

Global Foreign Exchange Committee Report: The Role of Disclosure and
Transparency on Anonymous E-Trading Platforms

January 2020

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1. Introduction

This report explores the key topics and issues regarding disclosure and transparency on anonymous E-Trading Platforms and how the [FX Global Code](#) (the “Code”) applies to this landscape. While the Global Foreign Exchange Committee’s (GFXC) February 2019 [report](#) addressed disclosure and transparency broadly in the FX market, this report aims to explore the aspects of trading capacities and behaviours on anonymous E-Trading Platforms. At their [December 2019 meeting](#), the GFXC agreed to explore further some of the issues highlighted in this report as part of the three-year review of the Code.

The objectives of this report are to:

- Clearly map and describe the current E-Trading Platform landscape, with a particular focus on anonymous trading venues, as a framework for Market Participants.
- Summarize key challenges raised by the GFXC working group regarding engaging on E-Trading Platforms, including whether and how they are currently being overcome.
- Inform the GFXC’s upcoming work on anonymous trading and disclosures, by highlighting some of the main challenges that anonymous E-Trading Platforms present in the context of the disclosure expectations in the Code and February 2019 report.

2. GFXC focus on disclosure and transparency

The Code’s purpose is to promote a robust, fair, liquid, open, and appropriately transparent FX market. During its development, issues regarding disclosure and transparency were prominent and consequently, many of the Code’s principles highlight the importance of appropriate transparency during various FX market activities (such as pricing, handling of confidential information, etc.). These issues re-emerged during the GFXC’s Request for Feedback on last look practices. During the Request for Feedback, a number of Market Participants suggested that there may be further areas for improvement in the current disclosure and transparency landscape, particularly pertaining to anonymous E-Trading Platforms.

As a result, the GFXC formed a working group to review these issues. The group was composed of several dozen members from the sell-side, buy-side, and E-Trading Platforms. The working group’s main focus was on the role that disclosures can play in establishing clarity around the trading practices of Market Participants, particularly as they relate to E-Trading Platforms. Much of the information provided in this report comes from the working group members and the issues that they viewed as important to consider when engaging on an E-Trading Platform (as seen in Section 6). In addition to the stages and related considerations found in [Section 2 of the February 2019 report](#), the working group has since

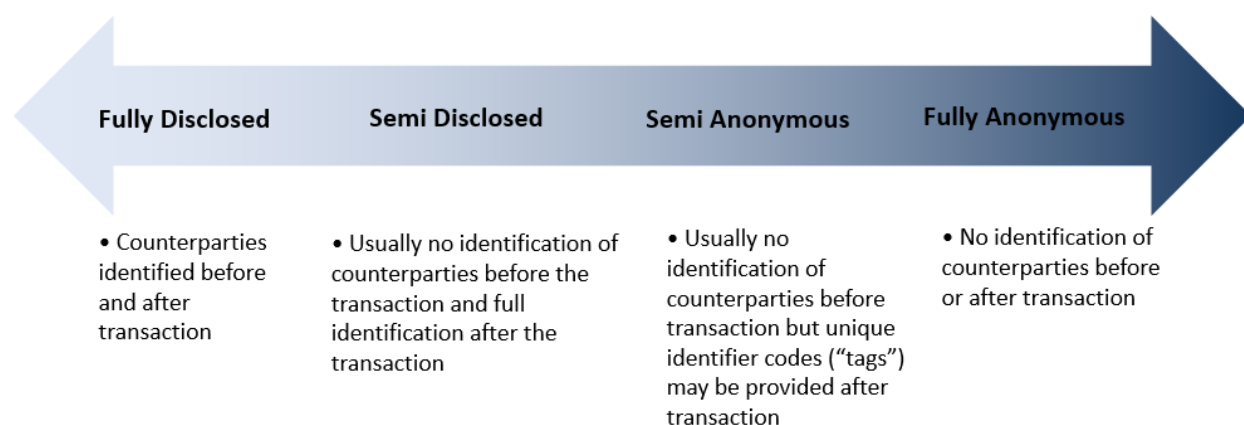
concentrated on key infrastructure topics and visual mapping of information flow related to anonymous E-Trading Platforms. Much of this report will cover these more recent areas of focus.

