

**The FX Global Code at One Year: A Look Back and a Look Ahead**

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### **Executive Summary**

This paper reviews developments since the May 2017 launch of the FX Global Code (the Code) and outlines agreed priorities for the Global Foreign Exchange Committee (GFXC) for the year ahead.

In **looking back** at developments since the Code's launch, this paper highlights achievements across three core areas:

- i. Awareness and commitment to the Code.** For the Code to be successful, Market Participants across all segments of the FX market must adopt it. Achievements include:
  - Statements of Commitment are being widely used to demonstrate adoption of the Code.
  - As of June 2018, 12 public registers and a Global Index have been launched.
  - The GFXC is strengthening international and ongoing cross-industry engagement.
- ii. Embedding the Code and integrating it into the FX market.** For the Code to be successful, Market Participants committing to it must embed the Code's principles into their businesses. Behaviours in the market and market functioning should reflect the Code's good practices. Achievements include an increasing number of Market Participants:
  - Reviewing practices to align with the Principles of the Code;
  - Developing and using training programs around the Code; and
  - Revising and updating disclosures to take account of the Code.
- iii. Evolution of the Code.** As the FX market changes, the Code will evolve to ensure it continues to promote a robust, liquid, open, and appropriately transparent FX market. Achievements include:
  - The Code being consistently used as a point of reference and remaining at the forefront of public discourse on FX market developments.
  - As of December 2017, the GFXC has completed consultation on 'last look' and updated Principle 17.

In **looking forward** to the work ahead, the paper focuses on the GFXC's objectives and highlights four priorities, including to:

- Continue the GFXC working group on disclosures to strengthen the landscape of FX disclosures;
- Continue the GFXC working group on cover and deal;
- Establish a GFXC working group on buy-side outreach; and
- Establish a GFXC working group to focus on the embedding and integration of the Code into the fabric of the FX market.

The GFXC is committed to providing transparency into the work above through [www.globalfxc.org](http://www.globalfxc.org).

**Looking Back: Achievements since publication of the FX Global Code one year ago****i. Awareness and commitment to the Code*****Achievement: Statements of Commitment are being used to demonstrate adoption of the Code***

The [Statement of Commitment](#) (SoC) was developed as a tool for Market Participants to voluntarily demonstrate their recognition of, and commitment to, adopting the good practices set forth in the Code, and the SoC template was published alongside the Code in 2017. Upon the launch of the Code, a number of central banks stated that they would expect their counterparties in the FX market to adhere to the Code. Moreover a number of Foreign Exchange Committees (FXCs) and/or their central bank sponsors have now publicly linked membership of the FXC with Code adherence.

Since the SoC was released, a significant number of Market Participants from around the world have used the SoC as a means to demonstrate adherence to the Code. The number of SoCs increased sharply around the Code's one-year mark as many Market Participants completed reviews of their FX business practices. As of 12 June 2018 the Secretariat were aware of over 300 Market Participants that had decided to use a SoC (see Figure 1). This progress is notable, given that a GFXC Survey conducted in September 2017 identified 250 Market Participants who said they would use a SoC.

**Figure 1: Statements of Commitment to the FX Global Code - Secretariat estimates**

|                          | <b>Signed SoCs –<br/>publically<br/>available</b> | <b>Number of<br/>which are on a<br/>register</b> |
|--------------------------|---|--|
| Asset manager            | 22  | 20   |
| Bank                     | 211   | 210  |
| Central Bank             | 40  | 11 <sup>(A)</sup>                                |
| Non-bank FX market maker | 4   | 4  |
| Other                    | 49  | 43   |
| <b>Total</b>             | <b>326</b>  | <b>288<sup>(B)</sup></b>                         |

Source: GFXC Global Index and Secretariat estimates.

Notes: (A) A number of additional Central Banks are finalizing plans to post their SoCs on a register. (B) The total number of SoCs on a register differs from the number on the Global Index because not all public registers are currently included in the Global index. Five banks provided a SoC for their banking and asset manager businesses and the table includes both.

