Guy Debelle: FX Global Code

Keynote address by Mr Guy Debelle, Deputy Governor of the Reserve Bank of Australia, at FX Week USA, New York City, 11 July 2019.

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Thanks to Matt Boge for all his assistance.

Today I will talk about the FX Global Code.[1] I will talk about where we've come from and where we are going.

The Code was first published a little over two years ago in May 2017. It is important to remember why the Code was needed and why it was produced.

Why was the Code necessary? The foreign exchange (FX) industry was suffering from a lack of trust and dysfunction. The public lost trust in the market through the front-page coverage of the scandals that hit the market and the billion dollar fines. This lack of trust was there between participants in the market which was impairing market functioning. The market had to move toward a better place and allow market participants, and the public, to have much greater confidence that the FX market is functioning appropriately.

It is also important to remember what the alternative was in the aftermath of the scandals. There was a decent chance that authorities could conclude that a regulatory response was necessary to generate the desired improvement in market structure and conduct. But the Code provided the opportunity for a joint public/private sector approach to address the lack of trust and market dysfunction.

The Code is not regulation. The Code sets out global principles of good practice in the FX market to provide a common set of guidance to the market. Its aim is to promote the effective functioning of the wholesale FX market.

How have we gone on that? In my view the FX market is in a better place than it was a few years ago. That is confirmed by surveys of market participants too. But there is further progress to be made.

The process for creating the Code was global, coordinated between central banks and the private sector. I was the Chair of the group that produced the Code, with the great assistance of David Puth who led the market participants.

At the time the Code was launched, a Global Foreign Exchange Committee (GFXC) was created to maintain the Code. I have just been appointed as GFXC Chair, taking over from Simon Potter who did a great job of leading the GFXC and over a number of years has been a major driver of change for the better in the global FX market.

The GFXC is a genuinely global committee and the breadth of its reach has continued to expand. Seventeen national or regional FX committees are now full members of the GFXC, including the newly formed committees of Scandinavia, Switzerland and Russia. Smaller currency areas are also encouraged to participate through associate membership of the GFXC.

Each of these local FXCs are committed to promoting the Global Code in their market. Over recent years, we've also seen the local committees expand the breadth of their membership to include more buy-side participants, non-bank liquidity providers, etc.

So what has the GFXC been doing since its formation?

An initial areas of focus was to provide greater guidance around the practice of 'last look'. In reaching its conclusions in this area, it was appropriate for the GFXC to gather input from the full range of interested parties in a consultative, transparent manner. In that instance, the Committee used a public Request for Feedback, with the submissions we received made available on the GFXC's website. The outcome of that process was Principle 17 of the Code. The use of 'last look' will likely always remain controversial and continue to be debated within the industry.

Beyond the text of the Code, the GFXC also has a role to play in promoting wider knowledge of different aspects of the foreign exchange market. Earlier this year, the GFXC published two reports that had been drafted by working groups put together to focus on certain areas of the market. The membership of these working groups was drawn from around the globe, and involved a very wide range of market participants with expertise in the subject matter.

The first report focussed on the trading practices of market participants who seek to avoid market risk when managing trade requests from their clients.[2] This so-called 'cover and deal' arrangement is widely used in certain segments of the market and it's important for clients to know when it is being used by the banks they're dealing with and to understand what that means for them. The GFXC's report should help foster that understanding.

The other report published by the GFXC earlier this year focussed on disclosures.[3] The Code emphasises the role that disclosures can play in promoting integrity and transparency within the market. However, the GFXC's Report identified a number of challenges that limit the ability of disclosures to play that role, ranging from the accessibility of disclosures, their clarity, and the relevance of a lot of the information contained in them. In each of these areas, the report provided guidance to market participants on what characteristics they should be looking for when using disclosures and when they are writing them.

Some of the disclosures in the market clearly conform to the principles articulated in the Code, but some very much push the boundaries. Personally, I am concerned about the disclosures which take the form of 'as long as I warn you, then I can do whatever I want when I want when I am dealing with you' – what might be termed full caveat emptor disclosures. In my view, these type of disclosures are not in the spirit of the Code in helping move the market to a better place.

The challenges around ensuring sufficient transparency on trading capacities and behaviours are particularly acute on anonymous trading platforms. The GFXC is doing further work to bring about greater understanding of how information flows across these platforms, and what roles the different participants play, be they liquidity providers, prime brokers or the platforms themselves.

