

## **GFXC Request for Feedback – April 2021**

Amendments to the FX Global Code and the Introduction of Related  
Cover Sheets and Templates

### **GFXC Request for Feedback on Amendments to the FX Global Code and the Introduction of Related Cover Sheets and Templates**

The FX Global Code (Code) is a set of principles of good practice in the foreign exchange market, developed to provide a common set of guidelines to promote the integrity and effective functioning of the wholesale foreign exchange market. The Code is maintained and updated by the Global Foreign Exchange Committee (GFXC), a forum of central banks and private sector market participants.<sup>1</sup>

The current version of the Code dates from August 2018.<sup>2</sup>

At least every three years, the GFXC will consider the case for a comprehensive review of the Code. Following liaison with market participants in 2019, the GFXC identified the following areas of focus for considering updates to the Code: anonymous trading, algorithmic trading and transaction cost analysis (TCA), and disclosures.<sup>3</sup> Working Groups were formed to support these focus areas and develop recommendations for the GFXC to consider. These Groups comprised central banks and a diverse range of private sector market participants. In 2020, the GFXC expanded its work to include a review of the Code's guidance on settlement risk.

The GFXC is now seeking feedback on the proposals arising from this work. This includes recommendations for changes to the Code's text and the publication of certain cover sheets and templates intended for broad use within the industry.

These proposals, and the background to their development, are detailed in papers being published by the GFXC:

- Attachment #A: Anonymous Trading
- Attachment #B: Algorithmic Trading / Transaction Cost Analysis
- Attachment #C: Disclosures
- Attachment #D: FX Settlement Risk

Each paper includes questions for which the GFXC are requesting feedback from market participants. The full list of questions is reproduced below (Annex 1). The full set of proposed changes to the Code are shown in Annex 2.

### **Responding to the GFXC's Request**

The GFXC invites a broad range of market participants to respond to this request. The GFXC intends 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.

---

<sup>1</sup> Members of the GFXC include central bank-sponsored Foreign Exchange Committees (and similar structures) in various regions. As of April 2021, there were seventeen full members and three associate members; see <https://www.globalfx.org/membership.htm?m=61%7C370>.

<sup>2</sup> The current (August 2018) version of the Code is available at [https://www.globalfx.org/docs/fx\\_global.pdf](https://www.globalfx.org/docs/fx_global.pdf).

<sup>3</sup> The GFXC also identified buy-side outreach and providing supplementary guidance material on certain of the Code's execution principles as additional focus areas. That ongoing work is separate to this Request for Feedback.

## GLOBAL FOREIGN EXCHANGE COMMITTEE

We request that respondents provide their responses in PDF format by **7 May 2021**. Responses and any questions should be sent to the GFXC Secretariat by email using the following address: [codefeedback@globalfx.org](mailto:codefeedback@globalfx.org).

**Annex 1 – Questions for Feedback****Attachment A: Anonymous Trading**

## Data policies

|    |  |
|----|--|
| A1 | Do you agree with the proposed Data-related addition to Principle 9? |
|----|--|

## Tag management

|    |  |
|----|--|
| A2 | Do you agree with the proposed Tag-related additions to Principles 9, 19 and 22? |
|----|--|

## Credit policies

|    |  |
|----|--|
| A3 | Do you agree with the proposed Credit-related additions to Principles 29 and 41? |
|----|--|

## Identification of Code signatories on anonymous trading platforms

|      |   |
|------|---|
| A4.1 | Do you agree with the proposed Identification of Code Signatory-related addition to Principle 22? |
| A4.2 | Do you agree with the included footnote to the proposed addition to Principle 22?                 |
| A4.3 | Do you agree with the added example to Annex 1, which would map to Principle 22?                  |

**Attachment B: Execution Algorithms and Transaction Cost Analysis**

|    |  |
|----|--|
| B1 | When providing feedback, please state your relationship to algorithmic execution:  |
|    | <input type="checkbox"/> Algo Provider <input type="checkbox"/> Algo User <input type="checkbox"/> Technology/data provider <input type="checkbox"/> Other |

