

Global Foreign Exchange Committee Report: The Effective Means of Buy-side Engagement¹

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1. Background

The FX Global Code (Code) sets out global principles of good practice in the FX market and is expected to apply to all wholesale FX market participants including both sell-side (e.g., banks) and buy-side (e.g., asset managers, corporates). The Code provides mechanisms such as the "Principle of Proportionality" to promote voluntary adherence to the Code by all market participants. In addition, as is stated in the preface, the Code does not impose legal or regulatory obligations but rather it is intended to serve as a supplement to any and all local laws, rules and regulations.

Adherence by buy-side firms has become more important to "promote a robust, fair, open, liquid, and appropriately transparent FX Market" as their presence in FX market grows. In its open letter to GFXC, the BIS Markets Committee called for wider adoption of the Code, stating: *"To date, only a fraction of the largest buy-side participants, such as asset management firms, have adopted the Code. As their share in global FX trading increases further, it is important that they adopt the Code to ensure a fair and effective FX market for all"*.

Adopting the Code brings benefits to individual market participants including buy-side entities. The advantages of adopting the Code for buy-side entities are outlined by the GFXC², including: (a) sending a positive signal to clients and external stakeholders by showing commitment to good practice; and (b) improving internal discipline by benchmarking internal practices against a set of principles of the Code. Echoing these benefits, adhered buy-side entities mention additional merits in their case studies³, including: (c) having the privilege of joining local FXCs, thereby enabling them to exchange views with other adhered market participants, for example, on ethical and operational issues.

Although there has been good progress, the adoption by the buy-side firms has been much lower than by the sell-side firms (Annex 1) and further engagement with buy-side remains a priority for the GFXC. After reviewing the trends in the buy-side's adoption of the Code, the GFXC noted in the September 2020 meeting that *"while much progress had been made, greater engagement was still needed and would remain a priority for the GFXC"*.

As the GFXC's three-year review on the Code progresses, the next step for the GFXC is to provide guidance on proportionality to encourage and support buy-side adoption of the Code. At the September meeting, *"noting that the Code should be applied by each Market Participant in a manner that is proportionate to the nature of their engagement in the market, the Committee agreed that it would develop further guidance to assist firms in identifying those principles of the Code that are the most appropriate for them to evaluate"*⁴.

In advancing buy-side adoption of the Code, it is vital that the local FXCs (LFXCs) take proactive steps and capitalize on collective knowledge of market participants to conduct effective buy-side outreach. The focus of the work on the Code will shift more from production/review of the Code to its promotion at the local level. Accordingly, LFXCs are

² See <https://www.globalfxc.org/faq.htm>, Q8-9 for more details on benefits of adopting the Code for market participants including buy-side institutions.

³ See https://www.globalfxc.org/case_studies.htm for case studies provided by adhered buy-side entities, illustrating companies' various considerations and steps to adhere to the Code.

⁴ Along with this agreement, the Committee rejected the idea of creating buy-side version of the Code and the Statement of Commitment on the basis that *"a single Code remains important in ensuring a common market standard on what constitutes good practice, and that a single Statement is easier to understand and acts as a clear benchmark for adoption"*

expected to play a leading role in increasing buy-side adoption. The GFXC and LFXCs have developed various educational tools⁵ and accumulated experience⁶ on outreach for the past few years, on which LFXCs could capitalize to formulate buy-side outreach strategies.

Consistent with the objective to consider ways in making further progress on buy-side adoption of the Code, the GFXC conducted a survey with the aim of producing a set of recommendations to assist LFXCs' buy-side outreach efforts and outlining areas that might warrant consideration in assisting LFXCs' work. Specifically, the survey asked buy-side market participants on the Global Index of Public Registers across jurisdictions their views on effectiveness of various potential means of buy-side engagement, as well as potential strategies that could incentivize the buy-side to voluntarily adopt the Code (please refer to Annex 2 for the results of the survey).

2. Recommendations for LFXCs

At the 2021 March meeting, the GFXC discussed the following set of recommendations based on the survey results and comments from adhered buy-side entities, and supported them to be taken up by LFXCs in facilitating effective buy-side outreach:

- (i) **Get the message delivered from local authorities** – The survey showed that outreach strategies involving moral suasion from authorities are effective in addressing entities' reluctance to devote time to take the initiative. The majority of the respondents were in favor of speech or written messages from authorities promoting voluntary adoption as a meaningful strategy to speed up internal decision-making process.
 - ✧ To enhance its efficacy, it is recommended to: (1) have senior members of buy-side entities involved (i.e., members who directly communicate to the executive level with decision-making power); and (2) target the leading companies (i.e., approach influential entities where a domino-effect on their peers can be expected).
- (ii) **Get the local industry associations involved** – In order to have more productive outreach in each jurisdiction, the survey revealed that engagement through industry associations is beneficial for: (a) taking advantage of existing network; (b) starting a domino effect of voluntary adoption within a targeted industry; (c) developing tactics taking into account of industry-specific factors; and (d) reducing LFXCs' workloads.
 - ✧ To enhance its efficacy, it is recommended to: (1) involve motivated members of targeted associations who could lead the process; and (2) reduce their burden by providing adequate support given lack of spare capacity for industry associations to assist.
- (iii) **Beware of potential "inverse relationship" between the group size of the target and outreach effectiveness** – The survey indicated that efficacy of an outreach approach improves as the number of entities in the target group becomes smaller. While outreach targeted for a large number of entities has the merit of handling wider audience, smaller

⁵ The GFXC Buy-Side Outreach Working Group has produced a number of tools to facilitate outreach, for example, webinar, FAQs, educational and guidance materials such as gap analysis template, promo videos, advocacy document, case studies, etc.