3. The role of anonymous E-Trading Platforms in the FX market

E-Trading Platforms play a major role in the FX market's trading infrastructure, as over 70 percent of spot FX daily turnover is transacted electronically.¹ E-Trading Platforms may differ across a number of offerings, such as those related to liquidity, credit, operational workflows, and execution types. Many of these venues also offer various levels of anonymity, since users may have different preferences and objectives regarding identification of counterparties.

Given the wide variety of features provided by E-Trading Platforms, the venues' offerings span across the anonymity spectrum from fully disclosed to fully anonymous; working group members attempted to illustrate this range by constructing a diagram as seen in Figure 1. Fully disclosed venues typically identify counterparties to each other before and after the transaction takes place, so the identities are entirely transparent. Semi disclosed venues typically identify each counterparty only after the transaction is completed. Semi anonymous venues may, in lieu of naming the counterparties, use unique identifiers ("tags"), which may be provided before and/or after the transaction takes place. Fully anonymous venues typically refrain entirely from identifying counterparties by name or even by tags, so settlement-related operations are handled via a third party, such as the platform itself or a prime broker (PB). It is important to note, however, that within each of these categories, if any of the involved counterparties is a PB, then often times only the PB is identified rather than the PB's client.

Figure 1: Spectrum of Anonymous Platforms



¹ <https://www.bis.org/publ/mkctc10.pdf>

4. Market Participant roles on an E-Trading Platform

Market Participants may act in four different roles when participating on an E-Trading Platform:

- 1) **Liquidity Provider (LP):** Provides bid and/or ask prices on the venue, though not always two-way pricing
- 2) **Liquidity Consumer (LC):** Instigates buy or sell transactions by executing on the available respective bid or ask prices
- 3) **Prime Broker (PB):** Serves as credit intermediary for a Market Participant that may not otherwise have established trading relationships with LPs²
- 4) **E-Trading Platform:** Provides the trading venue and channels the flow of information including on-boarding documentation, operating guidelines, disclosures, and end-of-day reports

It is important to note, however, that these roles are not fixed per Market Participant and that Market Participants may act in different roles across various transactions and over time. For example, one user may act as an LP in one instance by placing standing bid and ask orders, and then in another instance act as an LC by initiating a transaction by executing a bid or ask order placed by an LP. Furthermore, different Market Participants may also offer similar services to each other, such as when PBs and E-Trading Platforms both offer other Market Participants credit intermediation and market access.

5. Information flow mapping as a visual tool

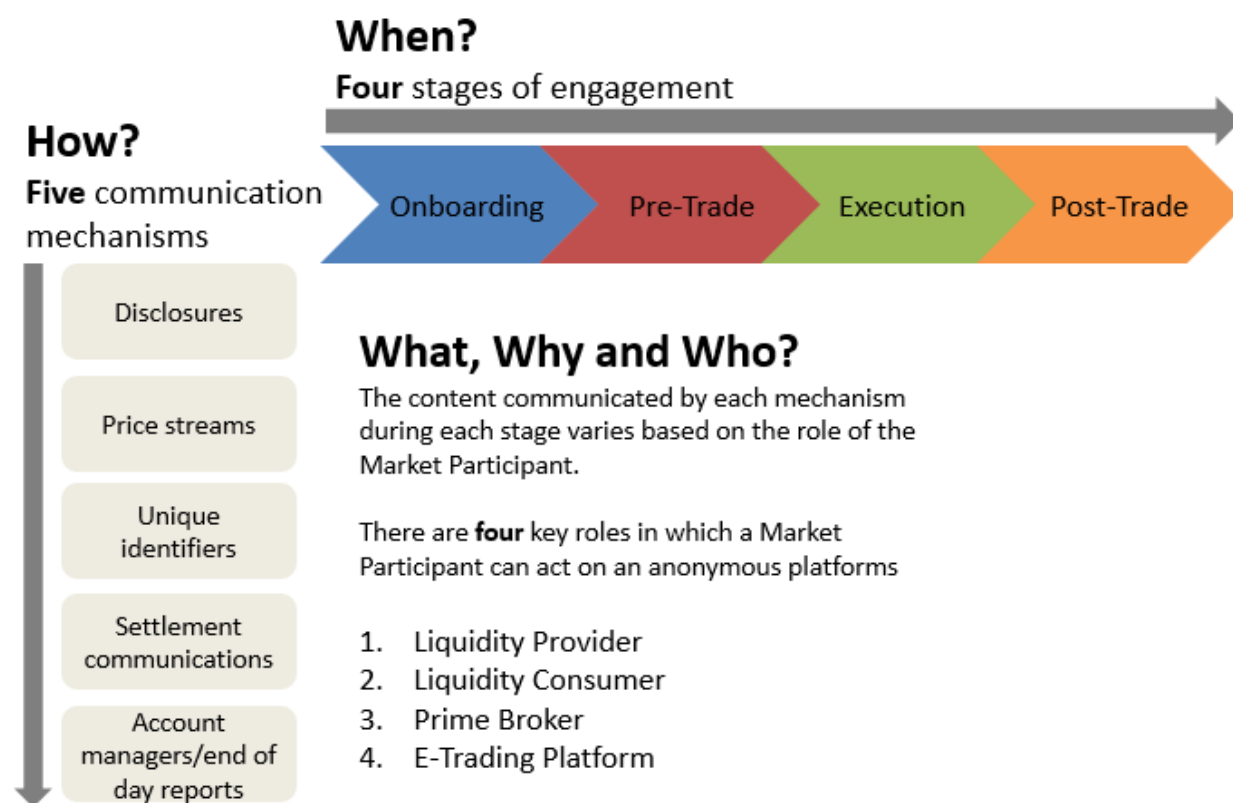
Given the diverse landscape of E-Trading Platforms, there is not one common standard flow of information. For example, some E-Trading Platforms offer the ability to trade anonymously – either with counterparty names visible only post-trade (semi-disclosed), or not at all (fully anonymous). The mapping team within the GFXC working group attempted to draw out the relevant communication mechanisms across the trade execution timeline, in an effort to help better understand and dimension the flow of information.

