ♦ To lead by example, many central banks, including MAS, have also issued Statements and published these on our websites. Central banks have also requested that our FX counterparties issue the Statement. Many FXCs have linked membership of the FXC with Code adherence. These efforts have resulted in a “bumper crop” of Statements being issued at the one-year anniversary of the Code.
- ♦ We have also seen about 12 public registers being established in response to market demand. These are repositories where market participants can publish their Statements, to publicly demonstrate adherence to the Code.
- ♦ In addition, the GFXC launched a Global Index of Public Registers (or the Global Index) in May this year, which links these public registers.
  - ♦ The Global Index has a search function which enables the quick identification of market participants that have published Statements on the participating public registers.
  - ♦ As at mid-August, the Global Index had about 420 Statements, from 9 participating public registers.
  - ♦ The GFXC is continuing with efforts to include more public registers, and this will be an important and highly visible way to track adherence progress to the Code.
- ♦ The GFXC has also been expanding its membership to include more jurisdictions. From the original 8 FXCs, we have seen a number of new FXCs being established in the last year. These include the FXCs in Mexico, South Africa, Scandinavia and Switzerland. Through the membership expansion, the Code will become more global as these FXCs promote the adoption of the Code within their jurisdictions.

7 Second, on embedding the Code and integrating it into the FX market. If done well, we should see market behaviours reflect the good practices set out in the Code.

- ♦ We have seen that the process of issuing the Statements has prompted internal reviews within many firms, where market participants considered how the Code could apply to their business. In issuing our Statement, we have done the same in MAS. It has been a helpful and meaningful exercise to benchmark our internal processes against these good practices.
- ♦ We have also seen a number of training tools being developed by market participants to support learning, and these have enhanced the ecosystem of good practices within the FX market.
- ♦ Another key area where we think the Code has enhanced market behaviour is that a number of market participants have updated client disclosures to provide greater transparency, and to incorporate the principles within the Code.

8 Third, on evolution of the Code. When the Code was launched, the GFXC has stated that the Code will need to evolve over time to promote a robust, liquid and transparent FX market.

- ♦ The Code has become the platform or reference point for discussing issues relating to the FX market. This is a good outcome where emerging issues are identified, debated and addressed within the Code. And this is an important element to keep the Code relevant over time.
- ♦ Over the past year, the GFXC has also consulted on a particular aspect of Principle 17 on “last look”. Through that consultation process, the Code has been updated. Feedback from market participants has indicated that the consultation process in place is an appropriate one to update the Code going forward.
- ♦ It has also been heartening to hear feedback from many FXCs at the recent GFXC meeting that the Code is “fit for purpose”. There is also general acknowledgement that the Code provides a credible platform to further strengthen good practices and market behaviour.

9 Having looked back on our achievements over the past year, the GFXC is committed to build on the momentum to further promote the Code.

10 I will share briefly on the GFXC's key priorities in the year ahead.

### **FX Global Code: Looking Forward**

11 First, to step up outreach efforts to the buy side. To those in the audience from the buy-side, you are important participants in the global FX market whom we will engage further.

- ♦ The Code is intended to promote a more transparent, liquid, fair and sustainable FX market for all FX market participants. It is not a Code for the sell-side only, nor is it for only select groups of the market. It is single Code that has relevance to all who have a stake in the global FX market.
- ♦ While we have seen about 420 Statements on the Global Index, only a small number are from buy-side market participants. At the global level, there is acknowledgement that more can be done to demonstrate to the buy-side community the benefits of the Code, and to articulate more clearly the benefits of adherence.
  - ♦ For example, the Code helps the buy-side understand the practices that your counterparties abide by, and helps to inform what you should expect from the relationship, and in turn, who you may want to transact with.
  - ♦ The Code also provides a useful opportunity for the buy-side to benchmark your internal processes against global standards of best practices.
- ♦ The GFXC has launched a group that will focus on buy-side outreach to create greater awareness and adoption of the Code. This will not be an effort bound by time, but will be a journey and one which we are committed to.
- ♦ In Singapore, we have seen strong support from buy-side associations and we will continue to encourage Singapore-based buy-side market participants to issue Statements to demonstrate adherence.

12 Second, to continue the existing work on cover and deal which arose in response to the feedback received from the consultation on "last look" practices, and to strengthen FX disclosures.

- ♦ On this front, further work will be done to understand the role that disclosures play in informing market participants how their trade requests are handled in 'cover and deal' arrangements.
- ♦ In addition, the GFXC hopes to develop a framework that can assist market participants to review or develop their client disclosures, and to identify any challenges to appropriate transparency.

13 Third, to continue to embed and integrate the Code into the FX market.

- ♦ A survey was conducted by the GFXC last year, to assess the industry's baseline in Code awareness and adoption. We plan to conduct another survey later this year, to see how market participants are embedding the Code and how practices and behaviours have evolved.
- ♦ This survey will be rolled out across the key FX jurisdictions likely through the FXC network. We look forward to your active participation when the survey is rolled out. From the survey findings, we hope to identify ways to deepen adoption and broaden awareness over time and across jurisdictions.

