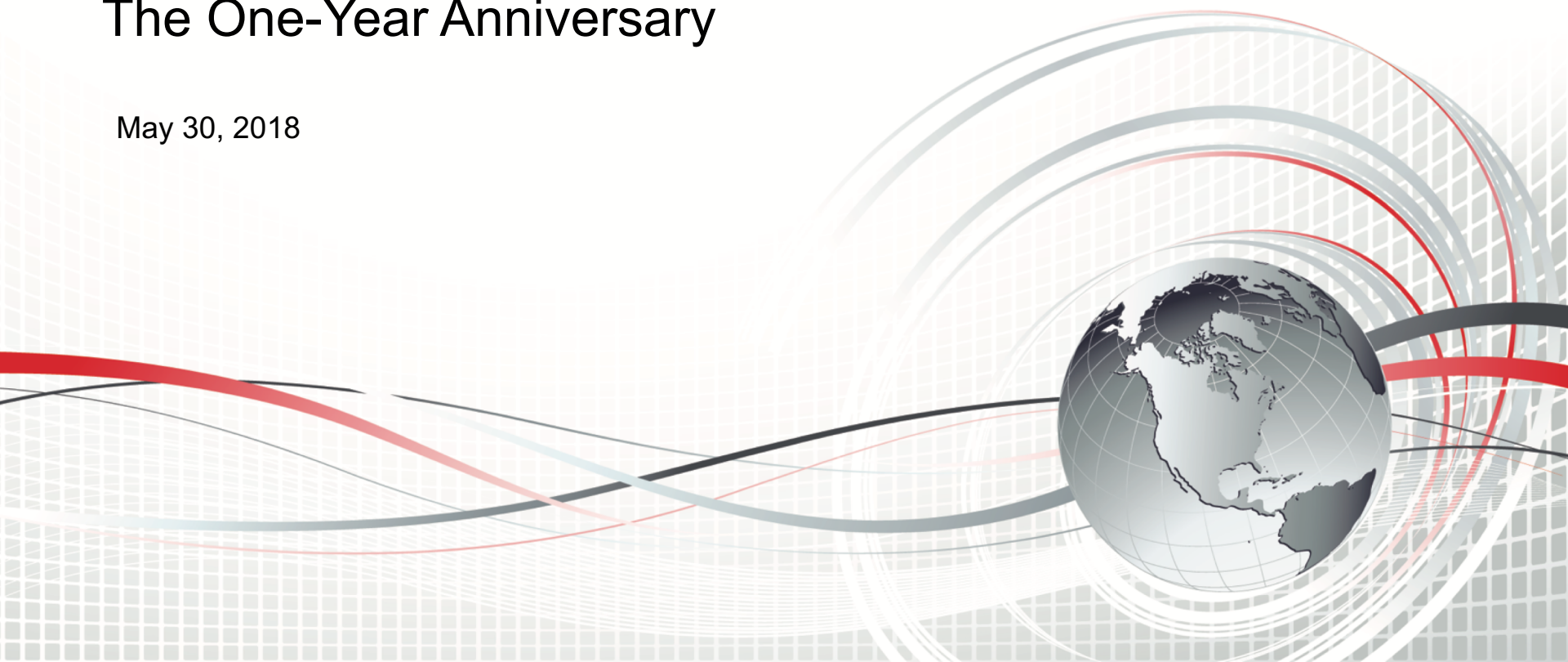




FX Global Code

The One-Year Anniversary

May 30, 2018





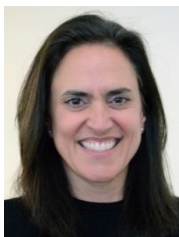
Panelists:

**Chip Lowry**

Senior Managing Director
State Street Global Markets
Chair of FXPA

**Mark Bruce**

Head of FICC
Jump Trading
Chair, FXPA Global Code Working Group

**Lisa Shemie**

Chief Legal Officer – Cboe FX
Markets and Cboe SEF
Cboe Global Markets
FXPA Board Member and
Chair, FXPA Policy Committee

**David Puth**

CEO of CLS Bank International
Vice-Chair of the Global Foreign Exchange
Committee





Global Code

Broad Themes

- The Global Code largely seeks to enhance **disclosure** and **transparency** in the FX market:
 - Do the clients and counterparties of Market Participants know and understand what they are doing and why and how they are doing it?
 - Are Market Participants providing sufficient information to their clients and counterparties to allow them to make informed decisions?