## Transaction Cost Analysis Data Template

|      |  |
|------|--|
| B2.1 | Will you use the template? If not, why not?  |
| B2.2 | Which version of the template do you prefer?   |
|      | <input type="checkbox"/> aspirational <input type="checkbox"/> basic   |
| B2.3 | Do you have any comments on the content of the template? If so, please be as specific as possible (e.g. mentioning the data element(s) that you are missing or consider not necessary) and substantiate your comment(s). |
| B2.4 | Following the publication of the new version of the FX Global Code, how much time would you need in order to be able to provide/take data in the proposed format?  |
|      | Aspirational version (in months): ..   basic version (in months): ..   |
| B2.5 | Do you have any comments on the proposals regarding implementation, maintenance and measuring success?   |
| B2.6 | In case you are a neutral market body, would you be interested in supporting the GFXC in operationalising these proposals? What could you contribute?  |

## Amendment of Principle 18 to introduce Transaction Cost Analysis (TCA) and to encourage market participants to use the data template

|      |  |
|------|--|
| B2.7 | Do you have any comments on the additional text in Principle 18 to encourage market participants to use the Transaction Cost Analysis Data Template? |
|------|--|

### Amendment of Principle 18 to cover conflicts of interest

|    |  |
|----|--|
| B3 | Do you have any comments on the additional text in Principle 18 around the disclosures of conflicts of interest? |
|----|--|

### Algo Due Diligence Template

|      |  |
|------|--|
| B4.1 | Will you use the template? If not, why not?  |
| B4.2 | Do you have any comments on the content of the template? If so, please be as specific as possible (e.g. suggesting rephrased or additional questions, commenting on questions to be removed) and substantiate your comment(s). |
| B4.3 | Do you have any comments on the proposals regarding implementation, maintenance and measuring success?   |
| B4.4 | In case you are a neutral market body, would you be interested in supporting the GFXC in operationalising these proposals? What could you contribute?  |

### Amendment to Principle 18 to encourage the use of the Algo Due Diligence Template

|    |   |
|----|---|
| B5 | Do you have any comments on the additional text in Principle 18 around the Algo Due Diligence Template? |
|----|---|

### Additional entries for the Code's glossary

|      |   |
|------|---|
| B6.1 | Do you agree with the definition of Transaction Cost Analysis? If not, what would you change? |
| B6.2 | Do you agree with the definition of algorithmic execution? If not, what would you change?     |
| B6.3 | Do you agree with the definition of aggregation services? If not, what would you change?      |

## Attachment C: Disclosures

### Liquidity Provider Cover Sheet

|      |   |
|------|---|
| C1.1 | Do you support the introduction of a Disclosures Cover Sheet for Liquidity Providers? |
| C1.2 | Do you have feedback on the proposed content of the LP Cover Sheet (annex 1)?         |

### E-Trading Platform Cover Sheet

|      |   |
|------|---|
| C2.1 | Do you support the introduction a Disclosures Cover Sheet for E-Trading Platforms?            |
| C2.2 | Do you have feedback on the proposed content of the E-Trading Platform Cover Sheet (annex 2)? |

### Trade rejection information

|    |   |
|----|---|
| C3 | Do you support the proposed Code changes to include explicit references to trade rejection information in Principle 9 and Principle 36? |
|----|---|

Handling Confidential Information

|    |  |
|----|--|
| C4 | Do you support the proposed Code changes to provide additional guidance on how Market Participants handle FX Trading Information internally in Principle 19? |
|----|--|

**Attachment D: FX Settlement Risk**

|    |   |
|----|---|
| D1 | Do you agree with the proposed changes to the Code's guidance on the management of settlement risk? |
|----|---|

## Annex 2 - Proposed Changes to the FX Global Code

*Proposed additions to the existing (August 2018) Code are shown in red. Text that is proposed for deletion is struck through.*

### PRINCIPLE 9

***Market Participants should handle orders fairly and with transparency in line with the capacities in which they act.***

Market Participants are expected to handle orders with fairness and transparency. How this is done, and what the relevant good practices are, vary depending upon the role in which those Market Participants are acting, as described in Principle 8 above. While the FX Market has traditionally operated as a Principal-based market, Agency-based execution also takes place. Accordingly, this principle takes into account both Principal and Agency models as well as E-Trading Platforms and Interdealer Brokers.