⁶ Outreach efforts by LFXCs include raising market participants' awareness of the Code and encouraging adoption of the Code through measures such as providing local language version of the Code and hosting educational events.

outreach is likely to prompt entities to develop their sense of commitment to take action.

- (iv) **Focus on clarifying the concept of proportionality** – A greater understanding of the proportionality concept amongst the buy-side firms is an important element in advancing the Code adherence. The survey suggested that experiences of the adhered buy-side entities surrounding the application of the proportionality concept would be helpful in clearing up their concerns or questions.

✧ To enhance its efficacy, it is recommended to provide guidance on proportionality at the staff level by capitalizing on collective knowledge. Suggested outreach approaches include: (1) setting up panel workshops led by adhered buy-side entities to address questions or demands from those considering adopting the Code; (2) LFXCs preparing local guidance note on proportionality, for example, building on the envisaged GFXC's guidance.

- (v) **Understand jurisdiction-specific factors** – The same survey was conducted for Tokyo FXC members (see Annex 5) to explore if there exists local specific factors that warrant attention in considering how to formulate outreach strategies. While there was a good overlap on the core findings, views on the effectiveness of certain outreach strategies differed across jurisdictions. .

✧ To enhance its efficacy, it is recommended to assess and reflect local specific factors in terms of industry, decision-making, and organizational approach to outreach strategies (e.g., in the survey for Tokyo FXC, more emphasis was placed on the importance of a domino-effect as an increasing number of types of entities voluntarily adopt the Code).

Among the various types of outreach approaches, a strategy to get local regulators to reference or recognize the Code explicitly in their surveillance of the FX market⁷ was regarded as one option in the survey response. It should be noted, however, that the vast majority of respondents stressed that: (1) a robust and effectively functioning FX market can be achieved under the current setup of the Code without having reference to surveillance framework or regulation; and that (2) introducing this option could impair the spirit of the Code as a voluntary reference tool by potentially opening the way for FX market to be regulated. When communicating to market participants, local authorities should carefully construct their messages to be consistent with the GFXC's understanding that the Code *"is intended to serve as a supplement to any and all local laws, rules, and regulation by identifying global good practices and processes"*.

3. Recommendations for the GFXC

As noted above, LFXCs are expected to take proactive steps in buy-side engagement, and the GFXC's continuous support would facilitate LFXC's efforts. The GFXC agreed at its 2021 March meeting that the following recommendations would assist LFXCs' work, and therefore would be part of the GFXC future agenda:

- (i) **Creating guidance to help firms with the proportionality concept** – At the GFXC September 2020 meeting, the Committee agreed that it would develop further guidance to assist firms in identifying principles of the Code that are the most appropriate for them to

⁷ Examples include the United Kingdom and Australia, where the local regulator (Financial Conduct Authority and Australian Securities and Investments Commissions, respectively) refers to the Code in their surveillance of the FX market.

evaluate. The survey results reinforced this action, underpinning the usefulness of such materials for buy-side outreach.

- ✧ In the mid- to long-term, the GFXC may wish to suggest that LFXCs create their own version of the guidance, taking account of their jurisdiction-specific factors.

(ii) Requesting LFXCs’ regular updates on adherence status – The survey results indicated that introducing a framework for LFXCs to provide regular updates on signatories to the SoC in each jurisdiction is effective for: (1) incentivizing LFXCs to continue their efforts on buy-side outreach; and (2) monitoring the breadth of adoption in a comprehensive manner.

- ✧ The GFXC may wish to consider collecting regular updates from LFXCs on their buy-side engagement work at the GFXC meetings. To make it more constructive, the GFXC could share specific themes to be focused (e.g., issues related to the applications of proportionality concepts) prior to a GFXC meeting, so that LFXCs could report any information or findings related to them.

The survey results also presented a few general ideas⁸ for effective buy-side outreach, which the GFXC may wish to consider in its future communication (e.g., speech, letter, and article):

- (1) Emphasizing the importance of having a sound and effective governance framework: Given the growing awareness of responsible investment, it was pointed out that GFXC delivering messages on the Code in the context of global agenda (e.g., ESG investment), in particular governance, could be helpful in getting more traction.
- (2) Strategically choose the target and set the size of audience where deemed appropriate: As in the recommendations for LFXCs (i) and (iii), the survey responses suggested that communicating to influential entities and smaller group of audience could result in more effective outreach.

4. Next steps

In light of the GFXC’s support on the abovementioned recommendations, LFXCs should further promote buy-side outreach engagement by incorporating the five recommendations in Section 2. Should they endorse referencing or recognizing the Code explicitly in their surveillance of the FX market, LFXCs ought to give due consideration in their communication to be consistent with the GFXC’s understanding of the Code.

