

Global Foreign Exchange Committee Report: The Role of Disclosure and
Transparency in the Global FX Market

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1. Executive Summary¹

The ability for Market Participants to be able to make informed decisions regarding the nature, impact and risks of their interaction with each other through disclosure and transparency is important to the overall integrity and effective functioning of the FX Market. Given this importance, the topics of disclosure and transparency are key areas in the FX Global Code and continue to remain a focus for many Market Participants. During the Global Foreign Exchange Committee (GFXC) Request for Feedback on last look practices, Market Participants suggested there may be areas of improvement in the current disclosure and transparency landscape, including disclosures in relation to anonymous E-Trading Platforms.

To address this feedback and pursue its objective to promote the integrity and effective functioning of the FX Market, the GFXC formed a working group (GFXC WG) to discuss aspects of the disclosure and transparency landscape. This report is the product of the GFXC WG and is meant to serve as a source of information for Market Participants seeking to learn about, develop and navigate the FX disclosure landscape. This report is not formally part of the FX Global Code and should not be viewed as an extension of it. There is no one-size-fits-all approach to the FX disclosure process and Market Participants may consider application of this report in combination with existing frameworks while also keeping in mind the concept of proportionality in the FX Global Code. For this report, disclosure and transparency refers to how Market Participants provide relevant information about their FX Market activities to counterparties.

Through its work, the GFXC WG initially identified areas of improvement in the current environment that supported Market Participants' ability to be able to make informed decisions regarding their interaction with each other through disclosures. The areas for improvement centered on elements related to the accessibility, clarity, regular maintenance and review, and content of disclosures. Taking these findings into account, the GFXC WG then developed a list of characteristics as a voluntary tool to strengthen the disclosure landscape by increasing awareness and dialogue between Market Participants around business practices, supporting the integrity and functioning of the FX Market and, in so doing, supporting the effective implementation of the FX Global Code.

The GFXC WG also formed initial views around disclosures on anonymous E-Trading Platforms, which centered on the knowledge of counterparties and expectations around counterparty behaviour. Given that the landscape of E-Trading Platforms is diverse with different features and business models across infrastructure providers and users, the GFXC WG will continue work to consider this portion of the disclosure landscape. The GFXC WG identified potential topics for ongoing work on E-Trading Platforms such as providing general examples of flow of information, describing the various capacities in which

¹ Capitalised terms used but not defined in this paper have the meanings given to them in the FX Global Code.

Market Participants can act, discussing various ways that Market Participants can provide and appropriately seek out information about behavior and engagement of counterparties.

2. The Global Foreign Exchange Committee focus on disclosure and transparency

The purpose of disclosure and transparency is to provide Market Participants with the opportunity to make informed decisions regarding their interaction with each other in the FX Market. These topics were prominent during the development of the FX Global Code and as a result many of the principles within the FX Global Code highlight the important role of appropriate transparency during various types of FX Market activities from pricing to handling of confidential information. The topics of disclosure and transparency emerged again during the Global Foreign Exchange Committee (GFXC) Request for Feedback on last look practices. During the Request for Feedback, Market Participants suggested that there may be further areas for improvement in the current disclosure and transparency landscape, including disclosures in relation to anonymous E-Trading Platforms.

In response to this feedback from Market Participants and in its work to promote the FX Global Code and a more robust, liquid, open, and appropriately transparent FX Market, the GFXC formed a working group (GFXC WG) to review this feedback and the role that disclosures can play in establishing clarity around the trading practices of Market Participants and in relation to E-Trading Platforms. This work took place in two stages:

- Stage 1 was presented at the November 2017 and June 2018 GFXC meetings. This stage focused on the identification of areas for improvement in the disclosure landscape and the broad characteristics supporting effective, transparent, clear and instructive FX disclosures.
- Stage 2 was presented at the November 2018 GFXC meeting and focused on two work streams: The first work stream set out to develop a list of characteristics and questions that Market Participants may choose to use in developing their own disclosures as well as in reviewing the disclosures Market Participants may receive. The second work stream focused on identifying relevant challenges to appropriate transparency in regards to anonymous trading activity and next steps for GFXC work in this area.