### ROLES

Irrespective of their role, Market Participants handling orders should:

- have clear standards in place that strive for a fair and transparent outcome for the Client;
- be truthful in their statements;
- use clear and unambiguous language;
- make clear whether the prices they are providing are firm or merely indicative;
- have adequate processes in place to support the rejection of Client orders for products they believe to be inappropriate for the Client;
- not enter into transactions with the intention of disrupting the market (see Principle 12 in Execution for further guidance); and
- provide all relevant disclosures and information to a Client before negotiating a Client order, thereby allowing the Client to make an informed decision as to whether to transact or not.

Market Participants should make Clients aware of such factors as:

- how orders are handled and transacted, including whether orders are aggregated or time prioritised;
- the potential for orders to be executed either electronically or manually, depending on the disclosed transaction terms;
- the various factors that may affect the execution policy, which would typically include positioning, whether the Market Participant managing Client orders is itself taking on the associated risk or not, prevailing liquidity and market conditions, other Client orders, and/or a trading strategy that may affect the execution policy;
- where discretion may exist or may be expected, and how it may be exercised;
- **the basis on which trade requests and orders might be rejected;** and
- whenever possible, what the time-stamping policy is and whether it is applied both when the order is accepted and when it is triggered or executed (see Principle 36 in Risk Management and Compliance for further guidance).

Market Participants handling Client orders in a Principal role should:

- disclose the terms and conditions under which the Principal will interact with the Client, which might include:
  - o that the Principal acts on its own behalf as a counterparty to the Client;

- how the Principal will communicate and transact in relation to requests for quotes, requests for indicative prices, discussion or placement of orders, and all other expressions of interest that may lead to the execution of transactions; and
  - how potential or actual conflicts of interest in Principal-dealing and marketmaking activity may be identified and addressed;
- establish clarity regarding the point at which market risk may transfer;
- have market-making and risk management activity, such as hedging, commensurate with their trading strategy, positioning, risk assumed, and prevailing liquidity and market conditions; and
- have internal Mark Up policies consistent with applicable guidelines elsewhere in this Global Code.

Market Participants handling Client orders in an Agent role should:

- communicate with the Client regarding the nature of their relationship;
- seek to obtain the result requested by the Client;
- establish a transparent order execution policy that should supply information relevant to the Client order that may include:
  - information on where the firm may execute the Client orders;
  - the factors affecting the choice of execution venues; and
  - information as to how the Agent intends to provide for the prompt, fair, and expeditious execution of the Client order;
- be transparent with the Client about their terms and conditions, which clearly set out fees and commissions applicable throughout the time of the agreement; and
- share information relating to orders accepted on an Agency basis with any marketmaking or Principal trading desks only as required to request a competitive quote. (See Principle 19 in Information Sharing for further guidance.)

Market Participants operating FX E-Trading Platforms should:

- have rules that are transparent to users;
- make clear any restrictions or other requirements that may apply to the use of the electronic quotations;
- establish clarity regarding the point at which market risk may transfer;
- have appropriate disclosure about subscription services being offered and any associated benefits, including market data (so that Clients have the opportunity to select among all services they are eligible for);
- **should explicitly state market data policies on disclosure cover sheets and/or within applicable platform rulebooks, including at a minimum: what level of detail is available, which user types they are available to, and with what frequency and latency this market data is available.**

**Market Participants operating anonymous FX E-Trading platforms that feature unique identifiers ("tags") should, where applicable:**

- **have appropriate disclosure to all users of what specific counterparty information is provided for tags, and to whom this information is provided;**
- **have appropriate disclosure to all users indicating at what point in a transaction a user tag is provided to their counterparty;**
- **have disclosures and/or rulebooks that contain clear policies related to how tags are assigned and managed, including policies related to re-tagging;**
- **maintain audit trails for all tag assignments and re-tags.**

Market Participants acting as Interdealer Brokers (IDBs) should:

- meet similar expectations as described above for Market Participants handling Client orders in an Agent role.

