

Global Preamble: Codes of Best Market Practice & Shared Global Principles

Maria Douvas, Morgan Stanley

June 24, 2015

Global Preamble: Codes of Best Market Practice & Shared Global Principles

Key Highlights

- **Purpose:** Introductory market conduct statement to the foreign exchange codes of conduct that have been adopted by foreign exchange committees in different regions
- **Application:** Applies to *all* foreign exchange market participants, including dealer banks and buy-side participants
- **Issue date:** March 12, 2015
- **Adoption:** Global Preamble was adopted by 8 Foreign Exchange Committees (“FXCs”): Australia, Canada, ECB, Hong Kong, London, New York, Singapore and Tokyo
- **Next Steps:**
 - BIS Press Release (May 11, 2015):
 - BIS Governors announce formation of a working group that will formulate a global code of conduct for the foreign exchange market
 - Principles-based approach
 - Promote greater adherence to standards set out in the new global code

Preamble Overview

- **Preamble contains 4 sections:**
 - **Introduction:** Preamble is a “high-level principles” statement that should be incorporated into FX market participants’ policies, procedures and training
 - **Personal Conduct:** FX market participants should adopt “high standards of conduct” in their internal and external actions and communications, including an appropriate risk culture
 - **Confidentiality & Market Conduct:** General expectation that counterparty trading activity or positions will not be shared with third parties, and that FX market participants should not profit or seek to profit from the “misuse” of such information
 - **Policies for Execution Practices:** FX market participants should not engage in market manipulation, abuse, fraud or anti-competitive behavior, and should manage conflicts of interest

Global Preamble: Codes of Best Market Practice & Shared Global Principles

- **Introduction**

- “High-level principles” in Global Preamble and FXC Codes:
 - Adopt in policies, procedures and training
 - Incorporate examples of appropriate/inappropriate conduct
 - Consider periodic attestation by managers regarding supervision of staff
- Systems and controls to promote strong ethical culture, in all areas of the FX market participant’s institution
- Consistent FXC Codes with regional differences where warranted

- **Personal Conduct**

- Responsibility of supervisors:
 - Develop FX market expertise of staff
 - Promote appropriate risk culture through clear definition of personal conduct standards
- Accountability for breach of personal conduct policies:
 - Remuneration policies tied to conduct
 - Surveillance/procedures to bolster personal account dealing, entertainment and gifts policies
 - Whistleblowing and escalation procedures

Global Preamble: Codes of Best Market Practice & Shared Global Principles

- **Confidentiality & Market Conduct**

- **Information Standards:**

- “FX Trading Information” – FX trading activity or positions of counterparties not to be shared externally
 - Exceptions:
 - > Market color that is sufficiently aggregated & anonymized
 - > Execution of transactions, provided 3rd parties not able to anticipate specific flow (including around fixes)
 - “Designated Confidential Information - higher standard defined in contract terms of non-disclosure agreement
 - Material non-public information – securities law concept typically managed via walls between private and public side activities

- **“Misuse” of information:**

- Profiting or seeking to profit from any of the above or colluding with others with the same intent
- Carveout for market making and risk management:
 - Sourcing liquidity in anticipation of customer demand
 - Hedging/risk mitigation

- **Dissemination of information:**

- Duty to assess truth & accuracy of information received
- Communications fair, balanced and not misleading

Global Preamble: Codes of Best Market Practice & Shared Global Principles

- **Execution Practices**

- **Key themes:**

- Policies & procedures to prevent market manipulation, abuse, fraud and anti-competition
- Conflicts management, including:
 - Order flow
 - Agency execution
- Transparency of pricing for fixing trades

- **Buyside participants:**

- Due diligence regarding FX execution
- Assess suitability of reference rates