As this work was conducted, the GFXC WG was vigilant on the following important considerations. First, that most FX transactions are commercial in nature and Market Participants would need to pursue this work in a way that remains sensitive to such considerations and in a manner consistent with the GFXC's [competition guidelines](#). Second, the principle of proportionality discussed in the FX Global Code has relevance to disclosures as the approach by different Market Participants to disclosures will reflect the

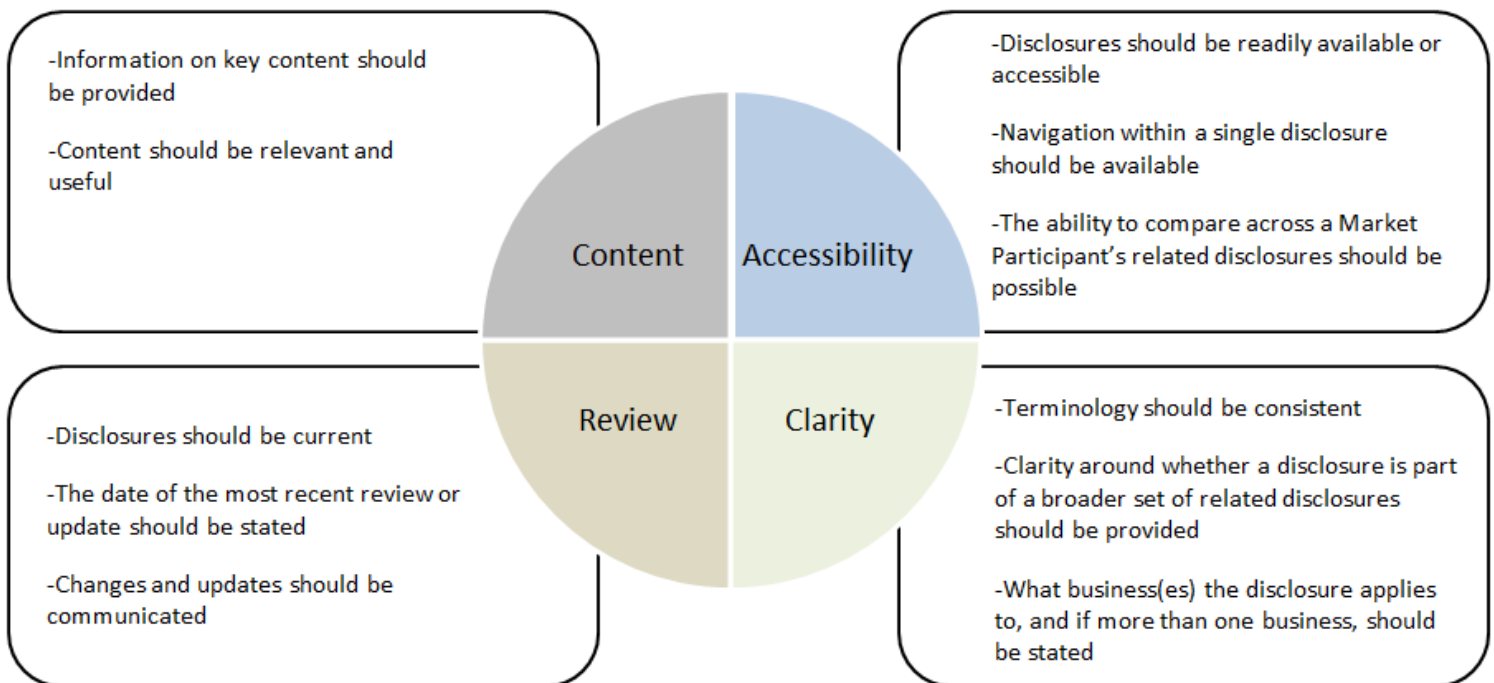
size and complexity of the Market Participant's FX Market activities, and the nature of the Market Participant's engagement in the FX Market. Third, that some disclosures as well as their format are mandated by law or other requirements. Accordingly, any output by the GFXC WG would need to have the appropriate caveats that such output is always subject to any regulatory requirements or legal obligations placed on Market Participants in respect to disclosure.