When was the Global Code published? What is the GFXC?

- The Global Code was published on **May 25, 2017**.
- Upon its publication, the **Global Foreign Exchange Committee** (GFXC) was formed.
- The GFXC replaces a more informal group of foreign exchange committees from around the world, and the expanded, formalized group meets regularly to promote collaboration and communication among those committees and other jurisdictions with significant FX markets.





Agenda: what has happened since the Global Code was published?

Adherence

Although the GFXC has endorsed an informal **adherence** deadline of **May 30, 2018**, certain central banks have made that a hard deadline for firms in their jurisdictions.

Last Look

- Following the publication of the Global Code, the GFXC called for additional commentary on a discrete portion of Principle 17, relating to the propriety of **pre-hedging during the last look window**.
- On December 17, 2017, the GFXC published **revised last look guidance**, and the Code was revised accordingly.

GFXC Working Groups – Additional Work

In the Spring of 2018, the GFXC mandated the creation of three **working groups** to further study wider market topics.





Global Code Adherence

How are Market Participants expected to adhere to the Global Code?

A **Statement of Commitment** accompanies the Code:

[Name of institution] (“Institution”) has reviewed the content of the FX Global Code (“Code”) and acknowledges that the Code represents a set of principles generally recognised as good practice in the wholesale foreign exchange market (“FX Market”). The Institution confirms that it acts as a Market Participant as defined by the Code, and is committed to conducting its FX Market activities (“Activities”) in a manner consistent with the principles of the Code. To this end, the Institution has taken appropriate steps, based on the size and complexity of its Activities, and the nature of its engagement in the FX Market, to align its Activities with the principles of the Code.





Global Code Adherence

How should the Statement of Commitment be used?

- The Statement of Commitment is designed to be voluntary, and to allow Market Participants to use it in different ways:
 - A Market Participant may choose to use it **publicly** (by publishing it on its website and/or a public register)
 - A Market Participant may choose to use it **bilaterally** (by providing it directly to current or prospective clients or counterparties)





Global Code Adherence

Who has adhered?

- As of May 2018 **over 200 Market Participants** have publicly made Statements of Commitment.
- To date, **nine established public registers** have been created.
- On May 29, 2018, the GFXC launched a **Global Index of Registers** which acts as a central location that links those public registers that comply with the GFXC's criteria; **seven** public registers are included.





Global Code Adherence

Who has adhered –public registers

As of May 2018, nine public registers have been established:

Australian Financial Markets Association: <https://afma.com.au/fx-global-code-register>

China Foreign Exchange Committee: <http://www.chinamoney.com.cn/english/cfxcpr/>

CLS: <https://www.cls-group.com/news-insights/fx-global-code/public-register/>

Foreign Exchange Dealers' Association of India: <http://www.fedai.org.in/StatementsOfCommitment.aspx>*

Hong Kong Treasury Markets Association: https://www.tma.org.hk/en_fxglobalcode.aspx

Mexico Foreign Exchange Committee: <http://cmcm.banxico.org.mx/public-registry.html>

New Zealand Financial Markets Association: https://nzfma.org/Site/practices_standards/fx-global-code/default.aspx*

NEX Group: <http://www.nex.com/our-business/regulatory/fx-code-of-conduct>

Tokyo Foreign Exchange Market: http://www.fxcomtky.com/globalcode/index_e.html

*Not included in the GFXC Index of Registers





Global Code Adherence

What does adherence mean?/The challenges of adherence.

- The task of issuing a Statement of Commitment to the principles of the Global Code has been challenging for many Market Participants.
- The challenges of adherence, and the decision of whether or not to adhere, has varied across types of Market Participant – for example, among banks, proprietary trading firms, and trading venues.
- Some Market Participants have determined that they do not plan to adhere at all.





