30 March 2015

Global Preamble: Codes of Best Market Practice and Shared Global Principles[1]

The wholesale foreign exchange (FX) market is a global market used by banks and other institutions, as well as personnel representing both banks and non-banks (together, the "FX market participants"). Some of these participants transact directly in the market, while others may access the market indirectly through other institutions. Trading spans roughly six days per week, twenty-four hours per day and takes place in various financial centres. Across these financial centres, FX market participants must abide by the laws and regulations relevant to their FX activity. Further, different codes ("Codes") have been developed and/or employed by foreign exchange committees in different regions as set out below, in order to promote best market practices and high standards of conduct and professionalism, and to encourage fair, liquid, transparent and accessible FX markets. These Codes typically have no statutory underpinnings but they may refer to legal requirements, ordinances or regulations which are binding in applicable jurisdictions. In addition, organisations such as the Bank for International Settlements (BIS) and the Financial Stability Board (FSB)[2] may also issue recommendations and guidance relating to the management of risk associated with FX transactions.

All FX market participants are expected to be familiar with the Codes applicable to their business and to behave in a manner consistent with the guidance contained within them (the "Guidance"). In doing so, FX market participants should take into account both the letter and spirit of the Guidance. Further, FX market participants are expected to review and incorporate the Guidance into their individual firm policies and procedures (collectively, the "FX Policies")[3]. 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

[1] This version supersedes the Codes of Best Market Practice and Shared Global Principles published by the various Foreign Exchange Committees in 2013.

[2] In February 2013, the Basel Committee on Banking Supervision published its "Supervisory Guidance for Managing Risks Associated with the Settlement of Foreign Exchange Transactions": http://www.bis.org/publ/bcbs241.htm. On 30 September 2014, the FSB published the final report "Foreign Exchange Benchmarks" prepared by its Foreign Exchange Benchmarks Group: http://www.financialstabilityboard.org/publications/r_140930.htm

[3] Additionally, FX market participants should design such policies and procedures to facilitate compliance with any laws and regulations applicable to their FX activity.

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.

While certain aspects of the Guidance may be less relevant to participants who are not acting as market makers (such as smaller participants that do not engage in FX transactions on a regular basis), it is nonetheless important that they are aware of the Codes (and the Guidance therein) in order to set appropriate expectations for their interactions and relationships with their counterparties. Additionally, these participants should similarly seek to be in compliance with those elements of the Guidance that are relevant to their FX activity.

The Guidance seeks to incorporate all elements of the FX transaction process from pre-trade to post-trade activities. While the Codes have distinctive features based upon local factors in different regions, there is broad recognition that the FX market transcends regional borders. Accordingly, the various Foreign Exchange Committees around the world seek to work together to enhance communication and coordination, to share information on Committee initiatives and projects, and to exchange perspectives on developments and trends in the global FX market. In addition, in order to promote more robust risk management practices among global FX market participants, there is shared support for certain high-level principles which are set out in this document and underpin the existing Codes (and the Guidance therein) promulgated by the various Committees.

For example, FX market participants are expected to have systems and controls in place to:

- develop and promote a strong culture of ethical behaviour and standards of conduct;
- promote awareness and use of general dealing practices, procedures and conventions;
- ensure accurate and timely pre-trade preparation and trade capture;
- support robust and efficient back office operations including confirmation, netting, payment and settlement; and
- mitigate risk in FX transactions from the point of initial discussion regarding a potential transaction to settlement.

This document is intended to provide a harmonised, global view on high-level principles and is not intended to replace the individual codes established and adopted by the committees as described below. While the global "high-level principles" aim at a comprehensive coverage, financial markets are constantly evolving as a result of new products, processes and technologies. FX market participants are advised to apply the global "high-level principles" set out in this document to the FX market as it evolves, including with respect to new FX products, processes and technologies.