As illustrated in Figure 2, there are four stages of engagement between Market Participants on an E-Trading Platform: 1) the on-boarding process, 2) the pre-trade stage, 3) execution, and 4) the post-trade stage. Each stage incorporates up to five different communication mechanisms, which include 1) disclosures, 2) price streams, 3) unique identifiers (“tags”), 4) settlement communications, and 5)

² Limitations around the flow of information become more complex when considering Market Participants that engage on an anonymous platform through a PB. This is because the PB client has the trading/behavioural relationship with counterparties on the platform, while the PB has the credit relationship with its client.

account managers/end of day reports. The interactions between the stages and communication mechanisms vary depending upon which of the four roles Market Participants are acting in while participating on an E-Trading Platform (as described in Section 4). Information availability regarding identifying tags, for example, may not be consistent across all LCs and LPs on a particular E-Trading Platform. Other communication mechanism interactions that were highlighted by working group members included E-Trading Platform user agreements, order handling and pre-hedging practices, last look policies, information leakage/market impact, how changes to venue practices are communicated to users, and the extent to which data is collected and shared with users. Taken together, the feedback helped more clearly identify and organize the flow of information within the E-Trading Platform landscape.

Figure 2: Information Flow Mapping



6. Key topics raised by working group

Communications regarding expectations and transparency around counterparty behaviour are complicated by the anonymous nature of some E-Trading Platforms and the fact that Market Participants may not be able to readily identify their respective trading counterparty. It is important for

Market Participants to understand acceptable trading practices on anonymous E-Trading Platforms in order to be able to evaluate the actual behaviour taking place on the venues. Accordingly, trading practices and disclosure policies should be communicated by the E-Trading Platform itself to the Market Participants, for example via a rule book, operating procedures, or other materials. This could also include discussions with Market Participants directly.

The topics below were highlighted by the GFXC working group as key areas for Market Participants to understand when engaging on an E-Trading Platform:

1) Unique identifiers/tags

Background

- Some E-Trading Platforms issue unique alphanumeric identifiers for counterparties known as “tags” that provide information around the identity of a counterparty.
- As businesses vary based on their business models, each E-Trading Platform has their own policies around unique identifiers including whether an identifier is provided, how it is presented, which Market Participants receive the identifier, and when they receive it.

Example

- In some instances, the unique identifier might be made available to a counterparty on a post-trade or end-of-day basis.
- In other instances, LPs could receive a client-specific unique identifier pre-trade.