Global Code Adherence

Banks

- What does it mean for a large bank to have adhered to the principles of the Global Code?
- How does a large organization adhere – by business line? By legal entity?
- How could a bank's (or any other entity's) adherence be affected by regional “gold plating” or “white labeling” of its technology?
- Where should a Market Participant display its Statement of Commitment? How often should a Statement be renewed or restated?





Global Code Adherence

Proprietary Trading Firms and other Non-Banks

- What does it mean for a proprietary trading firm to have adhered to the principles of the Global Code?
- Will typical non-banks choose to adhere? Will some decide not to adhere at all and, if so, why?
- What are some of the challenges that non-banks may face in navigating the principles of the Global Code?





Global Code Adherence

E-Trading Venues

- What does it mean for an electronic trading venue to have adhered to the principles of the Global Code?
- What kind of preparation would a trading venue have to undertake to do so?
- What about anonymous trading venues – are there additional issues that relate to adherence?





Principle 17

Pre-hedging and Last Look

- **Pre-hedging** is the management of risk associated with anticipated client orders, designed to benefit the client.
- **Last look** is a practice whereby a Market Participant receiving a trade request has a final opportunity to accept or reject the request against its quoted price during a last-look “window.”
- Neither practice is prohibited by the Global Code, provided that they are conducted with **fairness and transparency**.





Principle 17

Pre-hedging and Last Look (cont'd)

Pre-hedging:

- Market Participants should only pre-hedge when acting as a principal.
- Market Participants should communicate their pre-hedging practices to their clients, and should pre-hedge fairly and transparently.
- Market Participants should not pre-hedge with the intent of disrupting the market.





Principle 17

Pre-hedging and Last Look (cont'd)

Last look:

- Market Participants should be transparent regarding its last look practices, and should have appropriate governance and controls around the practice.
- Last look should be a risk control mechanism used to verify operational validity and credit sufficiency.





Principle 17

Pre-hedging and Last Look (cont'd)

- Should a Market Participant be permitted to pre-hedge a specific trade request during the last-look window?
 - The May 2017 version of the Global Code introduced a **presumption** that doing so is unlikely to benefit the client:
 - “During the last look window, trading activity that utilizes the information from the Client’s trade request, including any related hedging activity, is **likely inconsistent with good market practice** because it may signal to other Market Participants the Client’s trading intent...”





Principle 17

Pre-hedging and Last Look (cont'd)

- The post-publication consultation period resulted in changes to that language, released in **December 2017**:
 - Market Participants **should not** conduct trading activity that utilizes the information from the Client's trade request during the last look window. Such trading activity would include (1) any pricing activity on E-Trading Platforms that incorporates information from the trade request and (2) any hedging activity that incorporates information from the trade request. Such activity would risk signaling to other Market Participants the Client's trading intent and could move market prices against the Client. In the event that the Client's trade requests were subsequently rejected, such trading activity could disadvantage the Client.
- Principle 17 remains the most challenging issue in relation to the Global Code.





GFXC Working Groups

Future Global Code Guidance

- The GFXC has mandated the creation of three working groups to recommend additional guidance that may be appropriate to be issued in connection with the Global Code, reflecting emerging areas of wider market discussion:
 - Cover and deal working group
 - Disclosures working group
 - Negative pre-hedging examples working group





GFXC Working Groups

Cover and Deal Working Group

- The December 2017 revisions to the Global Code that resulted from the post-publication consultancy period relating to pre-hedging and last look highlighted 'cover and deal' type trading activity in the last look window.
- The working group is investigating the role that these trading models play in the FX market.





GFXC Working Groups

Disclosures Working Group

- Given the importance of adequate disclosures providing transparency to the market, this working group is undertaking further work on disclosures, including in regards to E-Trading Platforms.
- While many liquidity providers currently publish disclosures on how they manage their activities in connection with last look, other types of Market Participant are currently less likely to do so.





GFXC Working Groups

Negative Pre-Hedging Examples Working Group

- GFXC members agreed to develop and consider additional negative examples related to Principle 11 of the Code on pre-hedging activity.
- Much of the focus in this working group will likely be around pre-hedging during the last look window.





Q&A





For More Information:

Please visit:

www.globalfxc.org for additional information about the
Global FX Committee and the Global Code

www.fxpa.org for additional information about the Foreign
Exchange Professionals Association (FXPA)

