GFXC Request for Feedback – October 2024

Amendments to the FX Global Code and Disclosure Cover Sheets

Annex A: GFXC Proposed changes to the FX Global Code (2024)

This document describes the proposed modifications to the FX Global Code as part of its Three-Year Review. Participants in the public consultation process are expected to provide their comments on this document.

I. FX Settlement Risk Working Group Proposals

The objectives of the FX Settlement Risk Working Group are to: i) gain a better understanding of FX Settlement Risk, ii) promote the adoption of FX Settlement Risk mitigation; and, iii) analyse the potential impact of accelerated securities settlement on the FX market.

As a first step in its work plan, the Working Group undertook a review of the FX Global Code (the "Code") to consider whether Principles 35, and Principles 50 through 55, remain fit for purpose.

Proposed amendments to the existing Code (July 2021) are shown in red. Text that is proposed for deletion is struck through.

Principle 35

The proposed amendments aim to:

1. Introduce a risk waterfall approach, whereby Market Participants should consider a specified hierarchy of methods for reducing FX Settlement Risk.
2. Promote consistent use of agreed settlement methods (payment versus payment, bilateral or multilateral netting etc.)
3. Make it clearer that all Market Participants have a responsibility for reducing FX Settlement Risk.
4. Strengthen language around staff training.

Proposed Amendments

SETTLEMENT RISK - PRINCIPLE 35

Market Participants should reduce their Settlement Risk as much as practicable, ~~including~~ by settling FX transactions through ~~services~~ settlement methods that eliminate Settlement Risk, for example by using services that provide payment-versus-payment (PVP) settlement where available.

When determining settlement methods for FX transactions Market Participants should consider the following hierarchy to reduce Settlement Risk:

1. Where ~~never~~ practicable, Market Participants should eliminate Settlement Risk, for example by using settlement services that provide ~~payment versus payment (~~PVP~~)~~ settlement.
2. Where Settlement Risk cannot be eliminated ~~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~~ in particular the use of automated netting systems), is encouraged.

3. Where practicable, gross bilateral settlement should be minimised.

Where used by Market Participants, and where practicable, the netting of FX settlement obligations ~~a process of settling Payments on a net basis~~ should be supported by appropriate documentation (for example, market standard netting documentation). Such obligation netting may be bilateral or multilateral.

Market Participants should agree which settlement method will be used for a given product and currency as part of the counterparty onboarding process. Once agreed, the settlement method should be used consistently, and ad-hoc arrangements with the same counterparty considered only on an exception basis. Market Participants should also review their agreed settlement method choices on a regular basis with a view to reducing Settlement Risk as much as practicable.

The Management of each area involved in a Market Participant's FX operations should have a thorough ~~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. For example, by using automated solutions over manual processes. Market Participants should also monitor industry developments in Settlement Risk mitigation and seek to adopt best practice.

~~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.~~

Please also see the Confirmation and Settlement section for further details on this topic.

Do you agree with the proposed changes to Principle 35? If not, why not? Please elaborate.

Principle 50

The proposed amendments aim to:

1. Make it clearer that FX Settlement Risk exposures should be treated in line with other credit risk exposures to the same counterparty.

2. Simplify the language around estimating the size and duration of FX Settlement Risk exposures.

Proposed Amendments

III. NETTING AND SETTLEMENT PROCESSES

PRINCIPLE 50

Market Participants should properly measure, monitor, and control their Settlement Risk equivalently to other counterparty credit exposures. ~~of similar size and duration~~

Where PVP settlement is not practicable ~~used~~, Settlement Risk should be properly measured, monitored, and controlled. To avoid underestimating the size of the exposure to a counterparty, Market Participants should recognise that the exposure includes the full value of all payments that cannot be recalled or cancelled, and any trades not confirmed to have settled with finality. ~~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.~~

To avoid underestimating the ~~size and~~ duration of exposures, Market Participants should recognise that Settlement Risk exposure to their counterparty begins when a payment order for ~~on~~ the sold 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~~ and ends when the purchased currency is confirmed to have settled with finality ~~during the reconciliation process~~. *[Note that this paragraph has been moved up]*

Market Participants should set ex-ante limits not greater than the maximum exposure they are willing to take with a particular counterparty, and use controls equivalent to those that are applied to other credit exposures to the same counterparty. Market Participants should monitor usage to ensure that exposures do not exceed limits. When a decision is made to allow a counterparty to exceed a limit, appropriate approval should be obtained.

Where settlement amounts are to be netted, 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 between the counterparties ~~upon with the relevant counterparty~~. *[Note that this paragraph has been moved down]*

Do you agree with the proposed changes to Principle 50? If not, why not? Please elaborate.