As part of its agenda, the GFXC will continue to work on producing guidance to help firms with the proportionality concept. In addition, the GFXC will start receiving regular updates from LFXCs on their buy-side engagement efforts at upcoming meetings. The meeting is expected to serve as a good occasion for LFXCs to share their buy-side engagement efforts and discuss how to forward their efforts.

⁸ The GFXC buy-side outreach working group has been tasked to assess the feasibility of conducting an impact study of the Code on the FX market (e.g., pursuing a study on the state of the FX market). Our survey results indicated that visualization of work in relation to the introduction of the Code is beneficial for implementing outreach strategies.

Annex 1: Signatories to the SoC of the Code by Jurisdiction and Type of Business

- A significant number of market participants have adopted the Code, and 1,057 SoCs have been posted on the Global Index of Public Registers (Global Index) as of November 2020.
- According to the GFXC Survey 2019, the Code adoption continued to increase in 2019 ("fully-adopted": 55% of 303 respondents; in 2018, 61% of 354 respondents in 2019).
- The adoption to the Code is widespread amongst banks and other sell-side firms, and they represent nearly 70% of SoCs.
- The adoption has lagged for some important market segments, especially buy-side firms with much lower representation at around 10% of SoCs.
- Among the signatories of buy-side firms, nearly 60% are asset managers, which include a meaningful proportion of the 50 largest global asset management firms⁹.

Chart 1: Number of Signed Entities by jurisdiction and Type of Business

		US	Europe	Asia	Other	Not clear	Total	
buy side	Asset manager	13	25	13	14	1	66	buy side total 118 (11%)
	Corporate treasury department	1	18	7	1	0	27	
	Pension funds	0	2	0	9	0	11	
	Insurance companies	0	2	0	7	0	9	
	Quasi-sovereign or supranational institutions	0	4	0	0	0	4	
	Sovereign wealth funds	0	0	1	0	0	1	
non-buy-side	Bank	20	116	483	102	6	727	sell side total 939 (89%)
	Broker/invest. Adviser	5	17	18	19	0	59	
	Central Bank	1	39	14	8	0	62	
	E-trading platform	7	12	4	4	5	32	
	Infra./tech provider	4	6	5	1	1	17	
	Non-bank liquidity provider	4	4	0	1	0	9	
	Other	2	5	19	7	0	33	
Total		57	250	564	173	13	1057	

As of November 2, 2020

This number of SoCs has NOT been cleaned and duplicate entries across different public registers.**Chart 2: Share of Signed Entities by jurisdiction and Category of Business**

	US	Europe	Asia	Other	Not clear	Total (100%)
buy side	1%	5%	2%	3%	0%	11%
non-buy-side	4%	19%	51%	13%	1%	89%

⁹ Euromoney 2018 FX Survey.

Annex 2: The Survey on Effective Means of buy-side engagement

In order to take stock of views on effectiveness of various potential means of buy-side engagement, a survey was recently conducted among 12 buy-side entities that: (a) represent the Buy-side Outreach Working Group (BSOWG) private sector members and other buy-side entities from LFXCs; and (b) have signed the Statement of Commitment (SoC). Respondents represented jurisdictions including: Australia, Continental Europe, Japan, United Kingdom, and United States.

The survey was carried out over a period of one month from mid-October to early November 2020.

Questionnaire (an overview of the survey and all survey questions are in Annex 3, 4)

The questionnaire started by asking respondents which of the following outreach approaches are considered more effective for buy-side engagement: (1) **Top-down outreach approaches** – strategies that involve actions from authorities (e.g., GFXC, central banks, local regulators/legislators) –, or (2) **Bottom-up outreach approaches** – strategies that intend to provide support for a better understanding of the Code. This question was answered both in terms of theoretical view (i.e., potential approaches that would work better in theory), and practical view (i.e., approaches that take into account effectiveness AND any cost/drawbacks that may incur in respondent's jurisdiction).

It then focused on a few broad areas related to buy-side engagement, as follows:

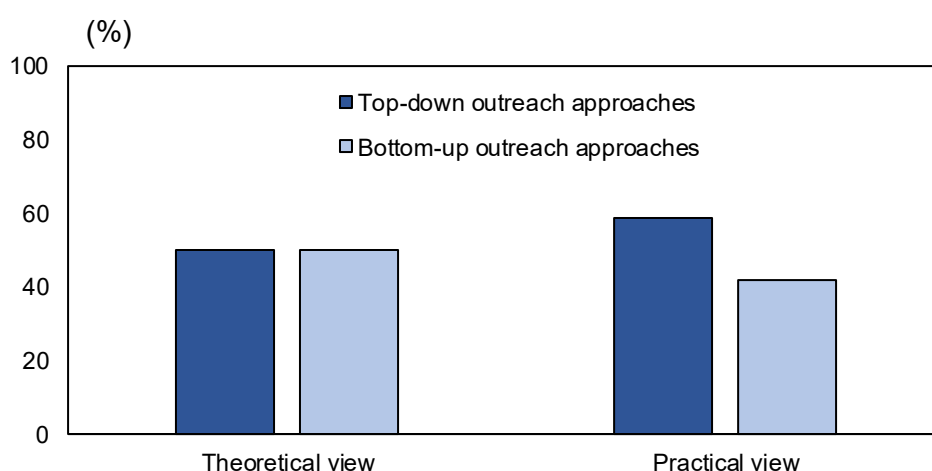
- (i) Effectiveness and pros/cons of the potential means of engagement corresponding to *Top-down* or *Bottom-up outreach approaches*;
- (ii) Challenges / impediments encountered in relation to signing the SoC.

