# Outcomes of the 3-year Review of the FX Global Code

July 2021

Following an extensive process of review and public consultation, the Global Foreign Exchange Committee (GFXC) has published an updated version of the FX Global Code ('Code'). The July 2021 version of the Code replaces the earlier, August 2018 version. The GFXC has also developed Disclosure Cover Sheets and Templates for Algo Due Diligence and Transaction Cost Analysis (TCA) to assist Market Participants in meeting the Code's principles for disclosure and transparency. Additionally, the GFXC is publishing guidance papers on the practices of Pre-Hedging and Last Look to support Market Participants in applying the Code's principles in these areas.

**FX Global Code**

The FX Global Code was launched in May 2017. To follow through on its earlier commitment to review the Code after three years, the GFXC surveyed Market Participants and consulted with its member foreign exchange committees (FXCs) throughout 2019 to establish the priorities for its review. A consistent theme of the feedback was that the Code remained fit-for-purpose and changes should only be as necessary. The GFXC identified a few key areas as requiring review to ensure that the Code continues to provide appropriate guidance and contributes to an effectively functioning market, and remains in step with the evolution of the market.

Papers were developed describing proposed changes, guidance and explanatory text relating to the Code and the rationale therefor, and published for feedback. After careful consideration of the feedback, the GFXC has updated the Code.

One focus area for the GFXC's review that reflects the development of the market is the role played by Anonymous Trading. The Code has been amended to encourage greater disclosure by those operating anonymous platforms, including of their policies for managing the unique identifiers ('tags') of their users. Anonymous trading platforms are also encouraged, again on a voluntary basis, to make available the Code-signatory status of their users, in order to promote transparency to the market.

Recognising the value that data related to trading activity holds for Market Participants, the Code now states that multi-dealer FX E-trading Platforms (including anonymous platforms) should be transparent about their market data policies, including which user types such data is made available to and at what frequency and latency. Platforms are also encouraged to disclose the mechanisms and controls by which they are managing or monitoring the credit limits of their users.

As the risks associated with FX settlement are potentially very significant, the GFXC identified a need to strengthen the Code's guidance on Settlement Risk. Amendments have been made to place greater emphasis on the usage of payment-versus-payment (PVP) settlement mechanisms where they are available and to provide more detailed guidance on the management of Settlement Risk where PVP settlement is not used. New language on the potential systemic consequences of a Market Participants' failure to meet their payment obligations has been included to specifically discourage 'strategic fails'.

The Code's guidance on the information that providers of Algorithmic Trading or aggregation services should be disclosing has been expanded to include the disclosure of any conflicts of interest that could impact the handling of Client orders (such as those arising from interaction with their own principal market-making desk). More broadly, the GFXC believes the market would benefit from greater uniformity of disclosures in this area. To enable Clients to more easily compare and understand the services being offered, Market Participants providing algorithmic trading services are now encouraged to share their disclosure information in a standardised format. To this end, the GFXC is publishing an *Algo Due Diligence Template* that Market Participants may use, as appropriate.

Similarly, the GFXC believes that Transaction Cost Analysis would be aided by greater harmonisation of data reporting within the industry. TCA is central to determining the quality of execution received by users of algorithmic trading services. As the barriers to conducting TCA can be high, a standardised information set could be particularly helpful for less sophisticated Clients or those with limited resources. The GFXC is publishing a *Transaction Cost Analysis Data Template* that should assist in bringing about greater standardisation.

Clear and accessible Disclosures allow Market Participants to make informed decisions about the other Market Participants with whom they interact. A key area of focus for the GFXC was the challenges Market Participants faced in accessing and evaluating the large amount of varied disclosure information being made available to them. To address this, the Committee has created standardised *Disclosure Cover Sheets* for Liquidity Providers and for FX E-Trading Platforms. The Code has also been expanded to include explicit references to the provision of information about trade rejections. Market Participants should be making Clients aware of the basis on which trades might be rejected, and should be keeping records of the reasons behind electronic trade rejections.

In total, eleven of the Code's fifty-five principles have been amended. The changes from the August 2018 version are highlighted in the Appendix, including the new illustrative examples and the additional glossary entries.

**Disclosure Cover Sheet and Templates for Algo Due Diligence and Transaction Cost Analysis**

The *Disclosure Cover Sheet*, the *Algo Due Diligence Template* and the *TCA Data Template* have been developed as a way of improving the accessibility and clarity of existing disclosures and can support Market Participants in meeting the range of disclosure and transparency principles within the Code. They will be made available on the GFXC website and their use is voluntary. Market Participants will be able to post their *Disclosure Cover Sheet* alongside their *Statement of Commitment* on Participating Public Registers, further supporting accessibility of disclosure.