IDBs may operate via voice, such as Voice Brokers, or may operate either partially or wholly electronically. Those with an electronic component are also considered FX E-Trading Platforms and thus should also meet the expectations described for Market Participants operating FX E-Trading Platforms.

Market Participants acting as Clients should:

- be aware of the responsibilities they should expect of others as highlighted above;
- be aware of the risks associated with the transactions they request and undertake; and
- regularly evaluate the execution they receive.

### PRINCIPLE 18

***Market Participants providing algorithmic trading or aggregation services to Clients should provide adequate disclosure regarding how they operate.***

Market Participants may provide Clients with algorithmic trading services that use computer programs applying algorithms to determine various aspects, including price and quantity of orders.

Market Participants may also provide aggregation services to Clients, services that provide access to multiple liquidity sources or execution venues and that may include order routing to those liquidity sources or venues.

Market Participants providing algorithmic trading or aggregation services to Clients should disclose the following:

- a clear description of the algorithmic execution strategy or the aggregation strategy and sufficient information to enable the Client to evaluate the performance of the service, in a manner that is consistent with appropriate protection of related Confidential Information;
- whether the algorithm provider or the aggregation service provider could execute as Principal;
- the fees applicable to the provision of the services;
- in the case of algorithmic trading services, general information regarding how routing preferences may be determined; and
- in the case of aggregation services, information on the liquidity sources to which access may be provided.

Market Participants providing algorithmic trading or aggregation services should disclose any conflicts of interest that could impact the handling of any client order, e.g. arising from their interaction with their own principal liquidity, or particular commercial interests in trading venues or other relevant service providers, and how such conflicts are addressed.

Market Participants providing algorithmic trading services to Clients are encouraged to use the GFXC's FX Algo Due Diligence Template to share disclosure information in a manner easily accessible, e.g. either by making their answers available bilaterally to both existing and prospective Clients, or by publishing them in the unrestricted area of their website.

Market Participants providing algorithmic trading services to Clients should disclose pertinent information to be used for the purpose of Transaction Cost Analysis (TCA). They are encouraged to provide data using the Transaction Cost Analysis Data Template published by the GFXC. Additional data should be provided if it is considered useful.

Clients of algorithmic trading providers should use such data and disclosed information in order to evaluate, on an ongoing basis, the appropriateness of the trading strategy to their execution strategy.

Clients that use an aggregator to access trading venues should understand the parameters that will define the prices displayed by the aggregator.

Market Participants providing algorithmic trading or aggregation services should provide services that perform in the manner disclosed to the Client.

### PRINCIPLE 19

***Market Participants should clearly and effectively identify and appropriately limit access to Confidential Information.***

Market Participants should identify Confidential Information. Confidential Information includes the following information not in the public domain received or created by a Market Participant:

- (i) FX Trading Information. This can take various forms, including information relating to the past, present, and future trading activity or positions of the Market Participant itself or of its Clients, as well as related information that is sensitive and is received or produced in the course of such activity. Examples include but are not limited to:
  - √ details of a Market Participant's order book;
  - √ other Market Participants' Axes;
  - √ spread matrices provided by Market Participants to their Clients; and
  - √ orders for benchmark fixes.
- (ii) Designated Confidential Information. Market Participants may agree to a higher standard of non-disclosure with respect to confidential, proprietary, and other information, which may be formalised in a written non-disclosure or a similar confidentiality agreement.

Identification of Confidential Information should be in line with any legal or contractual restrictions to which the Market Participant may be subject.

Market Participants should limit access to and protect Confidential Information.