The Foreign Exchange Committees in Hong Kong, London, New York, Singapore and Tokyo each produce and maintain their own Codes. The Australian Foreign Exchange Committee and the ECB Foreign Exchange Contact Group, along with a number of other regional groups, endorse the ACI Model Code. For further information on any of the regional Codes and for more specifics on the complete guidance provided by each individual code, please see the links below:

ACI - The Financial Markets Association
ACI Model Code
http://www.acifma.com/model-code
Hong Kong Treasury Markets Association
Code of Conduct and Practice
http://www.tma.org.hk/PubFile/tmacode.pdf
London Foreign Exchange Joint Standing Committee
The Non-Investment Products Code
http://www.bankofengland.co.uk/markets/Documents/forex/fxjsc/nipscode1111.pdf
New York Foreign Exchange Committee
Guidelines for Foreign Exchange Trading Activities
http://www.newyorkfed.org/FXC/2010/tradingguidelinesNov2010.pdf
Management of Operational Risk in Foreign Exchange
http://www.newyorkfed.org/fxc/2013/BestPracticeReview2013.pdf
Singapore Foreign Exchange Market Committee
The Singapore Guide to Conduct and Market Practices for Treasury Activities
http://www.sfemc.org/blue.asp
Tokyo Foreign Exchange Market Committee
Tokyo Code of Conduct
http://www.fxcomtky.com/coc/code_of_conduct_e2013.pdf

The following foreign exchange committees collaborated in the drafting of this statement:

Australian Foreign Exchange Committee

Canadian Foreign Exchange Committee

ECB's Foreign Exchange Contact Group

Hong Kong Treasury Markets Association

London Foreign Exchange Joint Standing Committee

New York Foreign Exchange Committee

Singapore Foreign Exchange Market Committee

Tokyo Foreign Exchange Market Committee

Laws, Regulations, and Guidance

As stated in the Preamble, FX market participants must abide by laws and regulations relevant to their FX activity. In addition, FX market participants are also expected to incorporate applicable Guidance into their individual policies and procedures and to establish the training program described in the Global Preamble. Moreover, FX market participants should consider, as appropriate, adopting the attestation process for personnel described in the Global Preamble.

Personal conduct

FX market participants should adopt high standards of conduct in their actions and communications, both internally and externally. FX market participants are also expected to conduct their business with due skill, care and diligence, and to act in good faith.

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. Such training should contain practical examples and guidance on how FX Policies should be applied specifically to their FX business.

Moreover, such personnel must embed an appropriate risk culture within the firm, taking into account the letter and the spirit of the Guidance. In doing so, FX Policies should clearly describe the personal conduct standards that have been adopted, whether such standards are embodied in law, regulation, or Guidance, against which the FX market participant and its personnel will be held accountable. 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. The FX Policy of a FX market participant containing its personal conduct requirements should transcend individual businesses and activities such that these standards apply even as FX businesses and technologies evolve.

FX market participants are responsible for having effective policies, processes and controls in place in order to ensure that business is in fact conducted within the framework of applicable personal conduct requirements. For example, remuneration policies tied to conduct should be in place. FX market participants are also expected to have processes to deal with individuals who have acted inappropriately, including reporting requirements to the relevant authorities where applicable.

Individuals should be encouraged to ask their supervisor or other designated personnel for guidance in the event that there is any uncertainty regarding their conduct obligations.

FX market participants should also have in place effective escalation procedures that enable individuals working for such FX market participants to report instances of suspected unlawful or inappropriate practices and ensure that issues surfaced through this channel are addressed promptly and transparently. Individuals working for FX market participants should feel confident that any information reported under these procedures will be dealt with seriously and effectively, and that the reporting will not be to their detriment. FX market participants should be accountable for the integrity of these policies and for ensuring the protection of staff that make such reports.

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. There is a general expectation by all FX market participants that information relating to their trading activity or positions ("FX Trading Information") will not be shared by their trading counterparties with any external parties unless such information (a) is disclosed to agents, market intermediaries (such as brokers and trading platforms) or other FX market participants involved in, or facilitating, the execution, processing, clearing or settlement of the transaction, (b) is reported, as may be required (and as not otherwise prohibited) under relevant law, rule or regulation, to market infrastructure providers (such as trade repositories or central counterparties), (c) is disclosed with the consent of the counterparty or customer, (d) is requested by a relevant regulatory or public authority or is otherwise required to be publically disclosed under applicable law, rule or regulation, or (e) is disclosed to advisors or consultants with the understanding that they hold the information in the same manner.