Results (the same survey was conducted in Tokyo FXC and the results are in Annex 5)

Respondents (92%) indicated the necessity to undertake *Top-down outreach approaches* in conjunction with *Bottom-up outreach approaches* for a more desirable outcome.

The opinion on the relative importance of *Top-down* and *Bottom-up outreach approaches* was split equally, while it was marginally skewed towards *Top-down outreach approaches* when practicality (i.e., cost/drawbacks that may incur) was also taken into consideration (Chart 1).

Chart 1: Opinion on relative effectiveness of *Top-down* and *Bottom-up outreach approaches* that: (a) work better in theory (theoretical view); and (b) are more effective taking into account any cost/drawbacks (practical view)

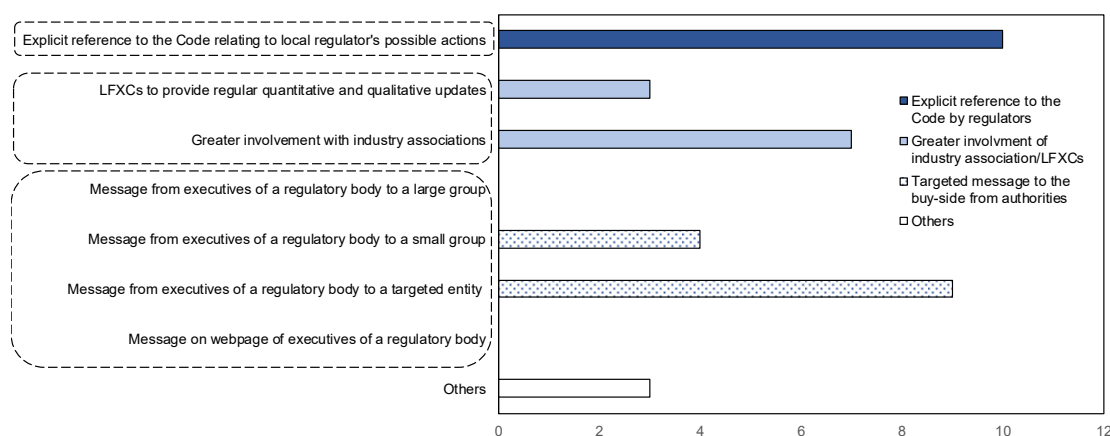


(i) **Effectiveness and pros/cons of the potential means of engagement that correspond to *Top-down outreach approaches* or *Bottom-up outreach approaches***

<*Top-down outreach approaches*>

Respondents identified that there are three broad strategies related to *Top-down outreach approaches* (i.e., strategies that involve actions from authorities) that are considered effective, namely: (a) Explicit reference to the Code by regulators; (b) Greater involvement of industry associations/LFXCs; and (c) Targeted message to the buy-side from authorities (Chart 2).

Chart 2: Preference-weighted means of *Top-down outreach approaches* by concept



(a) Explicit reference to the Code by regulators

The potential means with the most preference-weighted votes¹⁰ across the *Top-down outreach approaches* was actions by local legislators or regulators to reference or recognize the Code explicitly in their surveillance of the FX market (Chart 2). The most-cited rationale relates to its nature that serves as authoritative pressure on entities to take action on adherence to the Code, with some highlighting the buy-side's possible reluctance in devoting time and resources to such initiatives unless they are impelled to do so. While its high effectiveness was pointed out, concerns over violation of "non-regulatory spirit" of the Code were also raised by many respondents, stressing that such action by regulators/legislators needs to be undertaken on the premise of advertising of the *voluntary-based* Code for the betterment of a FX market.

(b) Greater involvement of industry association/LFXCs

Respondents reported that it is useful to get industry association (e.g., investment management, life insurance) or LFXCs involved in the buy-side adoption of the Code in a more proactive manner, shedding light on the former in particular. Several respondents underlined industry association's approachability to a large group of entities within each targeted industry, with some underscoring the effectiveness of such action given the limited capability and resources of LFXCs. Another benefit mentioned by some respondents was

¹⁰ Among predetermined potential means of buy-side engagement as well as custom means, respondents were asked to choose first 3 means that were considered effective and rank them accordingly. Results from each respondent was then aggregated with the means identified as the "most effective" counting 3 points, the "second most effective" counting 2 points, and the "third most effective" counting 1 point, respectively.

that such engagement of industry association may lead to enhancing peer pressure to speed up buy-side adoption.

Meanwhile, some respondents indicated that it would be effective to request LFXCs to provide regular quantitative and qualitative updates on buy-side outreach in their jurisdictions to the GFXC, thereby incentivizing LFXCs to make continuous effort on buy-side outreach.

