

Case study: Illustrative example of FX Global Code adoption

Who we are:

We are a **Canada-based asset manager**. Our foreign-exchange (FX) team consists of analysts, traders and portfolio managers who conduct spot and forward trades to hedge and actively manage currency exposures in funds managed by our firm. Our interest in adhering to the Code and signing the statement of commitment stems from the fact that a growing share of our AUM is invested globally leading to steady increase in foreign exchange dealings.

Why we adhered:

Our FX team collectively decided to implement the FX Global Code ('Code') for three reasons. Firstly, we believe that all market participants stand to benefit from adhering to a common set of ethical principles and rules of conduct. Our own clients would be better served by improved effectiveness in market communications, liquidity and transparency. A second motivation to adherence was to learn and to improve upon our own process. While much of our iterative improvements had historically been through experience, the Code provided an opportunity for us to compare our own dealings to a new set of industry best practices. Dialogue with investment dealers and other buy-side firms further contributed to our understanding of ethical and operational issues we had not yet faced. Finally, the statement of commitment would be a public demonstration of our support for the ethical functioning of currency markets. We expected our counterparties to make the same commitment. We hope that our public adoption of these principles will help to encourage other buy-side firms to do the same.

How we adhered:

Setup: Our internal review was undertaken by several members of the FX team, who spent 3 months reviewing all elements of our process in relation to the principles set out in the Code. As a first step the team audited the existing policies and procedures to gauge the level of compliance with the Code. Other groups (like trade support, operations, legal and compliance, risk management) were also queried about procedures that are indirectly involved in the process of execution, settlement and oversight. This group met weekly to discuss the status of the review.

Our approach was to create a detailed matrix that cross referenced internal foreign exchange policies to each principle within of the Code. Gaps were identified and plans drawn up to update policies to be consistent with the spirit of the Code. Where oversight or compliance was required, the group or individual responsible was included in the review and made responsible for effecting change.

Proportionality: Of the 55 principles in the Code, 50 were deemed relevant to our FX operations and covered by our existing policies. Certain sections that relate to order-taking and electronic trading were excluded from our review as they are not applicable to our buy-side process. The fact that we are a relatively small, centralized and well-established team helped to speed up the time of implementation. We considered time and resources that would be required of other teams. The review identified 9 groups outside the FX team that would be involved at some level in ensuring adherence. Making sure that the implementation of any new policies or procedures would not be too onerous for any of the affected groups was an important consideration.

Procedures: The findings from the study confirmed that most of the firm's existing policies and procedures either met the requirements or had more stringent restrictions than those implied by the Code. Shortfalls were addressed by the currency team, with the support and input from other groups. Examples where processes required amendments include:

- Additional training provided to members of the currency and trade-support teams, with the addition of the FX Global Code as a required reading for new front and back-office employees.
- Systems were updated to reduce the need for manual entry thereby reducing the risk of human errors.
- Onboarding a secondary trading platform to serve as a backup in the event of a systemic disruption.
- An update to procedural documentation including trading procedures, limitations, restrictions, points of contact and any pertinent information related to the effective FX execution for each portfolio under our care.

Decision: Upon completing a review of our policies and procedures, the group head of the FX team presented the findings to the firm's executive committee. With full support from this committee, the Chief Executive Officer signed the statement of commitment, which was posted publicly on the global registry. As a further step we included adherence to the Code as an eligibility requirement for inclusion in our counterparty list. As of early-2020, all of our counterparties have adopted the Code.

Findings: In the months/years that followed the introduction of the Code, we noticed a marked change in the behaviour of FX market participants. Examples include fewer disputes with counterparties over trade outcomes and an increased awareness of responsible communication about client activity. The Code reinforced our conviction in demanding fair and ethical behaviour from our counterparties and helped us communicate these clear and consistent behavioural guidelines with new hires.

Outlook: We intend to refresh our audit of procedures with each amendment to the Code in order to ensure adherence. An important take-away from the study was the importance of communicating the principles of the Code within the organization in order to maintain and encourage a single understanding of ethical standards and best practices in our foreign-exchange dealings. All members of the FX and trade support teams were asked to read the Code, and it has been incorporated in our training materials for all new hires on both teams. The process of adhering to the Code was helpful in assessing our procedures against an independent framework and identifying opportunities for improvement.