

Final: Global FX Code

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The final [Global FX Code](#) was published on 25 May 2017. This note seeks to provide clients with a high level overview of the key changes to the Global FX Code and should be read in conjunction with our [quick reference guide](#) issued last month.

The Global FX Code is the culmination of two years' work by the Foreign Exchange Working Group, which has today issued a [blueprint](#) for achieving widespread adoption of the Global FX Code. The Global FX Code provides a common set of guidelines to promote the integrity and effective functioning of the wholesale foreign exchange market (across the sell side, buy side, non-bank participants and platforms). The [FCA](#) has commented that it welcomes the Global FX Code as *"a useful way for the industry to police itself in support of our regulatory work"* and that firms can *"help to promote the wide adoption of the Code by expecting their FX counterparties also take steps to adhere to the Code as it applies to them"*.

The Statement of Commitment

The Global FX Code invites market participants to sign a Statement of Commitment (Annex 3) on a voluntary basis. The Statement is described as providing a *"positive signal to clients, counterparties and the wider market of a [firm's] commitment to following good practice"* and provides a means by which market participants can *"more objectively assess the operational and compliance infrastructure"* of others in the market.

The explanatory note in Annex 3 provides more detailed guidance on how the Statement might be implemented or used in practice:

- **What use of the Statement represents:** that a firm has:
 - made an independent determination to support the Global FX Code and recognises it as a set of principles of good practice;
 - taken appropriate steps, based on the size and complexity of its activities and the nature of its role in the FX market, to align its activities with the Global FX Code; and
 - committed to conduct its activities in a manner which is consistent with the Global FX Code.
- **Governance:** those responsible for oversight of FX market activities will also be responsible for approving the use of the Statement;
- **Publication:** firms can use the Statement publicly by publishing it online or providing it to other market participants, clients or potential clients on a bilateral basis;
- **How others can use the Statement:** it provides a means by which market participants can *"more objectively assess the operational and compliance infrastructure"* of others in the market. The explanatory note envisages that the Statement might be used as part of the criteria for membership of industry committees; and

- **Timing:** it is recognised that it will take most FX market participants a significant period of time (approximately 6 to 12 months) to prepare to use the Statement.

The [opening remarks](#) of the Deputy Governor of the Reserve Bank of Australia, Guy Deeble, confirm that the Central Banks, who are members of the [Bank of International Settlements](#), are committed to following the Global FX Code and that “*they expect that their counterparties will do so too*”. Whilst Mr Deeble recognises that it will take market participants some time to adjust their practices, he would not expect it to take too much time and commented it “*might potentially be as short as six months, but no more than twelve months for the vast majority of market participants*”. Mr Deeble also commented that, in due course, compliance with the Global FX Code is likely to become a requirement of membership for the [Foreign Exchange Committee](#).

Principles of the Global FX Code

The Global FX Code covers six leading principles for market participants: **Ethics, Governance, Execution, Information Sharing** and **Risk Management and Compliance**. It also provides detailed examples of acceptable (and unacceptable) behaviours, practices, communications and risks within each of the above principles.

Summary of key changes

The following is a summary of the key changes between the draft Global FX Code (as published in May 2016) and the final Global FX Code:

- **Format:** the principles have been renumbered consecutively, from Principles 1 to 55;
- **Governance:** this section has now been completed and outlines the need to put in place “*a sound and effective governance framework to provide for clear responsibility for and comprehensive oversight*” of FX activities (Principles 4 to 7);
- **Execution:** this section has been expanded to include a number of new principles in respect of market disruption, trade discrepancies, voice brokers, Last Look and algorithmic trading (Principles 12, 13, 15 to 18);
- **Risk Management and Compliance:** this section has now been completed and outlines how to implement risk management frameworks (Principles 24 to 28) and key risk types applicable to FX activities (Principles 29 to 41). The key risk types include operational, legal, compliance and technology risks; and
- **Illustrative examples:** Annex 1 contains an expanded list of illustrative examples which are mapped against a number of the leading principles (**Execution, Information Sharing, Risk Management and Compliance** and **Confirmation and Settlement**). The examples are not intended to be precise rules or comprehensive guidance and are not intended to provide safe harbours. These illustrative examples are categorised as:
 - “x” for conduct to be “*avoided*”
 - “√” for conduct that the Global FX Code seeks to “*foster and reinforce*”

What could firms do next?

- **Review existing policies and procedures** - firms might consider reviewing the updated guidance in the final Global FX Code against their existing policies and procedures;
- **Review new parts of the FX Global Code** – update any previous analysis undertaken in respect of the Global FX Code (as published in May 2016) and consider the new Principles;
- **Update training programmes** – review the illustrative examples of acceptable/unacceptable behaviours for inclusion in any existing training programmes for trading, compliance and other staff. Special attention should be paid to the behaviours which are categorised as conduct to be “*avoided*”; and
- **Statement of Commitment** – whilst only a voluntary element of the Global FX Code, firms may wish to consider how to approach the use of the Statement of Commitment and if appropriate, the practical steps and governance required to formally adopt the Statement of Commitment. It is expected that firms will require between 6 to 12 months to adopt the Statement, however this will likely become more relevant in due course for discussions with clients, potential clients, market counterparties and regulators, especially if there are early adopters within the FX market.

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