(c) Targeted message to the buy-side from authorities

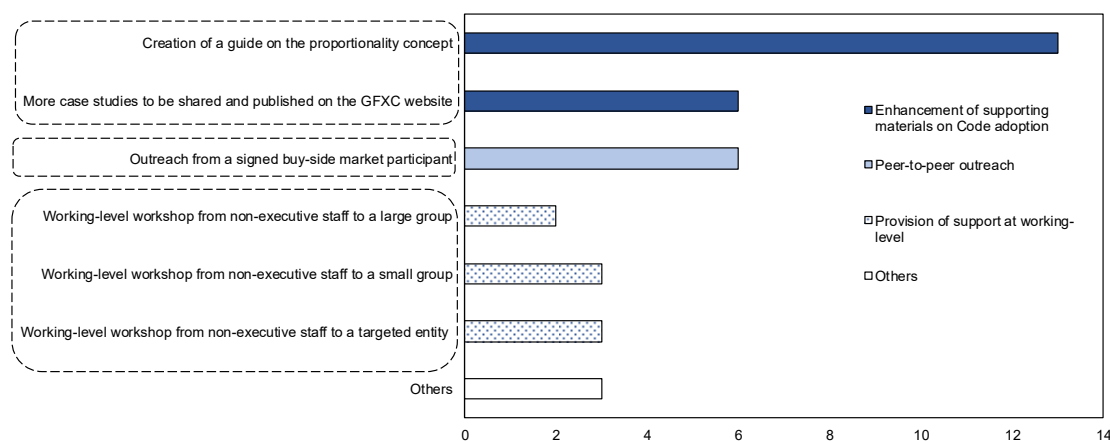
Many respondents identified more direct approach by authorities, in the form of message (e.g., speech, written message) from the executives of an authority (e.g., GFXC, Central bank(s), LFXC), as effective means of buy-side engagement. A noticeable finding was that most respondents are of the view that such approach would work best when the size of the targeted group is small, suggesting an inverse relationship between audience size and outreach effectiveness. There was a remark from a few respondents that speaking to small groups would deliver the message more effectively, as messages that are aimed at a broad audience could be treated lightly.

<Bottom-up outreach approaches>

As regards challenges in signing the SoC, a number of respondents identified two particular obstacles: (1) high entry cost and subsequent burdensome procedure, and (2) lack of clarity on the applicability of the Code and proportionality.

Among *Bottom-up outreach approaches* (i.e., strategies that intend to enhance support for a better understanding of the Code), three broad strategies were considered to be effective, while their relative effectiveness were noticeably different. These are listed in descending order as follows: (a) Enhancement of supporting materials on Code adoption; (b) Peer-to-peer outreach; and (c) Provision of support at working-level (Chart 3). In a nutshell, respondents were generally in favor of means that would directly help clarify the adherence process and applicability of proportionality, thereby reducing their burdens.

Chart 3: Preference-weighted means of *Bottom-up outreach approaches* by concept



(a) Enhancement of supporting materials on Code adoption

There was a strong demand for more information and guidance that would help identify parts of the Code that are relevant to buy-side FX activities, which corroborates a finding from previous work by the BSOWG¹¹. In many cases, respondents noted that such guidance would help reduce the overall workload and clarify, for example, on the applicability of proportionality. Care must be taken, however, when producing a guide to avoid coloring different level of priorities over the code, as pointed out as potential repercussion by several respondents.

Similarly to the merit of having more guidance, some respondents expressed the need of having more buy-side case studies, as they tend to have more detailed information on process including: expected challenges; business areas that are involved in firms; and how to apply the concept of proportionality.

(b) Peer-to-peer outreach

Respondents mentioned that support from buy-side market participants in the Global Register is helpful, underscoring the value of practical advice based on their own experience. It was also noted that such engagement could be extended to training for staff members, as well as implementation and access to senior management for support of the adherence to the Code. Some respondents also noted, however, that there needs to be ways to address burdens weighing on such volunteers. Some suggested ways to reduce such burdens include having various signed members attend panels, and going out with broader testimonials, while being mindful of the size of audience.

(c) Provision of support at working-level for a better understanding of the Code

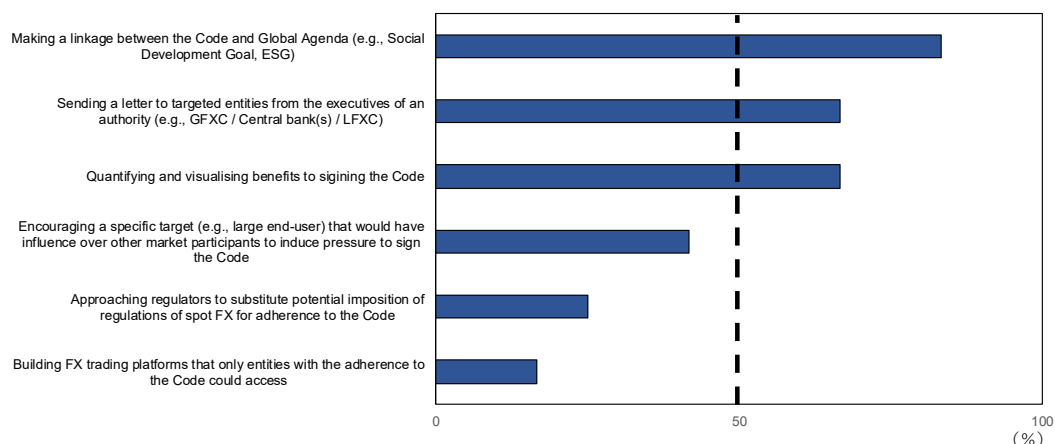
While part (a) and part (b) were identified to be more effective, several respondents underlined the usefulness of providing support in the form of working-level workshop from non-executive staff from an organization (e.g., LFXCs). A few respondents highlighted its role in clarifying the concept of proportionality and helping appropriate judgement. This approach may serve as a supplement to the abovementioned approaches, particularly from the perspective of minimizing burden on volunteering buy-side entities.