**Guidance Papers**

Specific principles within the FX Global Code describe good practice for Market Participants using Pre-Hedging and Last Look. Recognising that there was demand for further clarity on the appropriate usage of these trading practices, the GFXC is publishing separate guidance papers on these topics.

These principles-focussed papers are not part of the Code. They are intended to be read alongside the Code.

The guidance paper on *Pre-Hedging* discusses circumstances in which Pre-Hedging could be used in the FX market and the controls and disclosures that could help align Pre-Hedging activity with the Code. As a risk management tool, Market Participants' usage of Pre-Hedging should be designed to benefit their Client. In that vein, the guidance paper stresses the importance of Market Participants understanding the potential impacts of Pre-Hedging and regularly evaluating the execution of their trades.

The guidance paper on *Last Look* is expected to be finalised for publication in August 2021.

**Adoption**

As of July 2021, almost 1,100 entities globally have signalled their adherence to the Code's principles by signing a *Statement of Commitment*.

With the publication of the updated Code, the GFXC is encouraging Market Participants to consider renewing their *Statements of Commitment*, having regard to the nature and relevance of the updates to their FX market activities. It is acknowledged that the changes to the Code will affect certain parts of the market more than others.

The GFXC expects that a timeframe of up to 12 months would be reasonable for those affected by the changes to align their practices with the Code's principles, again recognising that there would be some variation among different types of Code adherents. A similar timeframe is envisaged for the wider uptake of the *Disclosure Cover Sheets* and the standardised information sharing through *Templates*.

# Appendix: Changes to the FX Global Code (July 2021)

*Changes from the August 2018 version of the Code's principles and Annexes are tracked in red.*

**PRINCIPLE 8**

***Market Participants should be clear about the capacities in which they act.***

Market Participants should understand and clearly communicate their roles and capacities in managing orders or executing transactions. Market Participants may have a standing agreement or other terms of business as to their roles that govern all trades, or they may manage their relationship by determining their roles on a trade-by-trade basis. If a Market Participant wishes to vary the capacity in which it or its counterpart acts, any such alternative arrangement should be agreed by both parties.

A Market Participant receiving a Client order may:

- act as an Agent, executing orders on behalf of the Client pursuant to the Client mandate, and without taking on market risk in connection with the order; or
- act as a Principal taking on one or more risks in connection with an order, including ~~market and~~ credit risk and varying degrees of market risk. Principals act on their own behalf and there is no obligation to execute the order until both parties are in agreement. Where the acceptance of an order grants the Principal executing the order some discretion, it should exercise this discretion reasonably, fairly, and in such a way that is not designed or intended to disadvantage the Client.

**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/or 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:
    - 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);
- explicitly state – when hosting multiple liquidity providers – market data policies within applicable disclosure documents (including rulebooks, guidelines, etc), 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 disclosure documents (including rulebooks, guidelines, etc) 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 (for example, 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 share disclosure information in a market-wide standardised format – for example, by aligning with the structure of the GFXC's FX Algo Due Diligence Template where appropriate, to allow Clients to more easily compare and understand the services. Such disclosure information should be easily available to both existing and prospective Clients – for example, by being shared bilaterally or made available publicly on the provider's website.

Market Participants providing algorithmic trading services to Clients are encouraged to disclose pertinent information to be used for the purpose of Transaction Cost Analysis (TCA) in a market-wide standardised format – for example, by using the GFXC's Transaction Cost Analysis Data Template. 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 shared 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 already 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 disclosure documents (including rulebooks, guidelines, etc); and
- if feasible, 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.[FN]

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.

FX E-Trading Platforms that have multiple liquidity providers and consumers 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 and how the responsibility of monitoring credit limit breaches fall upon the platform or the users, and which parties are responsible for resolving credit limit breaches; and
- what specific methodologies are used to calculate credit exposures (such as Net Open Position, etc).

**PRINCIPLE 35: SETTLEMENT RISK**

***Market Participants should ~~take prudent measures to manage and~~ reduce their Settlement Risk~~s~~ as much as practicable, including by settling FX transactions through services that provide 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, creating incentives for the counterparty to modify its FX settlement methods or taking other appropriate risk mitigation actions.

**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. When a decision is made to allow a Client to exceed a limit, appropriate approval should be obtained.