- Market Participants should not disclose Confidential Information except to those internal or external parties who have a valid reason for receiving such information, such as to meet risk management, legal, and compliance needs.
- Market Participants should not disclose Confidential Information to any internal or external parties under any circumstances where it appears likely that such party will misuse the information.
- Confidential Information obtained from a Client, prospective Client, or other third party is to be used only for the specific purpose for which it was given, except as provided above or otherwise agreed with a Client.
- **Market Participants should disclose at a high level how Confidential Information, in the form of FX Trading Information, is handled internally in accordance with this Principle.**

- Market Participants acting as Prime Brokers should have an appropriate level of separation between their prime brokerage business and their other sales and trading business.
  - ✓ To avoid any potential conflict of interest, a Prime Broker should have appropriate information barriers in place.
  - ✓ Prime Brokers should be transparent as to the standards they require and adopt.

Operators of trading platforms that feature tags should ensure that the practice of “re-tagging” is fit for purpose, and not used to facilitate trading among participants where one party has previously requested to avoid facing another.

### PRINCIPLE 22

***Market Participants should communicate Market Colour appropriately and without compromising Confidential Information.***

The timely dissemination of Market Colour between Market Participants can contribute to an efficient, open, and transparent FX Market through the exchange of information on the general state of the market, views, and anonymised and aggregated flow information.

Firms should give clear guidance to personnel on how to appropriately share Market Colour. In particular, communications should be restricted to information that is effectively aggregated and anonymised.

To this end:

- communications should not include specific Client names, other mechanisms for communicating a Client’s identity or trading patterns externally (for example, code names that implicitly link activity to a specific Market Participant), or information specific to any individual Client;
- Client groups, locations, and strategies should be referred to at a level of generality that does not allow Market Participants to derive the underlying Confidential Information;
- communications should be restricted to sharing market views and levels of conviction, and should not disclose information about individual trading positions;
- flows should be disclosed only by price range, and not by exact rates relating to a single Client or flow, and volumes should be referred to in general terms, other than publicly reported trading activity;
- option interest not publicly reported should only be discussed in terms of broadly observed structures and thematic interest;
- references to the time of execution should be general, except where this trading information is broadly observable;
- Market Participants should take care when providing information to Clients about the status of orders (including aggregated and anonymised Fixing Orders) to protect the interests of other Market Participants to whom the information relates (this is particularly true when there are multiple orders at the same level or in close proximity to one another); and
- Market Participants should not solicit Confidential Information in the course of providing or receiving Market Colour.
- Operators of trading platforms that feature tags should only disclose user information (colour) that has been clearly stated in their rulebook’s tag policies.

- If feasible under the trading protocol used, anonymous trading platforms should strive to make available to users whether a counterparty or potential counterparty to a trade has represented that it has signed a Statement of Commitment to the current version of the FX Global Code.<sup>FN</sup>

Footnote: The responsibility of conveying accurate and up-to-date Statement of Commitment signatory status to the platform falls entirely on the user, whereas the platform is responsible only for storing and reporting this information as presented by that user and is not making any representation regarding the conduct of the user. Should there be any changes to the Statement of Commitment status of the user, the obligation is on the user to update the platform with that information.

## PRINCIPLE 29

***Market Participants should have adequate processes to manage counterparty credit risk exposure, including where appropriate, through the use of appropriate netting and collateral arrangements, such as legally enforceable master netting agreements and credit support arrangements.***

The use of master netting agreements and credit support arrangements helps to strengthen the smooth functioning of the FX Market. Other measures to manage counterparty credit risk include the accurate and timely assessment of a counterparty's creditworthiness prior to a transaction, sufficient diversification of counterparty exposure where appropriate, the prompt setting and monitoring of counterparty exposure limits, and the acceptance of transactions only if they fall within approved limits. Credit limits should be set independently of the front office, and should reflect the established risk appetite of the Market Participant.

Market Participants should maintain accurate records material to their counterparty relationships. This could include records of conversations and written correspondence, and retention policies should be aligned with Applicable Law.

E-Trading FX Platforms should at a minimum disclose the following as it relates to credit monitoring:

- What mechanisms and/or controls are in place to set, amend, and monitor all applicable credit limits.
- Whether the responsibility of monitoring credit limit breaches fall upon the platform or the users.
- What specific methodologies are used to calculate "Net Open Position".