(ii) Potential outreach approaches aimed to incentivize buy-side entities to adhere to the Code

Previous work by the BSOWG has identified that there is a strong perception within the buy-side that a large part of the Code is written for sell-side behavior and obligations, while there was a common misconception that the Code was drafted with primarily central bank or sell side input. In other words, there seems to be views among the buy-side, at least to some extent, that the Code is not, or should not be, relevant to the buy-side. In order to accomplish a task to increase buy-side adoption of the Code, it is crucial to devise strategies that tackle such issues and help incentivize them to adhere to the Code.

With this in mind, the survey explored the degree of effectiveness of potential strategies that is intended to incentivize the buy-side to sign the SoC from various aspects. There are three distinctive approaches that were considered effective by the majority of respondents, which are: (a) Making a linkage between the Code and the Global Agenda; (b) Sending a letter to targeted entities from the executives of an authority; (c) Quantifying and visualizing benefits to signing the Code (Chart 4).

¹¹ https://www.globalfxc.org/events/20200923_minutes.pdf

Chart 4: Share of respondents who were in favor of each incentivizing strategy

One approach that was supported by the majority of respondents is making a linkage between the Code and the Global Agenda (e.g., ESG, Sustainable Development Goals). Some respondents raised benefits that it would play a role in boosting firm's market reputation, while others underscored a growing focus on responsible investing within dedicated resource within firms, particularly in the asset management world.

Another strategy that the large share of respondents indicated to be effective is sending a letter to targeted entities from the executives of an authority (e.g., GFXC, Central bank(s), LFXC), corroborating the finding from part (i). It was noted by some respondents that the level of effectiveness will likely be higher when it is sent out to a senior decision maker as opposed to a user.

The majority of respondents identified quantifying and visualizing benefits to signing the Code as one other way to incentivize the buy-side entity to adhere to the Code. Some respondents highlighted that the use of metrics is more persuasive in a general sense, while making comments that it can also be distributed across LFXCs for the use of buy-side marketing support materials. While this finding justifies undertaking impact study, it also remains as a challenge as to how to quantify the benefits, shared by several respondents.

One of the challenges shared by a number of respondents in common regarding adherence to the Code was time-consuming process of explaining the tangible benefits to internal stakeholders. Introduction of these approaches, i.e., referring to such social responsible investing/authorities or creating persuasive supporting materials, could also tackle such impediment through the facilitation of a swift decision-making process.

There was a noticeable finding from the views shared by respondents that any strategies that virtually enforce adherence to the Code or give the impression of a regulatory response (e.g., building FX trading platforms that allow only signed market participants could access) should be avoided. Respondents stressed that the spirit of the Code is adherence to principles, as opposed to regulation. Even for the abovementioned potential strategies where the votes were cast with the majority of respondents in favor, such as sending a letter to targeted entities from the executives of an authority, many respondents suggested that care must be taken in the wording of the letter in order to avoid leaving them with the view that the Code is regulation.

Annex 3: Overview of the Survey

GLOBAL FOREIGN EXCHANGE COMMITTEE

Q1-6

Effective approaches for buy-side Code adoption:
(i) Theoretical, (ii) Practical point of view

For each (i) and (ii)

Top-down

Bottom-up

Selection of means related
to the following themes:

- ① Explicit reference to the Code by regulators
- ② Greater involvement of industry associations/LFXCs
- ③ Targeted message to the buy-side from regulators
- ④ Others

Pros and Cons

Selection of means related
to the following themes:

- ① Enhancement of adoption-of-the-Code-related materials
- ② Peer-to-peer outreach
- ③ Provision of support at working-level for a better understanding of the Code
- ④ Others

Pros and Cons

Top 3
means to
be ranked

Q7-8

Implementation of multiple means:
(i) Simultaneously, (ii) One step at a time

For each (i) and (ii)

No

Yes

Selection of Top-down and
Bottom-up potential means

Multiple
means to
be

Q9

Greatest obstacles in the roadmap to
adherence

Multiple
choices to
be selected

Q10

Incentivizing approaches for buy-side Code
adoption

Comments
to be made

Q11

Progress of buy-side signatories / Segments to
be focused in a respondent's jurisdiction

Comments
to be
made

Country:	Australia
Current adherence status of your entity/organisation:	Yes
Are you a buy-side or sell-side entity?	Buy-side

Instructions: Please fill the questionnaire in order from Question 1 -- other questions will follow based on previous questions. If you have selected "None of the above / Others", please insert your comment as instructed. Thank you very much for your cooperation.