***Achievement: 12 public registers and a Global Index have launched***

Market Participants expressed a desire to have [public registers](#), or websites on which Market Participants may make their SoC publically available. Since the Code launched and at the time of the June 2018 meeting, 12 public registers had been established. In addition, the GFXC developed a [Global Index of Public Registers](#) to enable the public to quickly identify whether a Market Participant has published a SoC on one or more participating public registers. The Global Index was [launched](#) on 29 May 2018, and as of June 2018, it had collected information from the eight public registers that met the requirements for

inclusion. Work is ongoing to add others. Meanwhile, of those Market Participants that the GFXC is aware have signed an SoC, over 85% have opted to post it on at least one public register (Figure 1). These developments will help the GFXC effectively gauge adoption of the Code over time.

***Achievement: The GFXC has strengthened international engagement and conducted ongoing cross-industry engagement***

*Expanding GFXC Membership*

A number of jurisdictions either have recently joined the GFXC or will be in a position to do so soon. Georgia has joined the GFXC as its first Associate Member, participating in the June 2018 meeting, and a number of other regions are in discussions to apply as Full or Associate Members. The GFXC Secretariat will continue leading geographical outreach.

*Growth of FX Committees*

A number of existing GFXC members have established local FX Committees (FXCs) in the last 12 months:

- The Mexican FXC was established in November 2017.
- The South African FXC was established in March 2018.
- The Scandinavian FXC was established in June 2018.
- The intention to establish a Swiss FXC was announced in June 2018.

Local FXCs will continue to play an important role in promoting the Code's widespread adoption. FXCs are being encouraged to have a diverse membership base.

*GFXC Participation in Industry Events*

GFXC members and the GFXC Secretariat have attended various industry events across the globe to promote the Code among Market Participants, and discussion of the Code is now a common feature of events on the FX market and financial markets more broadly.

ii. Embedding the Code

***Achievement: Market Participants reviewing practices to align with the Principles of the Code***

As part of the process of signing a SoC, many Market Participants completed reviews of their FX business practices as they relate to the principles in the Code. These reviews suggest that in addition to being a tool to demonstrate commitment to the Code, the process to sign the SoC has worked as a prompt for Market Participants to think through how the principles in the Code might apply to their business. This is an important first step in embedding practices that reflect the principles in the Code.

***Achievement: Market Participants developing and using training programs around the Code***

A number of tools have been developed by Market Participants, consultancies and industry bodies to support both learning about the principles in the Code and ensuring Market Participants' policies and procedures support adoption of the Code. Resources such as e-learning and training workshops are designed to encourage regular engagement with the Code, including regular tests of knowledge and understanding, and some have also included the development of new examples. A number of Market Participants have also commissioned independent assessments of their practices and procedures.

***Achievement: Market Participants revising and updating disclosures to take account of the Code***

An additional area where the Code has had a particularly visible impact on Market Participants' practices is around client disclosures. A number of Market Participants have prepared or revised disclosure documents as part of the Code adoption process. However, the Disclosures working group found that there are further opportunities to strengthen the FX disclosures landscape to support the ability of Market Participants to engage confidently and effectively in the wholesale FX market.

iii. Evolution of the Code

***Achievement: The Code has been consistently used as a point of reference and remains at the forefront of public discourse on FX market developments***

Since its publication, the Code and its principles have been regularly cited in public discussion of the FX market. In addition, the Code has been a frequent agenda and panel item at various industry events in the context of a full range of FX market-related topics. Having the Code serve as a reference point and basis for discussing issues relevant to the FX market is a very positive outcome, and it shows that while views on particular issues vary, market participants broadly view the Code as providing useful recommendations.