3. Areas for improvement in the FX disclosures landscape

Through its work, the GFXC WG identified areas for improvement around FX disclosures that support the overall purpose of disclosures: to provide Market Participants with the information that is needed in order to make informed decisions regarding their interaction with each other. These findings below, discussed at the November 2017 and June 2018 GFXC meetings, were used as inputs into the following stage of work to strengthen the FX disclosure landscape by developing a list of characteristics as a voluntary tool and to support effective implementation of the FX Global Code.

The GFXC WG discussed challenges that are perceived to limit the ability of disclosures to support improved transparency and facilitate constructive dialogue between Market Participants. These areas for improvement address these challenges and are centered on four main elements related to the **accessibility** of disclosures, the **clarity** of disclosures, the regular maintenance and **review** of disclosures, and the **content** of disclosures (Figure 1).

Figure 1: Elements of FX Disclosures and Examples of Related Areas for Improvement



4. Strengthening FX disclosures: A list of characteristics as a voluntary tool

In an effort to strengthen the broad FX disclosures landscape the GFXC WG developed a list of eight characteristics that Market Participants can use to develop and review FX disclosures, taking into account the areas for improvement identified in Stage 1. The goal of this set of characteristics is to provide a voluntary tool that will increase awareness and dialogue between Market Participants around business practices and improve the integrity and functioning of the FX Market. These characteristics are also aimed to support the FX Global Code principles that discuss disclosure and transparency as well as support existing regulatory frameworks.

Like the FX Global Code, the characteristics below have been created as a voluntary tool. Moreover, they are not intended to amend the FX Global Code or suggest a sole means of conducting business consistent with the FX Global Code's principles. On the contrary, there is no one-size-fits-all approach to the FX disclosure process and Market Participants may consider application of the characteristics below separately or in combination with existing frameworks, in line with the concept of proportionality. The characteristics are grouped by accessibility, clarity, review and content.

Accessibility

- Characteristic 1: **The FX disclosure is readily available.** This could be accomplished by making such disclosures publicly available and easy to find. This approach may support transparency and enhance the ability of current and prospective Clients and counterparties to compare offerings across multiple institutions. In some cases—including where disclosures may be more detailed or specific to particular bilateral relationships, trades, trade types, structures, products or offerings—it may be more appropriate for disclosures to be made in a non-public manner, for example bilaterally or through a non-public website.
- Characteristic 2: **The relation between multiple FX disclosures is clear.** If a Market Participant produces multiple, rather than a single, disclosure for its trading activities, it could provide these disclosures in a manner that clarifies how each relates to one another. Related disclosures could be provided in one place on the public or non-public website (or include links) in order to make the full set of applicable disclosures more readily available and easier to navigate.
- Characteristic 3: **The FX disclosure is shared as a standard part of the Client on-boarding process and similar related processes.** Providing the FX disclosure during the on-boarding process may support Market Participants becoming more aware of key issues and pro-actively engage in dialogue at the outset of

the trading relationship. This approach could be coupled with the relevant updates on changes to the FX disclosure as needed so that the information provided remains up to date.

Clarity

- Characteristic 4: **The FX disclosure contains language and terminology that is clear and concise.** Clarity of language in the disclosure could support better understanding of the contents of the document. An approach to achieve greater clarity could be to focus on plain language and utilize generally accepted terminology by market practitioners while keeping in mind any regulatory requirements and not to the detriment of legal precision. For example, a key objective in drafting the FX Global Code was to utilize a style of language that was clear, concise and accessible to the broad and diverse set of market practitioners active in the global FX Market. Market Participants may refer to the FX Global Code, including the glossary as a reference point if it is applicable to their disclosure framework.
- Characteristic 5: **The FX disclosure is structured and organized in a manner to allow readers to easily navigate to find information.** A well-structured and organized presentation of information in the FX disclosure, or an overview of how the disclosure is structured, could significantly increase the clarity and efficacy of the document. If the disclosure includes links to various documents, it could be helpful to provide a layout that will help readers navigate the material. The scope of the FX disclosure could also be clearly stated. For example, some FX disclosures might apply to various jurisdictions and businesses/business lines and product types. FX disclosures that clearly state this information could be useful to readers.