## PRINCIPLE 35: SETTLEMENT RISK

***Market Participants should ~~take prudent measures to manage and~~ reduce their Settlement Risks as much as practicable, including by settling FX transactions through services that provided PVP settlement where available ~~prompt resolution measures to minimise disruption to trading activities.~~***

~~Settlement fails can expose Market Participants to market and credit risks. Market Participants should have policies and procedures designed to properly monitor and limit settlement exposures to counterparties.~~

~~Where applicable, Market Participants should consider payment netting and bilateral obligation netting to reduce Settlement Risks.~~

Whenever practicable, Market participants should eliminate Settlement Risk by using settlement services that provide payment-versus-payment (PVP) settlement. Where PVP settlement is not used, Market Participants should reduce the size and duration of their Settlement Risk as much as practicable. The netting of FX settlement obligations (including the use of automated settlement netting systems) is encouraged. Where used by Market Participants, a process of settling payments on a net basis should be supported by appropriate documentation. Such obligation netting may be bilateral or multilateral.

The management of each area involved in a participant's FX operations should obtain at least a high-level understanding of the settlement process and the tools that may be used to mitigate Settlement Risk, including, where available, the use of PVP settlement. Market Participants should consider creating internal incentives and mechanisms to reduce risks associated with FX settlement.

If a counterparty's chosen method of settlement prevents a Market Participant from reducing its Settlement Risk (for example, a counterparty does not participate in PVP arrangements or does not agree to use obligation netting), then the Market Participant should consider decreasing its exposure limit to the counterparty or creating incentives for the counterparty to modify its FX settlement methods.

### PRINCIPLE 36

***Market Participants should keep a timely, consistent, and accurate record of their market activity to facilitate appropriate levels of transparency and auditability and have processes in place designed to prevent unauthorised transactions.***

Market Participants should keep an accurate and timely record of orders and transactions that have been accepted and triggered/executed, as well as the reasons behind electronic trade request and order rejections, consistent with those set out under Principle 9, to create an effective audit trail for review and to provide transparency to Clients where appropriate.

This record may include, but is not limited to, the following: the date and time, product type, order type (for example, a Stop Loss Order, or an order where price is subject to last look), quantity, price, trader, and Client identity. Market Participants should apply sufficiently granular and consistent time-stamping so that they record both when an order is accepted and when it is triggered/executed.

Market Participants should have processes in place to support appropriate related data storage and retention of such detail.

Information should be made available to Clients upon request, to provide sufficient transparency regarding their orders and transactions to facilitate informed decisions regarding their market interactions. Information may also be used in resolving trade disputes. Records should allow Market Participants to effectively monitor their own compliance with internal policies, as well as their adherence to appropriate market behaviour standards.

Market Participants should set guidelines that specify personnel authorised to deal in after-hours or off-premise transactions and the limit and type of transactions permitted. A prompt written reporting process should be developed and appropriate records should be kept.

### PRINCIPLE 41

***Prime Brokerage Participants should strive to monitor and control trading permissions and credit provision in Real Time at all stages of transactions in a manner consistent with the profile of their activity in the market to reduce risk to all parties.***

Prime Brokerage Participants should strive to develop and/or implement robust control systems that include the timely allocation, monitoring, amendment, and/or termination of credit limits and permissions and adequately manage associated risks.

- Prime Brokerage Clients should strive for Real-Time monitoring of their available lines and permitted transaction types and tenors so that only trades within permitted parameters are executed.
- Executing dealers should strive for Real-Time monitoring of designation limits to validate trade requests prior to execution.
- Prime Brokers should have systems reasonably designed to monitor trading activity and applicable limits upon receiving Give-Up trades.

Prime Brokers should be in a position to accept trades in accordance with terms and conditions within Prime Brokerage agreements and designation notices.

Prime Brokers should have policies and procedures reasonably designed to address limit breach exceptions, limit changes, amendments, and novations.

Prime Brokers should clearly disclose to clients how they monitor their credit limits and how limit breaches are managed.