Feedback

- Feedback suggested that it would be helpful to understand at what point in the trade cycle the unique identifier is shared and whether or not clients can opt out of this practice. It could also be important to understand if and when this practice is clearly disclosed to users trading on the E-Trading Platform.
- Some venues provide LC tags for LPs, but not LP tags for LCs. It would therefore be helpful to understand whether the disclosure of tags is symmetric or not.
- Market Participants could observe and understand the behaviour of a counterparty by monitoring interactions with a specific unique identifier and, if desired, could request to shut off liquidity from that tag to prevent future transactions. Members highlighted this activity as evidence that tags somewhat reduce the level of anonymity on such E-Trading Platforms (identified as “semi-anonymous” in Figure 1).
- Feedback noted that E-Trading Platform policies on refreshing unique identifiers/tags should be appropriately transparent.

- The availability of pre-trade tags on some E-Trading Platforms were viewed by some members as necessary to help better manage liquidity and order-handling, though others were concerned that Market Participants could use such information as signals for counterparty intentions.

2) Order handling/last look

Background

- Some Market Participants regularly handle orders by facilitating trade requests from clients, often while simultaneously attempting to avoid taking on market risk (known as “cover and deal”).
- Last look is a practice where an LP receiving an electronic trade request has a final opportunity to accept or reject the request against its quoted price.

Example

- A Market Participant may employ last look as a risk control mechanism by rejecting a trade request after conducting a validity and/or price check.

Feedback

- Working group members stressed the importance of users understanding the policies and best practices around the use of rejected order information.
- As stated in the Code, LPs employing last look should be transparent regarding its use and provide appropriate disclosures to clients. Nevertheless, feedback highlighted that this may be challenging given the anonymous nature of some E-Trading Platforms.
- Feedback noted that there could be more clarity around whether LPs on E-Trading Platforms are firm or not in their prices. The desire for additional clarity over how LCs distribute their orders was also discussed, such as whether it’s full amount or not.
- Some questions and areas of focus related to this feature included:
 - How to know if last look is applied?
 - If last look is applied, is it hosted by the E-Trading Platform or by LPs?
 - If applied by the E-Trading Platform, does the LP define the acceptance/rejection parameters?
 - Does the E-Trading Platform impose any last look criteria on LPs, and if so, how is this disclosed?
 - What is the maximum allowed hold time or minimum fill rate criteria?
 - What are the policies regarding asymmetrical last look?

3) Data sharing policies

Background

- E-Trading Platforms will often provide data to clients regarding certain post-trade information. There are specific criteria for receiving the data.

Example

- Data can include fill rates, rejections, market share, trade prints, etc. and can be provided either in real-time or with a lag.

Feedback

- Feedback stressed the importance of understanding the potential use of post-trade information in data feeds provided to other participants on the E-Trading Platform, whether such feeds are real-time or delayed, and whether the client has the ability to opt out of such feeds.
- Working group members also be stated that it would helpful to understand what post-trade analytics E-Trading Platforms provide and if they are available to all Market Participants or just LPs.

4) Available liquidity

Background

- E-Trading Platforms might curate groups of liquidity based on a user's preference. This could be in the form of pre-specified LP liquidity pools provided to the LC or pre-specified LC preferences provided to the LP.

Example

- A user may only want to trade with counterparties that conform to specific criteria (such as no hold time, Code-adherents only, no pre-hedging, etc.).

Feedback

- Feedback stated that it would be helpful to know whether users are always aware of which liquidity pools they are sending prices to or which liquidity pools they are receiving prices from.
- Some working group members expressed interest in a mechanism on E-Trading Platforms for Market Participants to communicate their commitment to the Code.

7. Relevance to disclosures characteristics and Global Code principles

The Code, together with the Disclosure Characteristics set out by the GFXC in February 2019, contain a suite of material directly relevant to disclosures and transparency in the context of trading on anonymous e-trading platforms. These are summarised below. As part of the 2020 three-year Code review, the new 'Anonymous Trading' and 'Disclosures' Working Groups will consider the need for additional guidance on anonymous trading as well as ways to accelerate the adoption of more effective disclosures.

Disclosures Characteristics

In an effort to strengthen the broad FX disclosures landscape, the GFXC working group [developed in 2019 a list of eight characteristics](#) that Market Participants can use to develop and review FX disclosures. The characteristics are grouped within four categories: accessibility, clarity, review, and content. As illustrated below, each of these categories applies to the key topics within anonymous E-Trading Platforms, particularly with respect to counterparty identification, communication, and behaviour. Where the GFXC believes supplementary material might be helpful this will be developed as part of the three year-review of the Code.