Looking ahead, it is important that the Code remains at the forefront of public discourse on FX market developments. This will ensure that any emerging gaps in the Code's coverage are promptly identified and addressed, so that the Code continues to keep pace with market evolution. At this time, the outreach conducted by the GFXC Secretariat found that respondents believe the Code is robust and not in need of wholesale changes (see Annex).

***Achievement: GFXC completes consultation on 'last look' and updates Principle 17***

As envisioned upon publication of the Code, the GFXC conducted a subsequent [request for feedback](#) related to a particular aspect of Principle 17 on 'last look'. A global and diverse set of respondents offered significant feedback through that process, and it resulted in an update to the principle. Market Participants have said the consultation process used for the 'last look' change was an appropriate way to update the Code going forward.

### **Looking Forward: GFXC priorities for the year ahead**

The GFXC has three objectives laid out in its [terms of reference](#):

1. To promote collaboration and communication among the local foreign exchange committees (FXCs) and non-GFXC jurisdictions with significant FX markets;
2. To exchange views on trends and developments in global FX markets, including on the structure and functioning of those markets, drawing on information gathered at the various FXCs;
3. To promote, maintain and update on a regular basis the FX Global Code (the Code) and to consider good practices regarding effective mechanisms to support adherence.

These objectives underscore the importance of having regular in-person GFXC meetings, and the Secretariat expects that such meetings will continue on a semiannual basis for the near term. Working groups are a means for pursuing these objectives during periods between meetings. The GFXC has identified four priorities based on the discussion at its 27 June meeting in South Africa and feedback from a survey conducted across the local FXCs (see the appendix for a summary). The GFXC also named four corresponding working groups going forward.

#### ***Priority: Continue the GFXC working group on cover and deal***

The GFXC agreed that the Cover and Deal working group should proceed in line with the proposal the working group made to the GFXC. That is, further work be undertaken to understand the role that disclosures are currently playing in informing End Users about how their trade requests are being handled by Intermediate Providers that may be utilising ‘cover and deal’ arrangements. It was agreed that any work in this area would be undertaken in close contact with the GFXC working group on disclosures, given the similar themes.

#### ***Priority: Continue the GFXC working group on disclosures to strengthen the landscape of FX disclosures***

The GFXC agreed that the Disclosures working group should proceed in line with the proposal the working group made to the GFXC. That is, the group should proceed with two tracks of work:

- Develop and publish a list of questions and/or characteristics that a Market Participant may choose to use in developing or reviewing disclosures.
- Discuss any relevant challenges to appropriate transparency in regards to anonymous trading activity and consider further work as appropriate.

#### ***Priority: Establish a GFXC buy-side outreach working group***

The GFXC agreed that it would be appropriate to launch a working group focused specifically on buy-side outreach in order to build on the initial momentum around buy-side awareness and adoption of the Code.

The consensus was that this segment of the market could benefit from customized outreach and engagement around the benefits of Code adoption. Institutions active in the wholesale FX market are diverse, with asset managers, hedge funds, propriety trading firms, pension funds, banks, sovereign institutions and others engaging in the market at different frequencies and for vastly different purposes. Various Market Participants have made SoCs to the Code to date, but an important priority for the GFXC continues to be the promotion of the Code to all institutions that participate in the global wholesale FX market.

For example, only two corporates currently have SoCs listed on the Global Index as of August 2018, and 11 of the 25 largest asset managers in the world have made a SoC.<sup>1</sup> Of course, these figures reflect only corporates and asset managers that have made a SoC publicly available, on a participating public register or otherwise.

The newly established buy-side lead liaisons to the GFXC will play a lead role in communicating the benefits of the Code to buy-side Market Participants and should help provide guidance to the buy-side outreach working group.

The working group will coordinate with industry bodies and Market Participants in the GFXC, representatives in the private sector and beyond to make it easier for firms to engage with and commit to the Code.

Additionally, the Secretariat will continue facilitating engagement with Market Participants through the media, via interviews, webinars, round-table discussions and magazine articles directed to the buy-side.

