Case study: Illustrative example of FX Global Code adoption

Who we are:

We are an Australian pension fund. Within the Investments division, the Capital Markets team manages the foreign exchange exposures generated by the investment activities of the Fund using spot, forward, and non-deliverable forward products.

In conjunction with all relevant legislation and regulatory guidance, the Fund adheres to a well formulated and maintained internal Risk Management Framework, under which risks are considered and managed in accordance with the Fund’s goals and strategic objectives.

Why we adhered:

The Fund acknowledges that the principles of the FX Global Code (the Code) represent good practice in the foreign exchange market. Adhering to the code helps ensure the Fund participates in the market in a way that is in the long-term best interests of the Fund’s members.

In addition to this, the Fund acknowledges buy-side market participants have a key role to play in the promotion of integrity and the effective functioning of the market.

How we adhered:

Setup: The internal review was initiated by the Head of Capital Markets and took approximately six months to complete. A working group comprising representatives from Front Office, Investment Operations, Risk and Compliance, Policy and Governance, and Legal assessed the relevance of the Code to the Fund’s FX market participation and its suitability for adoption.

Of the Code’s 55 principles, the working group identified 44 that were relevant to the Fund’s market participation.

Proportionality: The Fund recognised that the Code is designed to apply to participants in the FX market with vastly different business models. As such, there was understanding that principles should be considered with regard to the relevance to the Fund’s operations and that implementation should be proportionate to the nature of the business. The Head of Capital Markets and the working group kept the concept of proportionality at front of mind throughout the process of adopting the Code.

In view of the risks each principle aims to mitigate and of the nature of participation in FX markets, we gave due consideration to:

- type of market participant
- scale of the FX business
- quantity and frequency of trades
- purpose of trading
- number and type of counterparties
- FX products traded
- systems used in execution, settlement, and risk management
- trading venue
- incentive schemes.
**Procedure:** The Fund took several steps to adopt the Code:

1. It established a working group.
2. The working group analysed the Code to assess its relevance to the Fund’s business and how it could be adopted.
3. A legal review assessed the legal and regulatory implications of adoption.
4. The working group recommended the Head of Capital Markets proceed with adoption.
5. It identified relevant principles and assigned these to relevant areas within the business.
6. A gap analysis of current practices assessed pre-adoption conformity to the Code.
7. The working group assessed how the Fund’s Risk Management Framework would adhere to the Code’s principles.
8. It developed a plan to address gaps.
9. It implemented process improvements to address the gaps.
10. It developed a framework for ongoing review of the Fund’s adherence to the Code.
11. It presented outcomes to stakeholders.
12. The Head of Capital Markets and Head of Investment Operations signed the Statement of Commitment (SoC).
13. The Fund lodged the SoC with the local registry, AFMA.
14. Relevant staff received training on adoption and adherence.
15. The Fund notified the Reserve Bank of Australia and FX counterparties of Code adoption.

Through this period, the members of the working group met and updated the Head of Capital Markets regularly. Although competing priorities and resource allocation did hamper the adoption process somewhat, the Fund’s commitment to the adoption of the code ensured the working group stayed on track.

With limited exceptions, the working group found that its robust established Risk Management Framework meant the Fund already adhered to the relevant principles of the Code in a proportionate way. The gaps identified were addressed by updating relevant policies and procedures.

**Decision: The Fund chose to adopt the Code**

By adopting the Code, the Fund improved internal practices and enhanced engagement with counterparties and the Market. This is consistent with ensuring participation in FX markets is done in a manner that is in the best interest of the Fund’s members.

**Outlook:** As the Fund has incorporated the relevant Code principles into its internal Risk Management Framework, the existing risk management measures it undertakes will also ensure it adheres to the Code. The Fund will also regularly review any changes to its FX market participation and changes to the Code to ensure continued relevance and adherence.