

Christopher Kent: Opening panel remarks - FX Week Australia

Opening panel remarks by Mr Christopher Kent, Assistant Governor (Financial Markets) of the Reserve Bank of Australia, at the FX Week Australia, Sydney, 27 March 2019.

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Thanks to FX Week for the invitation to discuss the FX Global Code.

When the FX Global Code was launched in 2017, the aim was that it would promote a robust, fair, liquid and transparent wholesale market. To do that, the Code sets out principles of good practice.

As awareness of the Code builds and more market participants commit to adhering to its principles, standards will no doubt improve across the market. The Code has already gained significant traction in the marketplace.

A recent survey of market participants by the Global Foreign Exchange Committee (GFXC) confirmed that awareness of the Code within the industry was now very high. Almost all of those surveyed had read part or all of the Code. Furthermore, the vast majority of respondents indicated that they expected or required their counterparties to adhere to the Code. Globally, there are now more than 800 firms that have signed Statements of Commitment to the Code and lodged them on public registers.

So what do we need to do from here? Globally, it is clear that the sell-side have embraced the Code. What appears to be missing is comparable take-up from the buy side. This is as apparent in Australia as it is in other jurisdictions. To some extent, this could be just a lag as buy-side participants take longer to complete the process of reviewing the Code and aligning their practices to it. Encouragingly, the GFXC's survey showed that while current take-up from the buy-side was low, many of the buy-side respondents indicated that they did intend to adhere and some of those had already begun the process.

More broadly, though, the GFXC is conscious that greater take-up from the buy-side will be needed and the GFXC is actively looking at ways to achieve that end.

For those in the audience from the buy-side the question I would put to you is: can you justify to your stakeholders — whether they are your investors (if you are a fund manager) or shareholders (if you are a business) — why you have not adopted a set of principles which represent industry best practice when you are managing their money?

The widespread adoption of the Code will benefit everyone involved in the FX industry, regardless of where you sit in the market.

It is worth noting the Code is principles-based rather than rules-based. This is to encourage market participants to think about their practices and how their activities comply with the principles, rather than working narrowly to a set of rules. The Code's application is also designed to be proportional to the FX business that a participant is involved in. Clearly, there are some principles that aren't directly relevant to the buy-side. Most obvious are those principles that deal with handling client orders or client mark ups.

Ultimately, the Code's principles are there to give market participants confidence in how the market is operating. There are numerous ways the Code can promote confidence. It can help to improve price competition as liquidity providers' pricing practices become more transparent to clients. Market participants can also be more confident that good practices around information handling will result in a more level playing field for all.

So I encourage those of you who have yet to familiarise yourselves with the Code to do so. And then consider adopting it. It is a useful tool in many ways, not just to enhance your own practices but, for those on the buy side to gauge what you should expect from your brokers in terms of their execution, the type of market colour they provide and their market practices more generally.

Finally, I should mention the work of the Australian Foreign Exchange Committee (AFXC). This committee contributes to maintaining the Code and promoting it within the local market. Our membership comprises a diverse range of market participants, including those from both the sell-side and buy-side, and also those that provide infrastructure to the market, such as the platforms. So if you are interested to know more about the Code, you could contact any one of the members and ask about their own experiences with the Code.