Where settlement amounts are to be netted, t~~T~~he 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**

**Execution (Principle 11)**

- ✓ ~~A bank has disclosed to a Client that the bank acts as Principal and may Pre-Hedge the Client's orders. The bank has a large Stop Loss buy order for the Client, which it anticipates might be triggered. The bank expects that there are many similar orders in the market at this important technical level and recognises the risk for substantial slippage during execution. The bank decides to Pre-Hedge part of the order and starts buying in advance without any intent to push up the market price. However, the market spikes above the Stop Loss level due to the buying by other Market Participants which is triggered when the market price hits the technical level. The order is triggered but, as a result of Pre-Hedging, the bank is able to provide an execution price close to the Stop Loss level.~~

~~Market Participants should only Pre-Hedge Client orders when acting as Principal and when the practice is used with the intention to benefit the Client. Stop Loss Orders are conditional on breaching a specific trigger level, and in many cases orders are placed at significant levels in the market with the potential for substantial slippage when the level is reached. In this example, the bank has utilised Pre-Hedging to build up inventory in advance. The bank is better positioned than it would otherwise be,~~

~~had it not Pre-Hedged, to enable the bank to protect the Client from slippage and thus benefiting the Client.~~

**Execution (Principle 17)**

- ✗ A Client requests to sell 50 million EUR/USD with a Market Participant (Bank A) at the price quoted to them by Bank A. The Client makes their trade request on the understanding that Bank A will not take on market risk in connection with the request and will only fill the request by first entering into offsetting transactions in the market. During the last look window, Bank A sends a trade request to another Market Participant (its liquidity provider) to sell 50 million EUR/USD. This trade request is accepted by the liquidity provider. During the last look window, the market moves lower. Bank A fills their Client for 45 million EUR/USD, rather than for the full 50 million it transacted, rejecting the remaining 5 million. Bank A closes out their remaining 5 million short position in the market at a lower price.

Market Participants that utilise the information from trade requests to conduct trading activity in the last look window should always pass on to their Client all volume that is traded in that period. In this example, the bank has not passed on to its Client the entirety of the volume that it traded in the last look window, but has sought to take advantage of price movements to close out their position more profitably in the market.

**Execution (Principle 18)**

- ✓ A Client selects a bank's execution algo to buy 100 million GBP/USD. The bank markets this particular algo as being executed on a 'Direct Market Access' basis. The Client understands this means that the bank's algo desk will select liquidity by looking across multiple sources, with the intention of delivering the highest possible execution quality available at that time to the Client. The bank further indicates that the algo may use internal liquidity. The bank has also disclosed how it manages the potential conflicts of interest arising from this dual role. After the order has been executed, the bank provides transparent post-trade data, demonstrating the origin and price of each trade executed to fill the algo. In reviewing the post-trade data, the Client feels confident that the algo has selected the best liquidity available at the time of execution.

Market Participants should be clear about the capacities in which they act. Market Participants should handle orders fairly and with transparency in line with the capacities in which they act (Principle 9). Market Participants providing algorithmic trading or aggregation services to Clients should provide adequate disclosure regarding how they operate. Banks wishing to offer their own liquidity while operating DMA Algos should provide clear transparency of this practice through disclosure and manage any conflicts of interest that could impact the handling of the Client order. They should make available sufficient post-trade information to the Client, for the Client to verify that the algo always selected the best prices available either in the market~~,~~ or against the bank's internal liquidity.

- ✗ A Client selects a bank's execution algo to buy 100 million GBP/USD. The bank markets this particular algo as being executed on a 'Direct Market Access' basis. The Client understands this means that the bank's algo desk will select liquidity by looking across multiple sources, with the intention of delivering the highest possible execution quality available at that time to the Client. The bank further indicates that the algo may use internal liquidity. However, the bank is not effectively managing the conflicts of interest that may arise from this dual role: the market-making desk has sight of the parent order and the algo execution logic is pre-set to

direct the last 20 million to the internal market-making desk with the intention of maximizing return.

Market Participants should handle orders fairly and with transparency in line with the capacities in which they act (Principle 9), and Market Participants providing algorithmic trading or aggregation services to Clients should provide adequate disclosure regarding how they operate. In this example, the bank has not fully disclosed how the DMA Algo works or managed the conflicts of interests in its dual role. It is using Confidential Information and prioritising its own principal pricing over the market price.

**Information Sharing (Principle 22)**

- ✓ A firm operating an anonymous multi-dealer FX 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.

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. In this example, the firm uses its onboarding process to record the Code-signatory status of its users.

**GLOSSARY OF TERMS**

**Algorithmic execution:** Trade execution through computer programs that apply algorithms. For example, 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.

**Direct Market Access Algo ('DMA Algo'):** A particular type of execution algorithm. In fulfilling a Client's DMA Algo, a Market Participant selects liquidity by looking across multiple sources, with the intention of delivering the highest possible execution quality available at that time to the Client. All liquidity obtained to fill the order is passed directly to the Client through principal transactions between the Market Participant and Client. Where the Market Participant provides its own internal liquidity to the algo, it should compete on an equivalent and fair basis as the external liquidity sources, and it should be transparent about its dual roles as the algo provider and provider of liquidity.

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