14 These efforts need the support of you as market participants, and we hope that you can do

your part in promoting the good practices set out in the Code, from your respective vantage points and positions within the FX market.

### **Singapore's approach**

15 Last year, I shared that the Singapore Foreign Exchange Market Committee (or SFEMC) has taken on the responsibility to promote and encourage adherence to the Code in Singapore.

16 Given Singapore's position as the preeminent FX centre within the Asian time zone, it is important for us to continue to take a leading role in adopting the Code.

17 One year on, I am proud to share that all SFEMC members, across sell-side and buy-side, have issued Statements to the Code. A significant number of banks operating in Singapore have also already issued the Statements, with many of them publishing these Statements on their websites and public registers. Notwithstanding this commendable outcome thus far, SFEMC will continue to work with the key industry associations in Singapore to further promote and embed the Code. For example, we have recently collaborated with the Association of Banks in Singapore to encourage all banks with FX operations in Singapore to issue Statements by the end of this year.

18 SFEMC will also be establishing a public register in the second half of this year, for market participants in Singapore to post their Statements. This is in response to demand from market participants.

19 SFEMC believes that having such a public register in Singapore would help in our promotion efforts in getting more market participants, particularly buy-side entities, to issue Statements to the Code.

20 Where your firm has issued a Statement, we welcome you to publish your Statement on the SFEMC public register when this is ready.

### **Developing Singapore to be an e-trading hub for FX**

21 I am confident that the Code will further strengthen the integrity and vibrancy of our FX market. This will complement our co-creation efforts with industry players, like yourselves, to grow the FX market further. These initiatives are set out in the Financial Services Industry Transformation Map (or ITM), a roadmap that paints Singapore's vision as a leading global financial centre in Asia in 2020.

22 In the ITM, our action plan includes the following:

- ♦ First, growth strategies by business lines – leveraging global and regional opportunities, and strengthening our position in activities where we already have a strong competitive advantage;
- ♦ Second, innovation and technology adoption – embracing innovation, sharpening our competitiveness and injecting even greater dynamism into the sector;
- ♦ Third, programmes for upgrading skills – expanding and deepening our talent pool.

23 I will briefly share two areas of relevance to this audience. The first area is on the strategy to grow our FX market into the e-trading centre in this time zone.

- ♦ Today we are already an established international financial centre and FX market, ranked third globally after London and New York by FX volumes.
- ♦ In the next phase of our transformation, we want to become a global FX pricing and liquidity centre, operating in the Asian time zone.

- ♦ Many of you have provided valuable feedback to MAS that there is further opportunity for price discovery of Asian FX trading to take place in Singapore. As Asia's FX trading needs grow, and as electronification of Asian FX trading progresses, there is a need for a more efficient price discovery venue where pricing and matching of FX trades take place.
- ♦ We aim for Singapore to be the e-trading ecosystem in the region. We are encouraging and working with key FX players and platforms to anchor their e-trading facilities, matching and pricing engines in Singapore.
- ♦ As the e-trading ecosystem builds up, this will bring about
  - ♦ better connectivity and latency;
  - ♦ enhance pricing and trade execution; and
  - ♦ improve clients' trade fill-ratios and hence customer satisfaction, for market participants operating in Singapore and the Asia Pacific region.
- ♦ To date, MAS has received good interest from a strong pipeline of players – global tier 1 banks, non-banks and platforms – looking to set up their trading engines in Singapore. XTX Markets and our own home-grown Spark Systems are good examples of the first movers as a start. We will see more in time to come.

24 Next, skills. Complementing the business strategies and innovation agenda will be an active SkillsFuture programme to help the financial sector workforce build world-class skills.

- ♦ The financial industry is no stranger to transformation. It was not too long ago that exchanges were physical floor trading venues where buyers and sellers met and negotiated. But look at how that has changed today.
- ♦ The financial industry has been nimbler than other industries in the adoption of technology and data. As we enhance our market structure, analysis and business processes with the use of artificial intelligence (or AI), algorithmic trading, big data and coding skills, and new financial technology such as distributed ledger technology, the nature of job roles in the FX market will continue to evolve too.
- ♦ MAS and key industry associations such as ACI Singapore, the Institute of Banking and Finance (IBF), Association of Banks in Singapore (ABS), are committed to equip our financial workforce with the necessary skills and knowledge through seminars and other training programmes.
- ♦ MAS will also continue to collaborate with financial institutions, the tripartite partners, and institutes of higher learning to build a strong local pipeline of specialised talent, particularly in areas such as information technology, computing, data analytics.

25 If we can do well in these two key areas, it will position our FX market and participants to capture growth opportunities and serve the needs of the Asian markets.

## **Conclusion**

26 Promoting and embedding the Code within the global FX market and in Singapore, is a journey that we have committed to. We hope that you can support these efforts, from your firms and in your individual capacity as market participants.

27 We have also co-created our medium term business strategies with market participants like yourselves, and we are committed to making them work, and bringing more innovation into the market place.

28 With this, I hope that you will have a productive and rewarding conference ahead.