Principle 51

The proposed amendments aim to:

1. Strengthen the language around discouraging the use of multiple settlement instructions with the same counterparty.
2. Clarify the difference between Standard Settlement Instructions and settlement instructions.
3. Clarify that the term "SSI" refers to **Standard** Settlement Instruction.

Proposed Amendments

PRINCIPLE 51

Market Participants should ~~utilise~~ use standard ~~standing~~ settlement instructions (SSIs).

SSIs ~~for all relevant products and currencies~~ should be in place, where practicable, for all relevant products and currencies for counterparties with whom a Market Participant has a trading relationship. The responsibility for entering, authenticating, and maintaining SSIs should reside with personnel clearly segregated from a Market Participant's trading and sales personnel and ideally from those operational personnel responsible for trade settlement. SSIs should be securely stored and provided to all relevant settlement systems ~~so as~~ to facilitate straight-through processing.

The use of multiple settlement instructions (as opposed to a single SSI) ~~SSIs~~ with the same counterparty for a given product and currency is strongly discouraged and should only be used where a business risk or reason necessitates it. Because of the Settlement Risks it introduces, the use of multiple settlement instructions ~~SSIs~~ with the same counterparty for a given product and currency should have appropriate controls. Where multiple settlement instructions are used, there should be a default SSI that applies until otherwise advised.

SSIs should be set up with a defined start date and captured and amended (including audit trail recording) with the appropriate approvals, such as review by at least two individuals. Counterparties should be notified of changes to SSIs with sufficient time in advance of their ~~implementation~~ effective date. Changes, notifications, and new SSIs should be delivered via an authenticated, and standardised message type, whenever possible.

All transactions should be settled in accordance with the SSIs in force on the value date. Trades that are outstanding at the time SSIs are changed (and have a value date on or after the start date for the new SSIs) should be reconfirmed prior to settlement (either bilaterally or through an authenticated message broadcast).

Where SSIs are not available (or existing SSIs are not appropriate to the particular trade), the alternate settlement instructions to be used should be delivered as soon as practicable.

These instructions should be exchanged via an authenticated message or other secure means and subsequently verified as part of the trade confirmation process.

Do you agree with the proposed changes to Principle 51? If not, why not? Please elaborate.

Glossary

[The following terms would be added to the glossary in alphabetical order]

Standard Settlement Instructions (SSIs): Payment instructions that have been agreed in advance, and used to transfer funds every time a trade is executed with the same counterparty for a given product and currency. Standard Settlement Instructions may also be referred to as "standing settlement instructions".

Value Date: The date on which a Market Participant and its counterparty agree to settle their obligations, by making relevant payments and transferring ownership of the currencies traded.

Do you agree with the proposed addition to the Glossary? If not, why not? Please elaborate.

II. FX Data Working Group Proposals

The automation of the FX market has increased the importance and value of data. In response to the evolution of the FX market, the Working Group was mandated to: "analyse how the use of FX data could be made more transparent to market participants in order to improve market transparency and enable a level playing field".

The Working Group identified two areas of the Code that would benefit from additional clarity:

(i) enhanced transparency around user-generated trade data on electronic trading venues; and,
(ii) more transparency on FX data/transactions under certain types of "delegated execution". Cost aspects of data were excluded as commercial aspects are not part of the GFXC's remit.

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Principle 9

The Working Group proposes that Principle 9 be amended to:

1. encourage FX-E platforms to provide better disclosures around sharing FX data derived from Client interactions with third parties.
2. Reflecting the feedback on the need to better clarify "third parties", Principle 9 has been amended to refer to Principle 20 (sharing confidential information) to be as consistent as possible on "third parties" that are NOT in scope for FX-E platforms to provide additional disclosures.

The amendments further promote using Disclosure Cover Sheets (DCS) to enhance transparency and comparability across providers.

Proposed Amendments

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 FX 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 market making 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 market-making 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~~ their policies on sharing Client interaction data, i.e., order or transaction data derived from client interactions, that is not anonymised and not aggregated, with third parties, 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.

Policies on sharing Client Interaction data shall not apply to data shared with explicit Client consent, or disclosures required under applicable law or as otherwise requested by a relevant regulatory or public authority, or with market participants as defined under Principle 20. In order to allow Clients to compare data sharing policies more easily, the use of the GFXC's Disclosure Cover Sheets is encouraged.

- Client interaction data include but are not limited to data on potential or actual FX transactions by clients, including requests for quotes, and other transaction data related to a Client order or trade execution.

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.

Do you agree with the proposed changes to Principle 9? If not, why not? Please elaborate.

Principle 10

The Working Group proposes to:

1. Incorporate enhanced transparency obligations around certain types of delegated execution activity in Principle 10. The activities captured under these obligations are the execution of FX transactions, which have been delegated to a service provider who also acts as Principal to the trade from a counterparty perspective (e.g., custodian, prime broker, futures clearer, hedging service provider).