The **accessibility** characteristics relate to the availability of the disclosures that E-Trading Platforms make available to Market Participants, including during the client on-boarding stage of engagement and similar related processes. This includes making the disclosures readily available and clear to prospective users, and allowing them to compare offerings across multiple E-Trading Platforms. Disclosures may be also offered in a non-public manner, such as bilaterally, in order to better customize according to the user's preferences regarding trading relationships, trade types, structures, products, or offerings.

The **clarity** characteristics aim to make the language and terminology of disclosures are clear, concise, and organized in a user-friendly manner. This is especially relevant to disclosures that touch on the key topics of "tags" and trade/market data. Language and terminology that is clear and digestible to a broad and diverse set of Market Participants was also an important objective when drafting the Code.

The **review** characteristics suggest an internal governance process be in place to review disclosures and that bilateral dialogue related to such content take place when necessary. These reviews could be set according to a predetermined schedule (such as annually) and/or on an ad hoc basis following any material changes that could affect the bilateral relationship. Furthermore, E-Trading Platforms may provide a communication channel between Market Participants to help facilitate ongoing dialogue related to topics that might not be included or thoroughly addressed in the disclosure.

Finally, the **content** characteristic recommends that information be useful and relevant. What is deemed useful and relevant depends on a number of variables, including the size, complexity, and activities of the Market Participants. Therefore, the information could apply to a wide range of the key topics depending on the scope of relevant business practices.

Code Principles

With respect to the Code, a number of principles explicitly apply to the E-Trading Platform landscape, including those with direct relevance to disclosures and transparency:

Principle #9 states that “Market Participants should handle orders fairly and with transparency in line with the capacities in which they act.” It goes on to specify that E-Trading Platforms in particular should “have rules that are transparent to users, make clear any restrictions or other requirements that may apply to the use of the electronic quotations, establish clarity regarding the point at which market risk may transfer, and have appropriate disclosure about subscription services being offered and any associated benefits, including market data.” This principle is particularly relevant to the discussion around tags and transparency surrounding unique identifiers and data sharing.

Principle #17 states that “Market Participants employing last look should be transparent regarding its use and provide appropriate disclosures to Clients.” This may be complicated, however, due to the anonymous nature of some E-Trading Platforms. For example, users of anonymous platforms may not know the policies of their counterparties regarding last look, and such lack of transparency could result in financial and operational risks for LPs and LCs that are unable to send and receive disclosures to and from each other. Feedback suggested that it would be helpful if E-Trading Platforms informed users that last look may be employed by some or all of the counterparties on the venue, perhaps with some further details.

Principle #26 states that “Market Participants should maintain an appropriate risk management framework with systems and internal controls to identify and manage the FX risks they face.” It also mentions that certain Market Participants – such as E-Trading Platforms and PBs – “provide credit intermediation and/or market access to other Market Participants,” and should therefore “have a risk management and compliance framework that takes this activity into account.” Furthermore, they are “encouraged to engage in ongoing dialogue with those for whom they are providing credit intermediation and/or access to the market to underscore expectations regarding appropriate behaviour in the market.” Some working group members mentioned the challenge that these Market Participants may face in implementing such a framework, given the limited availability of credit monitoring tools that can be simultaneously applied across multiple venues.

Principle #34 states that “Market Participants should have in place processes to address potential adverse outcomes arising from the use of or reliance on technological systems (hardware and software).” This is especially pertinent for E-Trading Platforms, “which should monitor the intraday health of the Platform (for example, capacity utilisation) and should conduct periodic capacity testing of critical systems to determine such system’s ability to process transactions in an accurate, timely, and robust manner.” Appropriate controls should also be applied in order to “reduce the likelihood of and mitigate any consequences of generating or acting upon electronic quotations that may result in erroneous transactions or market disruption such as off-market quotes or trades, fat finger errors, unintended or uncontrolled trading activity arising from technological failures, flaws in trading logic, and unexpected or extreme market conditions.”

Other principles, such as **Principle #19** and **Principle #20**, relate to the handling of confidential information and how to appropriately restrict access and prevent its disclosure to external parties. While not explicitly referencing E-Trading Platforms like the other prior mentioned principles, these principles may nonetheless still apply as they relate to information that could be associated with the “tag” identifications discussed in the key topics section. This list of principles is not exhaustive, however, as other principles may also apply to E-Trading Platforms in other ways.