In addition, FX market participants may agree to a higher standard of non-disclosure with respect to confidential, proprietary, and other non-public information of their FX trading counterparties ("Designated Confidential Information") which, at their discretion, may be formalised in a written non-disclosure or similar confidentiality agreement. In such case, the circumstances under which FX market participants may disclose Designated Confidential Information will be governed by applicable law and the terms of the confidentiality agreement.

Proper treatment of FX Trading Information and Designated Confidential Information is essential for upholding market professionalism and integrity. FX market participants should have appropriate measures in place, including policies and procedures, to protect such information in accordance with the standards described herein, both within the FX market participant and externally.

All market participants' personnel have a duty to obey the requirements of their institution's FX policies and all the relevant laws and regulations governing trading on non-public information and other market abuse in their jurisdiction. FX market participants, therefore, should not, with intent or through negligence, profit or seek to profit from the misuse of Designated Confidential Information or FX Trading Information, however obtained, or collude with others to make a profit or seek to make a profit by misusing such information. "Misuse" of Designated Confidential Information or FX Trading Information occurs when a party utilises such information in a manner that is not permitted by law or regulation or under their internal policies or contractual obligations where applicable. Subject to the above-mentioned duties, laws and regulations, FX market participants may engage in appropriate market making and risk management activities, including sourcing liquidity in anticipation of customer needs or hedging or mitigating exposure resulting from a client order. Under no circumstances should FX market participants use individual trade and position information of a counterparty or customer with the intent of adversely affecting the interests of that counterparty or customer.

FX market participants have the obligation to ensure that:

- there are well documented policies and procedures in place and sufficient systems and controls to protect FX Trading Information within the dealing environment and other areas of the market participant which may obtain such information, and that personnel have been trained with respect to such policies. These policies should also prohibit counterparty and customer anonymity from being circumvented through the use of slang or pseudonyms, both externally and internally.
- their personnel have been trained to identify Designated Confidential Information appropriately in accordance with internal policies and procedures including the manner in which such information must be handled, and to deal appropriately with situations that require anonymity and discretion.
- the communication technologies (for example, telephone, e-mail, chat room and other communication tools) used to transmit FX Trading Information and Designated Confidential Information are reasonably designed to be secure, monitored and protected against unauthorised access. Appropriate steps should be taken to prevent the leakage of such information through various kinds of communication technologies.
- any misuse of FX Trading Information or Designated Confidential Information is investigated promptly according to a properly documented internal procedure.

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. Furthermore, 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. It is acceptable to share with customers a view on the general state of and trends in the market (often referred to as providing market colour). However, any market colour given regarding market activity should be sufficiently aggregated and anonymised so as to not disclose FX Trading Information or Designated Confidential Information. It is not acceptable to disclose information on individual trades, specific counterparty names and other non-public information, except in accordance with the standards set out above regarding FX Trading Information or Designated Confidential Information.

Finally, FX market participants should exercise careful judgment in assessing whether any information they receive (including, but not exclusive to, counterparty information) is true and accurate. FX market participants should have policies that require their personnel to refrain from passing on information that they know or suspect to be misleading. Such policies should be reasonably designed to ensure that any communication, whether to counterparties, customers, other market participants or other external parties have a reasonable basis, are fair and balanced, and do not contain any inaccurate or misleading information. These policies should also include the circumstances in which it may be acceptable to inform customers about a rumour prevalent in the market, and the requirements as to how that communication should be handled.

Policies for execution practices

FX market participants should put in place clear internal guidelines and procedures regarding their 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.

All firms should identify any potential or actual conflicts of interest that might arise when undertaking FX transactions, and take measures either to eliminate these conflicts or control them so as to ensure the fair treatment of counterparties. Practices that would (a) undermine the reputation of both the traders and FX market participants for which they work and (b) potentially expose parties to legal risks should, in each case, be well understood and avoided to the extent possible.

When a market participant agrees to act as an agent on behalf of (and not a principal trading counterparty to) a customer, the market participant should not enter into a transaction which they know, or ought to have known, would result in a conflict of interest to that customer, unless such conflict is disclosed to the customer, the customer consents to it and, if applicable, it is resolved in accordance with local law, rules, and/or regulations.

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. Finally, FX customers (including asset managers passively tracking an index) should conduct appropriate due diligence around their foreign exchange execution, including assessing the suitability of FX reference rates used, and be able to demonstrate that to their own clients if requested.