Review

- Characteristic 6: **There is an internal governance process in place to review FX disclosures, and update as appropriate.** The frequency of this review should reflect the size and complexity of the participant's FX Market activities, and the nature of its engagement in the FX Market. Based upon such factors, Market Participants may consider a review periodically, for example annually, or upon a material change which could encompass, among other things, significant changes in the FX Market structure, to internal business practice(s), to the Code or other relevant guidance and/or regulation. The disclosure could also indicate when it was established or last updated so that Market Participants know when changes were made and whether or not the disclosure is up-to-date and relevant.
- Characteristic 7: **There is bilateral dialogue on the content of the FX disclosure as appropriate.** Market Participants acting as Clients could be prepared to review disclosures they receive and determine if there are any topics they need to engage on in a bilateral dialogue with the disclosure provider. Market Participants that provide disclosures could include a contact methodology to facilitate dialogue. Market Participants might also want to engage in a bilateral dialogue on topics that are important to the business relationship but might not be mentioned or covered in detail in a disclosure. Table 1

includes topics that could be considered when engaging with a counterparty.

For example, Market Participants acting as Clients and that receive an FX disclosure could use topics mentioned in the Table 1 to ask the following questions:

- *Does the recipient understand the capacity or capacities in which trades will be executed?*
- *Does the recipient understand if there is an ability to execute trades in different capacities? If so, what is the scope of this discretion?*
- *Does the recipient understand how information from trade requests is used?*

Content

Characteristic 8: **The information provided is useful and relevant.** There are a number of key topics to consider for inclusion in a disclosure or when engaging with a counterparty. While not exhaustive, the lists in Table 1 feature key topics the GFXC WG highlighted for consideration in a disclosure document given the various challenges that surfaced in stage 1. What material is useful and relevant may be a function of the provider's size, complexity or activities, as well as consideration of what types of information lend themselves to written disclosure, how effective such disclosure may be, and whether another means of communication, or a combination of means is appropriate. Market Participants could reference this list and also engage in dialogue with their counterparties to enhance understanding of the topics.

For example, Market Participants providing an FX disclosure could use topics mentioned in the Table 1 to ask the following questions:

- *Does my firm's FX disclosure provide relevant information about algorithmic trading or aggregation services?*
- *Does my firm's FX disclosure inform Clients how we use information from their trade requests?*
- *Does my firm's FX disclosure clearly describe my firm's policy on the application of last look or other relevant trading practices?*

Table 1: Topics to Consider**Roles**

- Role and capacity in managing orders or executing transactions and consequent obligations to the Client (e.g. Principal vs Agent, or advisory services – reference Principle 8 and 9).
- Scope of discretion in executing transactions (reference Principle 8 and 9).
- Ability to change roles during the course of a deal (e.g. Agent to Principal – reference Principle 8 and 9).
- Cover and Deal trading arrangements (reference Principle 17).

Electronic Trading

- The use of electronic execution tools such as algorithms and their access to internal and external liquidity (reference Principle 18).
- Last look practices (reference Principle 17).
 - If Market Participants trade in this last look window
 - The purpose for using last look and the products which it applies to
 - Explanations regarding whether, and if so how, changes to price in either direction may impact the decision to accept or reject the trade
 - Whether asymmetric and/or symmetric price checks are employed and whether the client can choose
 - The factors considered when applying last look
 - If Market Participants use information from rejected trade requests

