



Global Preamble and Tokyo FXC best practices

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Background

- 2013: Concerns about the integrity of FX rate benchmarks raised.
- Feb. 2014: FSB formed FX Benchmark Group (FXBG)
- Sep. 2014: FSB released **“Foreign Exchange Benchmarks”**

(Categories of Recommendations)

- a. The calculation methodology of the WMR benchmark rates.
- b. Recommendations from an IOSCO review of the WM fixes.
- c. The publication of reference rates by central banks.
- d. Market infrastructure in relation to the execution of fix trades.
- e. **The behavior of market participants** around the time of the major FX benchmarks (primarily the WMR 4pm London fix)

Background

e. The behavior of market participants: FSB recommended;

7. Fixing Transaction be priced in a manner that is transparent and is consistent with the risk borne in accepting such transaction.
8. Banks establish and enforce their internal guidelines and procedures for collecting and executing fixing orders including separate process for handling such orders.
9. Market-makers should not share information with each other about their trading positions beyond that necessary for a transaction.
10. Market-makers should not pass on private information to clients or other counterparties that might enable those counterparties to anticipate the flows of other clients or counterparties, including around the fix.
11. Banks establish and enforce their internal systems and controls to address potential conflicts of interest arising from managing customer flow.
12. Codes of conduct ... should detail more precisely and explicitly the extent to which information sharing between market-makers is or is not allowed.
13. Stronger demonstration by market participants of compliance with the codes of the various foreign exchange committees, as well as their internal codes of conduct.
14. (snip)
15. Asset managers ... should conduct appropriate due diligence around their FX execution and be able to demonstrate that to their clients if requested.



Global Preamble

- Apr. 2014: Global Meeting of Foreign Exchange Committees* (GFXC) agreed to draft a normative guideline that is commonly applicable to market participants in the member countries/regions.
 - * Meeting of eight major Foreign Exchange Committees (Australia, Canada, Euro Area, Hong Kong, London, New York, Singapore, Tokyo).
- Mar. 2015: GFXC publicly released **“Global Preamble: Codes of Best Market Practice and Shared Global Principles”**
 - Intended to provide **a harmonised, global view on high-level principles** and NOT intended to replace the individual codes established and adopted by the member FXCs.
 - Drafted giving due consideration to the FSB recommendations.
 - Available on member FXCs’ web sites.

Global Preamble (excerpts)

1. General issues

- ✓ FX market participants are expected to review and incorporate the Guidance into their individual firm policies and procedures (the “FX Policies”).
- ✓ These policies should **provide sufficient guidance, including examples where appropriate**, for staff to be able to distinguish between acceptable and unacceptable conduct in a variety of situations they may encounter.
- ✓ In order to raise awareness and compliance by relevant personnel with the FX Policies, **a program should be established for the training** of such personnel on the FX Policies.
- ✓ FX market participants should also consider, as appropriate, adopting a process by which **relevant managers periodically attest** to the supervision of their staff with respect to compliance with the FX Policies.



Global Preamble (excerpts)

2. Personal conduct

- ✓ FX market participants should adopt high standards of conduct in their actions and communications, both internally and externally.
- ✓ Personnel with supervisory responsibilities should **ensure that those reporting to them have appropriate knowledge and expertise** to carry out their FX activities, as well as to comply with relevant laws, regulations, and Guidance, all of which will require **appropriate education and ongoing training** with respect to FX Policies.
- ✓ The FX market participant or any of its personnel may be held accountable for any breach of FX Policies that violate fair market practices, damage the reputation of the FX market participant and profession or undermine the integrity of the FX market. In particular, FX market participants should have FX Policies and **surveillance mechanisms in place to cover personal conduct and behaviour**, which may include subjects such as dealing for personal account, entertainment, gifts and gambling.

Global Preamble (excerpts)

3. Confidentiality and market conduct

- ✓ FX market participants should have appropriate measures in place to **protect the anonymity** of both the FX trading activity and identities of their FX trading counterparties.
- ✓ FX market participants **should not share information** with each other **about their trading positions or individual trades** with clients or other FX market participants beyond that necessary for the execution of a transaction and subsequent transaction life cycle events, ensuring that no confidential information is disclosed.
- ✓ FX market participants **should not pass on FX Trading Information** to other FX market participants **that might enable those entities to anticipate the flows** of a specific client or counterparty, including around a fix.

