

May 25, 2017

GFXC Request for Feedback on Last Look practices in the Foreign Exchange Market

The Global Foreign Exchange Committee (GFXC) is a forum comprising central banks and private sector market participants established to promote global collaboration and communication on FX-related issues, exchange views on trends and developments in FX markets, and promote, maintain and update the FX Global Code (Code)¹.

The text of the Code was recently finalised and it provides recommendations that reflect a broad set of global views both from public and private sector participants. The GFXC encourages market participants to adopt the final Code and incorporate it into their activities.

As the structure of the FX market evolves in the future and market practices adapt, the GFXC is committed to evolving the Code to maintain its relevance. In that regard, the GFXC intends to periodically request feedback from market participants and others on specific topics. The first such request is being launched today alongside the release of the Code, and focuses on a practice within electronic trading known as “last look”, specifically trading activity during the last look window related to a last look trade request. This document sets out the GFXC’s request for feedback on last look, drawing on the final Code text and input received during the drafting of the Code.

We request feedback by 21 September 2017.

Background

The Code defines “last look” as *“a practice utilised in Electronic Trading Activities whereby a Market Participant² receiving a trade request has a final opportunity to accept or reject the request against its quoted price”*. Principle 17 provides guidance on four related topics: (1) the purpose(s) of last look; (2) governance and controls designed to limit the use of last look beyond its intended purpose(s); (3) use of information obtained from a Client trade request, including through trading activity in the “last look window”; and (4) Client transparency regarding the functioning of last look, including minimum disclosures. These topics reflect the dominant themes related to last look identified by private and public sector representatives involved in the production of the Code.

Input received during the Code’s drafting process reflected a wide range of views on features of last look. Some market participants object to the use of last look, arguing that it is not necessary as a risk-control mechanism and moreover that it can negatively affect the outcome for the Client. Others view last look as beneficial for market liquidity and pricing. The text in Principle 17 aims to encourage improved transparency and controls surrounding the use of last look.

One particular area of considerable debate was around *“trading activity that utilises the information from the Client’s trade request, including any related hedging activity”* during the last look window. The

¹ http://www.globalfx.org/fx_global_code.htm

² Capitalised terms not defined in this request have the meanings given to them in the Code.

Code states that it is *“likely inconsistent with good market practice”*. This language reflects input that expressed concern that hedging activity during the last look window could be to the Client’s detriment.

Request for feedback and questions

The GFXC invites informed feedback on the questions set out below.

Respondents should provide the following information alongside their feedback:

- Name and respondent type;
- Whether the respondent, or its members, provides prices subject to last look, or not; and
- Whether the respondent, or its members, is a client that places trade requests subject to last look, or not.

Core Questions for Feedback

Principle 17 of the Code states that *“During the last look window, trading activity that utilises 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, skewing market prices against the Client, which (1) is not likely to benefit the Client, and (2) in the event that the Market Participant rejects the Client’s request to trade, constitutes use of Confidential Information in a manner not specified by the Client”*.

When providing feedback to the questions below respondents should use the terminology for last look that is used in the Code or indicate how their use of such terminology differs. If a respondent uses different terminology to that used in the Code they should also provide an explanation of why they have chosen to do so. In answering the below questions, respondents may wish to refer to the purpose of last look, as described in the Code and as understood in the FX market, and the availability of statistical analysis or metrics which support the respondent’s view.

Question 1 As noted above, the Code states that *“During the last look window, trading activity that utilises 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, skewing market prices against the Client, which (1) is not likely to benefit the Client...”* Do you agree or disagree? Are there specific situations where this trading activity benefits the Client? In those situations is such trading activity related to the validity or price checks that the Code states as the purpose for last look? Please provide reasons for each response.

Question 2 Based on your response to Question 1, do you consider that the language set out in the Code on this activity should be modified (for example, should it be strengthened further or provide further detail as to what may or may not constitute good practice)? Please provide reasons.

Responding to Our Request

The GFXC hopes that respondents will use our request and future GFXC requests as an opportunity to exchange views on trends and developments in global FX markets. We intend to publish all responses as submitted, including the respondent's name, unless the respondent requests otherwise or it would be inappropriate to do so. Respondents should thus be mindful not to include proprietary, competitively sensitive, or other non-public information in their responses. If a respondent believes that such information would be of use to the GFXC's work, the respondent should contact the GFXC Secretariat.

We request that respondents provide their responses in PDF format by 21 September 2017. Responses and any questions should be sent to the GFXC Secretariat by email using the following address: lastlookfeedback@globalfxc.org