Execution

- How a Market Participant communicates and transacts in relation to requests for quote, requests for indicative prices, discussion of placement of orders, and all other expressions of interest that may lead to the execution of transactions (reference Principle 9).
- Whether customer orders – electronic and/or voice - are aggregated and the prioritisation of such orders, i.e. are orders executed on a sequential basis or not (reference Principle 9).
- Circumstances and any other applicable factors in determining if and how a Client order is filled and whether and how partial orders are filled (reference Principle 10).
- The availability of execution metrics (reference Principle 17).
- How the final transaction price may be inclusive of Mark Up and the determination of Mark Up, such as indicating the factors that may contribute to it (Principle 14).
- The potential effect of hedging or pre-hedging on the execution of customer trade requests (reference Principles 9 and 11).
- What the time-stamping policy is and whether it is applied both when the order is accepted and when it is triggered or executed (reference Principles 9 and 36).

Confidential Information

- The ways in which a Market Participant limits the use and disclosure of information from customer trade requests (reference Principle 19 and 20).
- The use of aggregated and anonymised information regarding executed FX transactions (reference Principle 22).
- The process used to execute fixing and FX benchmark orders and how the Market Participant is remunerated for such transactions (reference Principle 10).

5. Initial views around disclosures on anonymous E-Trading Platforms

Market Participants executing electronically select a trading venue or trading venues based on their own business requirements. It is important to note that the landscape of E-Trading Platforms is diverse with different features and business models across infrastructure providers and users. In this landscape, anonymous trading venues play an important role among other types of trading venues.

During the development of the FX Global Code and the Request for Feedback on last look practices, Market Participants highlighted a number of perceived challenges to understanding aspects of trading capacities and behaviors on anonymous E-Trading Platforms. In light of this feedback and with the diverse landscape of E-Trading Platforms in mind, the GFXC WG discussed various aspects of the E-Trading Platform landscape and highlighted the following areas and topics:

1. Knowledge of counterparties

- Some E-Trading Platforms offer the ability to trade anonymously with client names only visible post-trade. This can pose limitations to understanding the flow of information across and amongst parties at various stages of the transaction lifecycle. The landscape of E-Trading Platforms is diverse and so there is not one general flow of information.
- Such limitations become more complex when considering Market Participants that engage on an anonymous platform through a Prime Broker, where the credit relationship between two participants may differ from the trading and behavioral relationship.
- Some E-Trading Platforms issue “tags” which provide information around the identity of a counterparty. The practice of issuing such tags, and the process for assigning new tags, could be more widely understood.
- More generally, a key question is whether Market Participants understand the circumstances and the degree of information that is being disclosed about them to counterparties.

2. Expectations around counterparty behavior

- Overall, it may be more difficult for users of anonymous E-Trading Platforms to convey expectations regarding counterparty behavior because of the anonymous nature of those venues.
- It is important for Market Participants to understand trading practices on anonymous E-Trading Platforms, in order to be able to evaluate the actual behavior taking place. Accordingly, such trading practices could be provided by the platform itself, for example through a rule book or other material. These topics could include but are not limited to last look practices, description of the matching process and policies on information use.

In order to develop a better understanding of the issues described above and to support the GFXC objective to promote an appropriately transparent FX Market, the WG proposes to do further work to enhance understanding of the complexities around engagement on anonymous E-Trading Platforms and support greater understanding how the FX Global Code's recommendations regarding disclosure and transparency can be applied to anonymous trading. In doing this, it will be important to keep in mind that some Market Participants may use anonymous E-Trading Platforms precisely because of the anonymity they provide, and it is ultimately up to each Market Participant to determine how to balance anonymity and information exchange in order to achieve its business objectives.

This work is likely to include focus on:

- Providing general examples of flow of information on an E-Trading Platform, keeping the diverse landscape in mind.
- Describing the various capacities in which Market Participants can act on the E-Trading Platform and the difference between interacting with a counterparty from a credit perspective and a behavioral perspective.
- Discussing various ways that Market Participants can provide and appropriately seek out information about behavior and engagement on E-Trading Platforms, while considering the business models offered and their purpose.
- Highlight important topics that Market Participants should be aware of when engaging on a platform such as platform rules, the role of “tags” or other policies like the trade matching process.