



## **Launch of Phase 1 of the Global Code of Conduct for the foreign exchange market**

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More than two years ago, we began a journey to achieve a mission. This mission was clear – to promote the integrity and effective functioning of the most important financial market in the world. However, the path to accomplish it was uncharted. A group of senior market professionals, representing every major sector of the global foreign exchange market, were invited by the BIS to form the Market Participants Group (MPG), and were charged with determining this path. Together, we committed to develop and recommend a meaningful, practical, common set of guidelines to support the integrity and effective functioning of the world's largest and most liquid financial market. Today, we release the second and final phase of the Code and begin, in earnest, to put each of the principles into practice.

The foreign exchange market is arguably the oldest market in the world. Like many markets, its evolution has accelerated greatly over the past 20 years, with advancements in electronic access and communication tools connecting millions of participants via thousands of channels, enabling them to access prices, exchange information, and ultimately complete transactions. Changes in technology have leveled the playing field for market participants, but at times these changes have left less active players at an information disadvantage. This information asymmetry prompted a desire for a common set of principles that could help all participants more effectively and equitably navigate a rapidly changing marketplace.

Furthermore, the global financial crisis, followed by several very specific incidents in the foreign exchange market, contributed to a loss of public trust in market participants and in their ability to always serve the best interests of end-user clients. Among our many goals was restoring the trust in the foreign exchange market through a set of guiding principles to which all market participants would commit.

No single regulatory body oversees the foreign exchange market. Instead, participants have been guided by regional regulations, multiple codes of conduct and sets of best practices. Our challenge was to take the work that had been done across many regions, update that work to address changes in the market, and create a single global code that would guide all wholesale market participants.

To achieve this mission, we brought together the broadest representation of market participants possible. The private sector (MPG) worked closely with the public sector Foreign Exchange Working Group (FXWG) and supporting Secretariat Working Group (SWG) throughout the process. This public/private partnership was without precedent in my years of experience in financial markets and, in the end, that partnership was a major contributor to the successful completion of the document. The manner in which the public and private sides worked together should serve as a model for others in financial services.

Drafts of principles and guidelines were completed and shared with the regional foreign exchange committees and some industry groups. We invited and received feedback from thousands of individuals from nearly every major financial center around the globe. Industry practices have varied widely across geographies and within specific sectors across buy side, sell side and platforms. Debates occurred

regularly between all market participants, though rarely were there disagreements between the public and private sectors. We discussed topics on which fierce competitors often agreed, while on other topics, seemingly similar industry partners had trouble finding common ground.

We took on challenges that the market had not yet found a way to resolve. For example, agreeing on the definition of principal and agent proved particularly difficult in our first phase. In another example, the effectiveness with which information was being shared between market participants had clearly suffered as a result of inappropriate communications associated with FX benchmarks. We immediately identified this as an issue that required attention. The appropriate use of pre-hedging, one on which the market has focused since the first client order was shared with a bank, was also the subject of much discussion. The teams worked on these and a host of other issues relentlessly, until we found constructive resolution and published the first set of principles, also known as the Code. A full year has now elapsed since those principles were released to the market and feedback has been consistently positive.

In the second phase, the topic of trading during the last look window has elicited much debate and was a lightning rod for public speculation on our mission - and occasionally, our motives. Last look is an established practice in the FX market. Like other market conventions, when used properly, it serves an important purpose and facilitates smooth execution. If abused, it will harm the market and its participants.

At no point did we contemplate recommending that any useful market practice be curtailed. Similarly, we carefully avoided advocating one commercial model over another. The foreign exchange market is exceptional in a number of ways, one of which is numerous participant choices over the manner by which execution can take place. Through the Code, we worked to ensure that market participants could become familiar with those choices.

Each principle in the Code, is dependent on transparency and disclosure. Providers of services need to be transparent about the products that they offer and the ways in which they execute a transaction. Similarly, it is incumbent upon the buyers of those services to understand what they are purchasing, to ask questions about how an order will be executed, and, when necessary, to provide clear guidance about their preferences. For some, this may represent a change in practice. That said, it is absolutely necessary for the market to function effectively.

“Market Participants should strive for the highest ethical standards.” That is the very heart of the Code, and the principle that underpinned nearly everything that we did. Without the strongest adherence to this principle, the foreign exchange market cannot operate. The question most often asked, throughout this process, was that of adherence to the Code and the penalties for not doing so. My answer to that question will always be: if that first principle is followed, we will achieve all of our objectives. In every business, for every market participant, the definition of highest ethical standards can rarely be debated.

It is now up to each of us to follow through with our commitment to adopt the principles that we have established. No regulation, no law, no penalty is strong enough to deter those who might choose to take advantage of others through dishonorable or illegal practices. The Code has clearly established the ways in which all market participants should operate. The introduction of the Code will, by itself, do nothing to enhance the public's trust. This can only happen if its adoption and practice is undertaken by the greatest possible number of market participants. I am extremely confident that those who wish to compete in this market will be more successful if they follow the principles that we have established together. By doing so, we will fulfill our mission of promoting the integrity and effective functioning of the most important financial market on which the world depends.