Global Preamble (excerpts)

4. Policies for execution practices

- ✓ FX market participants should not engage in any practices which could be held to constitute market manipulation, abuse, fraud, or anti-competitive behaviour.
- ✓ Where FX market participants are handling orders, whether for counterparties or customers, they should **establish and enforce their internal systems, processes and procedures to address potential conflicts of interest** arising from managing such order flow.
- ✓ In accordance with the FSB's Foreign Exchange Benchmarks Report's recommendations, FX market participants should establish and enforce their internal guidelines and procedures for collecting and executing fixing orders. If a firm engages in fixing transactions, those transactions should be priced in a manner that is transparent and is consistent with the risk borne in accepting such transactions.



Revision to the “Code of Conduct” in Tokyo

- Apr. 2015: Tokyo Foreign Exchange Market Committee (TFXC) publicly released **“Guideline of Foreign Exchange Transactions.”**
 - http://www.fxcomtky.com/coc/index_e.html
 - Developed in tandem with “Global Preamble,” and in cooperation with various stakeholders including buy-side investors in Tokyo.
 - Complements **“Code of Conduct, 2013 edition”** of the TFXC

Overview of the Codes of Conduct

Code of Conduct (2013 ed.)

- Comprehensive codes with 11 Chapters (63 articles), covering pre-trade to post-trade activities.

Chap. I : Basic Issues

II : Code of Conduct and Code of Ethics

III : Organization and Agreements

IV : Dealers and Dealing Room

V : Trading through Brokerage Firms

VI : Control

VII: Prime-Brokers

VI : The Back Office

IX : Post Trade Practices

X : Prevention of Fraud

XI : Electronic Trading

Guideline (2015 ed.)

- Focuses on issues related to day-to-day market making activities in dealing rooms (5 Chapters).

Chap. I : Basic Issues

II : Information Sharing

III: Execution

IV: Benchmark

V : Same day Exchange Quotation

- Includes principles (14 Articles) AND **practical examples** of what is or is not acceptable.

Examples in the Guideline

(Chap. II : Information Sharing)

Information from which the name of counterparty can be identified or assumed

- *“XX industries bought USD/JPY”*
⇒ **NG** : The name of counterparty must not be disclosed.
- *“Foreigners bought USD/JPY”*
⇒ **OK** : It may be acceptable in cases where the name of counterparty cannot be assumed from the term “foreigners.”

Transaction amount, price level, position

- *“Our counterparty bought 100 million USD”*
⇒ **NG** : Specific transaction amount must not be disclosed.
- *“Our counterparty bought substantial amount of USD”*
⇒ **OK** : It may be acceptable in cases where specific amount cannot be assumed from a relative amount.”

Examples in the Guideline

(Chap. III : Execution)

Execution of orders, etc.

- *When receiving an order of selling 100 million USD from a counterparty, a dealer, in advance of executing the counterparty's order, sold USD for his/her own position at the same or more advantageous price.*
 - ⇒ **NG** : Selling USD by the dealer impaired the counterparty's interest.
- *When receiving an order of selling USD, a dealer quote an execution rate different from the market coverage level of the dealer.*
 - ⇒ **OK** : It is acceptable to reflect the cost and market risk taken by banks/other financial institutions in an execution rate.

Way Forward

- Continue to collaborate with FSB and/or other global bodies in implementing their recommendations.
- Seek further harmonization of best practices of foreign exchange committees across the world, including collaborating with [BIS Markets Committee Working Group on FX Market Best Practices](#) set up with a view to facilitating the establishment of a single global code of conduct standards and principles.
- Garner understanding of and support for the “*Global Preamble*” and the “*Guideline*” by wide range of domestic market participants including small- mid sized dealers and buy-side investors (e.g. institutional investors, non financial corporations)

Thank you very much for your attention.

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