***Priority: Establish a GFXC working group to focus on the embedding and integration of the Code into the fabric of the FX market***

The GFXC should encourage ongoing engagement with the Code and discuss market practices as they relate to the objectives of the Code and the GFXC. The GFXC will establish a working group to focus on the embedding and integration of the Code into the FX market. To begin, the working group will conduct a GFXC Survey in late 2018 to determine how Market Participants are engaging with and embedding the Code, which would help direct the working group's focus and shape its agenda. The GFXC will also continue to engage and collaborate with local FX Committees to gain further insight on these issues.

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<sup>1</sup> 25 largest asset managers based on global assets under management and compiled by Investment & Pensions Europe (IPE).

### **Annex: Feedback on the Code from local FX Committees**

The GFXC Secretariat initiated a coordinated effort to gather feedback from Market Participants on local FX Committees across all GFXC member jurisdictions.<sup>2</sup> Feedback from three high-level questions is summarised as follows:

#### ***Adoption: A year later, to what extent do you think the market has adopted and embedded the Code?***

Respondents generally agree that adoption of the Code has been solid – with a notable increase in SoC signings ahead of the one-year anniversary of the launch of the Code. There has been widespread recognition and adoption of the Code by sell-side institutions and central banks, and FX market infrastructure providers in large part appear to be adopting the Code's principles. A common perception, however, is that the rate of adoption has been much slower on the buy side. One reason for the disparity is that the universe of buy-side firms is far more diverse than that of sell-side firms, with varying levels of resources in place to support FX business activity and varying degrees of engagement in such industry efforts historically.

Some jurisdictions noted that the Code is a frequent topic at industry events and is being used as a benchmark for similar initiatives in other asset classes.

Some respondents attributed the perceived slowness in initial adoption by some Market Participants to regulatory priorities, such as MiFID II.

#### ***Implementation: A year later, have we discovered any industry-wide challenges to the practical implementation of the Code?***

Market Participants reported some common challenges in implementing the Code across all jurisdictions. Larger Market Participants reported that implementation of the Code was a lengthy, resource-intensive process and cited institutional complexity as a challenge to overcome. Deciding the appropriate level at which an institution would sign its SoC was also highlighted as a challenge.

Slower adoption by the buy side was also a common theme across jurisdictions. Some members attributed this trend to a lack of incentives, while others thought it was due to limited resourcing for compliance functions in these institutions relative to large banks. Most felt it would be important to continue to raise awareness and engage with this segment to support the broad adoption of the Code throughout the industry.

Other common challenges noted regarded interpretation of certain Code principles and the practical application of the proportionality concept for some smaller Market Participants.

Some respondents also highlighted the overlap of the Code with regulation in some jurisdictions as a challenge as well as the difference in expectations around the world to demonstrate adherence. For

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<sup>2</sup> Feedback was gathered from local FX committees and via a number of associations.



example, some regions have issued addendums to the Code with different adherence expectations, which has been reported as confusing and could risk the perception that there are multiple versions of the Code.

The frequency with which Market Participants should update their SoC and what scenarios should prompt an update was also recognised as a potential challenge in the absence of further guidance on the matter.

***Future work: A year later, has the Code got anything clearly wrong and are there any principles that the GFXC should re-consider?***

The strong message coming from the majority of Market Participants is that the Code is fit for purpose, and there was no commonly held view on the need to review specific principles apart from the ongoing work on cover and deal.

Feedback suggests that the market discussion on ‘last look’ and Principle 17 remains a keenly debated topic. Some believe that there are Market Participants that are not signing a SoC to the Code purely because of Principle 17.

Some feedback recognised that the two key challenges—disclosures and cover and deal—are already being addressed via GFXC working groups.

The Code will need to be dynamic and respond to changes in the market, such as increased use of electronic trading, algorithmic trading, artificial intelligence and cover and deal trading. Market Participants acknowledged the consultation process used for the ‘last look’ feedback request as the appropriate way to update the Code going forward.