Question 1

Which do you think is a more theoretically effective approach to enhance the adoption of buy-side entities, a) Top-down approach or b) Bottom-up approach?

a) Top-down approach (e.g., Explicit reference by regulators, moral suasion by legislators/regulators)

b) Bottom-up approach (e.g., Provision of support for a better understanding of the Code)

x

Question 2: Top-down approach (e.g., Explicit reference by regulators, moral suasion by legislators/regulators)

Which means do you think is theoretically effective based on your answer to Question 1? (Please rank the first 3 preferences in order)

- | | | |
|---|--|---|
| a) Explicit reference to the Code by regulators | Reference to / recognition of the Code as a voluntary market code by local legislators/regulators | 1 |
| b) Greater involvement of industry associations/LFXCs | Requests for LFXCs to provide regular quantitative and qualitative updates on buy-side outreach in their jurisdictions | 2 |
| c) Greater involvement of industry associations/LFXCs | Engagement with industry associations to coordinate the approach to targeted industries | |
| d) Targeted message to the buy-side from regulators | Message (e.g., speech) from the executives of a regulatory body (e.g., GFXC / Central bank(s) / LFXC) to a large group of entities across industries | |
| e) Targeted message to the buy-side from regulators | Message (e.g., speech) from the executives of a regulatory body (e.g., GFXC / Central bank(s) / LFXC) to a small group of entities within each targeted industry | |
| f) Targeted message to the buy-side from regulators | Message (e.g., speech) from the executives of a regulatory body (e.g., GFXC / Central bank(s) / LFXC) to each targeted entity | 3 |
| g) Targeted message to the buy-side from regulators | Message on the webpage of the executives of a regulatory body (e.g., GFXC / Central bank(s) / LFXC), making available to the public | |
| x) None of the above / Others | | |

Please specify
—

Available choices appear based on previous responses

Annex 4: Survey questions

1. Which do you think is a more theoretically effective approach to enhance the adoption of buy-side entities, a) *Top-down approaches* or b) *Bottom-up approaches*? [a or b]

For each: a) *Top-down approaches* or b) *Bottom-up approaches* in Question 1:

2. Which means do you think are theoretically effective based on your answer to Question 1? [Please rank the first 3 preferences in order]

[a) *Top-down approaches*]

a-i) **Explicit reference by regulators:**

Reference to / recognition of the Code as a voluntary market code by local legislators/regulators

a-ii) **Encouraging involvement of LFXC/industry association:**

Requests for LFXCs to provide regular quantitative and qualitative updates on buy-side outreach in their jurisdictions

a-iii) **Encouraging involvement of LFXC/industry association:**

Engagement with industry associations to coordinate the approach to targeted industries

a-iv) **Moral Suasion by regulators:**

Message (e.g., speech) from the executives of a regulatory body (e.g., GFXC / Central bank(s) / LFXC) to a large group of entities across industries

a-v) **Moral Suasion by regulators:**

Message (e.g., speech) from the executives of a regulatory body (e.g., GFXC / Central bank(s) / LFXC) to a small group of entities within each targeted industry

a-vi) **Moral Suasion by regulators:**

Message (e.g., speech) from the executives of a regulatory body (e.g., GFXC / Central bank(s) / LFXC) to each targeted entity

a-vii) **Moral Suasion by regulators:**

Message on the webpage of the executives of a regulatory body (e.g., GFXC / Central bank(s) / LFXC), making available to the public

a-viii) **None of the above / Others**

[b) *Bottom-up approaches*]

b-i) **Enhancement of materials to encourage adoption:**

Creation of a guide on identifying parts of the Code that are relevant to buy-side FX activities

b-ii) **Enhancement of materials to encourage adoption:**

More case studies to be shared and published on the GFXC website

b-iii) **Peer-to-peer outreach:**

Outreach from a signed buy-side market participant to unsigned entities

b-iv) **Provision of support for a better understanding of the Code:**

Working-level workshop from non-executive staff from an organization (e.g., LFXC,

industry associations) aimed for a large group of entities across industries

b-v) Provision of support for a better understanding of the Code:

Working-level workshop from non-executive staff from an organization (e.g., LFXC, industry associations) aimed for a small group of entities within each targeted industry

b-vi) Provision of support for a better understanding of the Code:

Working-level workshop from non-executive staff from an organization (e.g., LFXC, industry associations) aimed for each targeted entity

b-vii) None of the above / Others

3. What do you think are the most significant pros and cons for the means selected in Question 2? *[Please rank the first 3 preferences in order]*
4. In contrast to Question 1 that was seen from the point of a theoretical view, which do you think is a more effective set of approaches in your jurisdiction, taking their cost and drawbacks into account, to enhance the adoption of buy-side entities: a) *Top-down approaches* or b) *Bottom-up approaches*? *[a or b]*

For each: a) *Top-down approaches* or b) *Bottom-up approaches* in Question 4:

5. Which means do you think are practically effective in your jurisdiction based on your answer to Question 4? *[Please rank the first 3 preferences in order]*
 [a) *Top-down approaches*]
 a-i) — a-viii) <same set of options as Question 2>
 [b) *Bottom-up approaches*]
 b-i) – b-vii) <same set of options as Question 2>
6. What do you think are the most significant pros and cons for the means selected in Question 5? *[Please rank the first 3 preferences in order]*
7. In your opinion, should a combination of multiple means be undertaken at a time to enhance adoption by buy-side entities? *[Yes or No]*