## PRINCIPLE 50

***Market Participants should properly measure, ~~and~~ monitor and control their Settlement Risk ~~and seek to mitigate that risk when possible~~ equivalently to other counterparty credit exposures of similar size and duration.***

~~Market Participants should develop timely and accurate methods of quantifying their FX Settlement Risk. The management of each area involved in a participant's FX operations should obtain at least a high-level understanding of the settlement process and the tools that may be used to mitigate Settlement Risk.~~

~~The netting of FX settlements (including the use of automated settlement netting systems) is encouraged. Where used by Market Participants, a process of settling payments on a net basis should be supported by appropriate bilateral documentation. Such netting may be bilateral or multilateral.~~

~~Where PVP settlement is not used, Settlement Risk should be properly measured, monitored and controlled. Market Participants should set binding ex ante limits and use controls equivalent to other credit exposures of similar size and duration to the same counterparty.~~

~~Where settlement amounts are to be netted, t~~The initial confirmation of trades to be netted should be performed as it would be for any other FX transaction. All initial trades should be confirmed before they are included in a netting calculation. In the case of bilateral netting, processes for netting settlement values used by Market Participants should also include a procedure for confirming the bilateral net amounts in each currency at a predetermined cut-off point that has been agreed upon with the relevant counterparty. ~~More broadly, settlement services that reduce Settlement Risk —~~

~~including the use of payment-versus-payment settlement mechanisms — should be utilised whenever practicable.~~

To avoid underestimating the size and duration of exposures, Market Participants should recognize that Settlement Risk exposure to their counterparty begins when a payment order on the currency it sold can no longer be recalled or cancelled with certainty, which may be before the settlement date. Market Participants should also recognize that funds might not have been received until it is confirmed that the trade has settled with finality during the reconciliation process.

### PRINCIPLE 53

***Market Participants should have adequate systems in place to allow them to project, monitor, and manage their intraday and end-of-day funding requirements to reduce potential complications during the settlement process.***

Market Participants should appropriately manage their funding needs and ensure that they are able to meet their FX payment obligations on time. A Market Participant's failure to meet its FX payment obligations in a timely manner may impair the ability of one, or more, counterparties to complete their own settlement, and may lead to liquidity dislocations and disruptions in the payment and settlement systems.

Market Participants should have clear procedures outlining how each of their accounts used for the settlement of FX transactions is to be funded. Whenever possible, those Market Participants with nostro accounts should be projecting the balance of these accounts on a Real-Time basis, including all trades, cancellations, and amendments for each tenor (value date) so that they can diminish the overdraft risk from the nostro account.

Market Participants should send payment instructions as soon as practicable, taking into consideration time zone differences as well as instruction receipt cut-off times imposed by their correspondents. Market Participants should communicate expected receipts (via standardised message types, when possible) to allow nostro banks to identify and correct payment errors on a timely basis and aid in the formulation of escalation procedures.

Market Participants should communicate with their nostro banks to process the cancellations and amendments of payment instructions. Market Participants should understand when they can unilaterally cancel or amend payment instructions and should negotiate with their nostro banks to make these cut-off times as close as possible to the start of the settlement cycle in the relevant currencies.

### ILLUSTRATIVE EXAMPLES

#### Information Sharing (Principle 22)

- ✓ A firm operating an anonymous multi-dealer E-Trading Platform asks users (as part of standard on-boarding and/or "Know Your Client" information gathering) if they are signatories to the current version of the FX Global Code Statement of Commitment. This information is uploaded into a database in the same way that other user information is stored. This information could be included along with other tag information the platform provides, if applicable, or could be added to standard post-trade analytical reports.

## GLOSSARY OF TERMS

**Aggregation services:** Aggregation Services are services provided to Clients for leveraging the provider's access to one or more pool(s) of liquidity.

**Algorithmic execution:** Trade execution through computer programs that apply algorithms. At the most basic level, a computer program automates the process of splitting a larger order known as the 'parent order' into multiple smaller orders known as 'child orders', and executes them over a period of time separately rather than all together.

**Transaction Cost Analysis (TCA):** Analysis to evaluate the quality of trade execution, e.g. by comparing the resultant price of an execution against a benchmark.