In describing particular areas of the market and the different trading arrangements that may exist, the GFXC has highlighted how the principles of the Code are relevant to these practices. The reports produced by the working groups have been written with that purpose in mind. Another way of highlighting the applicability of the Code's principles to different settings is through short illustrative examples. The Annex to the Code includes around 50 such examples covering a wide range of scenarios. The GFXC will continue to add to the initial suite of examples where it believes it is useful to do so.

While these examples and the reports published by the GFXC do not form part of the Code, they are intended to assist market participants when thinking about how the Code applies to their activities. Over the period ahead, we will be looking at adding more material like these reports that help to flesh out the principles.

As many of you would be aware, the GFXC encourages market participants to sign a Statement of Commitment to the Global Code as a public demonstration of their intention to adhere to the Code's principles.

There are numerous public registers on which market participants can post their Statements. On the GFXC website, an index now allows you to search across all of these registers.[4] I would encourage everyone in the market to have a look at that index. As it now has more than 900 entries, if you are not able to find your counterparties or your other service providers in the foreign exchange market, you should be asking them why they haven't committed to the Code.

Getting greater adoption from the buy-side remains a focus for the GFXC and we have various initiatives in train on that front. A range of materials has been developed with the aim of making it easier for firms to engage with and commit to the Code. These materials are now available on the GFXC's website and will be added to over time.[5] If you are a buy-side firm with an active FX operation, then the Code very much applies to you. If you have a less direct or frequent interaction with the market, the Code is still relevant but I would emphasise that the Code is designed to be applied in a proportionate manner. The steps any firm needs to take should align with the nature and extent of their engagement with the market.

While the Code is voluntary in nature, the benefits of the Code and the relevance of its principles have been recognised by many regulators and supervisory authorities around the globe. Most recently, the United Kingdom's Financial Conduct Authority confirmed its recognition of the Code,[6] meaning that individuals there will be able to point to their compliance with the Code's principles as part of demonstrating that they are meeting the 'proper standards of market conduct' required under the UK's Senior Managers regime.

The FX Global Code has been in place for a few years now and remains fit for purpose. From the outset, and to ensure that the Code remains fit for purpose, the GFXC committed to undertaking a review of the Code at least once every three years. It is appropriate to review it periodically to reflect the continuously evolving market structure and dynamics. The first review of the Code will take place during 2020. The intention is that this will be a targeted review, and not a root and branch overhaul of the Code. Throughout the second half of this year, we will be identifying specific areas that need to be addressed.

One such area is likely to be anonymous trading. As mentioned, the GFXC's Working Group on disclosures and transparency is doing more work on this topic, and that will include thinking about whether it's sufficiently clear how the Code's principles are to be applied in this area.

In identifying other areas of focus for the three-year review, the GFXC will gather feedback as widely as possible. Each of the local FXCs around the globe will be seeking input from their members and other market participants and industry groups in their jurisdiction in the coming months. So that is one avenue for you to provide feedback.

At the same time, the GFXC will soon be launching its annual survey of market participants. This year, we will be giving respondents an opportunity to point to areas where they think greater guidance from the Code might be necessary. More broadly, the survey will also be gauged to general awareness of the Code and opinions on its effectiveness. The survey will be distributed through the local FXCs but also available on the GFXC website, so I would encourage as many as possible to participate.

In short, in conducting this review of the Code, we'll be looking to employ the same consultative approach that was used in initially drafting the Code a couple of years ago. We will work closely with each of the local FXCs and other industry organisations to ensure that the Code reflects what is considered good practice.

In this, I will be assisted by the two vice chairs from the market: Akira Hoshino head of FX at Citi in Tokyo and Neill Penney co-head of trading at Refinitiv. If you have feedback on the Code, you can also get in touch with me directly in addition to the other channels I have mentioned. We really want to hear from you to ensure the Code remains fit for purpose in contributing to an appropriately and effectively functioning foreign exchange market.

[1] www.globalfxc.org/fx_global_code.htm

[2] www.globalfxc.org/reports.htm?m=72%7C427

[3] www.globalfxc.org/reports.htm?m=72%7C427

[4] www.globalfxc.org/global_index.htm

[5] See www.globalfxc.org/education.htm?m=71%7C433.

[6] www.fca.org.uk/news/statements/fca-confirms-recognition-fx-global-uk-money-markets-codes