For respondents who selected *Yes* in Question 7 ONLY:

- 7.2 Based on your answer to Question 7, which means do you think should be undertaken simultaneously? *[Multiple choices]*
 a-i) — b-vii) <same set of options as Question 2>
8. In your opinion, should means be undertaken sequentially to judge and examine the impact in order to enhance adoption by buy-side entities? *[Yes or No]*

For respondents who selected *Yes* in Question 8 ONLY:

- 8.2 Based on your answer to Question 8, which means do you think should be undertaken simultaneously? *[Multiple choices]*
 a-i) — b-vii) <same set of options as Question 2>
9. What did you find as the greatest obstacle(s) before signing the Statement of Commitment?

[Multiple choices]

- i) **Obscurity and complexity related to applicability to own business and the concept of proportionality:**
 - Challenges in finding out which parts of the Code are applicable to own business
 - Difficulties in understanding the concept of proportionality
 - Obscurity in understanding whether one can sign up to the Code based on its existing operations/processes
 - ii) **Challenges in implementation of the Code:**
 - Challenges in evaluating all principles and implementing the Code
 - Lack of guideline regarding the implementation of the Code
 - iii) **Lack of incentives as a price taker**
 - iv) **Time-consuming process of explaining the tangible benefits to internal stakeholders**
 - v) **Potential exposures to additional scrutiny from the regulator**
 - vi) **Challenges in implementation of the Code:**
 - Difficulties in monitoring the adherence attributed to outsourced execution models
 - Challenges in evidence/monitoring of ongoing adherence
 - vii) **Others**
10. In your opinion, do you think each approach presented below effectively help incentivize buy-side entities to sign up the Code? *[Please share your view on each approach]*
- i) **Making a linkage between the Code and Global Agenda (e.g., Social Development Goal, ESG)**
 - ii) **Sending a letter to targeted entities from the executives of a regulatory body (e.g., GFXC / Central bank(s) / LFXC)**
 - iii) **Encouraging a specific target (e.g., large end-user) that would have influence over other market participants to induce pressure to sign the Code**
 - iv) **Building FX trading platforms that only entities with the adherence to the Code could access**
 - v) **Quantifying and visualizing benefits to signing the Code**
 - vi) **Approaching regulators to substitute potential imposition of regulations of spot FX for adherence to the Code**
11. Could you please share your view on the progress of the signatories of buy-side entities to the SoC in your jurisdiction, e.g. relative to other jurisdictions? Which segments do you think need to be in focus of the adoption of the Code? *[Please share your view]*

Annex 5: The survey results conducted to Tokyo Foreign Exchange Committee

Along with the survey targeted for the adhered buy-side firms across jurisdictions, a separate survey was conducted among 11 signed sell-side members of Tokyo Foreign Exchange Market Committee (TFXC) with the same set of questions. The purpose was to: (1) ask their views as proactive members on how to increase buy-side adoption of the Code in Japan; and (2) explore if there exists local specific factors that warrant attention in considering how to form outreach strategies.

A remarkable finding from the responses is that there were many similarities with the views of the buy-side firms across different jurisdictions, underpinning the earlier findings in this paper. Similarities include: (a) Combination of *Top-down* and *Bottom-up outreach approaches* deem to be useful, while *Top-down outreach approaches* were considered marginally more desirable than *Bottom-up outreach approaches*; (b) Each of the abovementioned concept of *Top-down* and *Bottom-up outreach approaches* were indicated to be effective in some way; (c) Voluntary nature of the Code should be respected, and any means that may violate the "non-regulatory spirit" of the Code should accordingly be avoided.

Nevertheless, there were some heterogeneity in the TFXC responses, which may have reflected culture-specific aspects. These finding may highlight the necessity to keep such jurisdiction-specific factors in mind when undertaking outreach strategies, in order to achieve more desirable outcomes. The survey results from the TFXC indicated that means that would induce peer pressure, as well as domino effect – one "event" setting off a chain of similar "events" –, were considered more effective relative to the buy-side survey that represented global jurisdictions. For example, there were relatively more votes on targeting smaller group, noting that it can prompt peer pressure to speed up adoption. Another strategy considered effective was sending targeted message to the buy-side from regulators that would likely to have influence over other market participants, emphasizing that adherence to the Code by a leading company can potentially induce domino effect, thereby promoting buy-side adoption.

TFXC respondents shared similar views on specific buy-side segments that should be targeted in focus in their jurisdiction, corroborating the importance of strategic consideration on targets in the earlier finding. It was indicated that promotion of buy-side adherence should be extended to non-bank financial institutions, e.g., asset management companies, lifers and pension funds, with wider business areas that conduct intensive FX related activities relative to other segments. Some of them noted that the issue related to low adherence rate in these segments is rooted in their belief that the Code is not applicable to buy-side entities. Highlighting the necessity of cooperation from all market participants for the betterment of FX market, it was suggested that proactive engagement to these segments would be critical, with effectively undertaking means from both *Top-down* and *Bottom-up outreach approaches*.