Under this type of execution, the Principal initiates the trade on behalf of the Client as authorised under a written agreement in advance of trading. These obligations enable the Client to have greater visibility on order handling by the Principal, transparency on fees/costs, and enhance the ability to conduct post-trade reviews to assess the quality of execution.

Proposed Amendments

PRINCIPLE 10

Market Participants should handle orders fairly, with transparency, and in a manner consistent with the specific considerations relevant to different order types.

Market Participants should be aware that different order types may have specific considerations for execution. For example:

Market Participants handling a Client's Stop Loss Order should:

- obtain from the Client the information required to fully define the terms of a Stop Loss Order, such as the reference price, order amount, time period, and trigger;
- disclose to Clients whether risk management transactions may be executed close to a Stop Loss Order trigger level, and that those transactions may impact the reference price and result in the Stop Loss Order being triggered.

  Indicative Examples of Unacceptable Practices:

  - trading or otherwise acting in a manner designed to move the market to the Stop Loss level; and
  - offering Stop Loss Orders on a purposefully loss-making basis.

Market Participants filling a Client order, which may involve a partial fill, should:

- be fair and reasonable based upon prevailing market circumstances, and any other applicable factors disclosed to the Client, in determining if and how a Client order is filled, paying attention to any other relevant policies;
- make a decision on whether, and how, to fill a Client order, including partial fills, and communicate that decision to the Client as soon as practicable; and
- fully fill Client orders they are capable of filling within the parameters specified by the Client, subject to factors such as the need to prioritise among Client orders and the availability of the Market Participant's credit line for the Client at the time.

Market Participants handling a Client's order to transact at a particular fixing rate (Fixing Order):

- should understand the associated risks and be aware of the appropriate procedures;
- should not, whether by collusion or otherwise, inappropriately share information or attempt to influence the exchange rate;
- should not intentionally influence the benchmark fixing rate to benefit from the fixing, whether directly or in respect of any Client-related flows at the underlying fixing; and

- should behave consistently with the Financial Stability Board's Foreign Exchange Benchmark Report Recommendations,[4] including but not limited to:
  √ pricing transactions in a manner that is transparent and is consistent with the risk borne in accepting such transactions; and
  √ establishing and enforcing internal guidelines and procedures for collecting and executing Fixing Orders.
  Indicative Examples of Acceptable Practices:
  - transacting an order over time before, during, or after its fixing calculation window, so long as not to intentionally negatively impact the market price and outcome to the Client.

[footnote] 4 See the Financial Stability Board Final Report on Foreign Exchange Benchmarks, September 30, 2014.

- collecting all Client interest and executing the net amount;

Indicative Examples of Unacceptable Practices:

- buying or selling a larger amount than the Client's interest within seconds of the fixing calculation window with the intent of inflating or deflating the price against the Client;
- buying or selling an amount shortly before a fixing calculation window such that there is an intentionally negative impact on the market price and outcome to the Client;
- showing large interest in the market during the fixing calculation window with the intent of manipulating the fixing price against the Client;
- informing others of a specific Client dealing at a fixing rate;
- and acting with other Market Participants to inflate or deflate a fixing rate against the interests of a Client. (See Principles 19 and 20 in Information Sharing for further guidance.)

~~Finally,~~ Market Participants handling orders that have the potential to have sizable market impact should do so with particular care and attention. For example, there are certain transactions that may be required in the course of business, such as those related to merger and acquisition activity, which could have a sizable impact on the market

Market Participants who ***initiate*** Client orders in a Principal role, where execution of FX Transactions is subject to a written agreement in advance with the Client identifying when the Market Participant should initiate such FX Transactions (such as auxiliary services to facilitate a securities or futures transaction or FX hedging services agreements), should:

- Operate within the parameters of that written agreement;
- Establish and disclose a transparent order execution policy including:
  - Factors affecting the execution of Client orders;
  - Factors affecting the choice of execution venues; and

  - Information as to how the Principal provides fair and transparent execution of Client orders.
- Be transparent with the Client about terms and conditions, principally setting out fees and commissions applicable throughout the term of the agreement; and,
- Make available sufficient information to enable the Client to assess the quality of execution. Where available, this should include the date and time of execution along with market reference rates at the time of execution.

Do you agree with the proposed changes to Principle 10? If not, why not? Please elaborate.

Annex I

[The following are two examples that would be included in the Annex, mapped to Principles 9 and 10, respectively]

Example on disclosure of data sharing policies for a Liquidity Provider.

An asset manager executes a trade to buy 50 million GBP/USD on an electronic platform. The platform shares non-aggregated, non-anonymised details of the trade (e.g., order amount, order start time, price traded, mid at arrival, etc.) with a third party that provides TCA. The transaction data is also shared with an FX analytics firm that provides the platform with analysis on the client's FX activities. Financial details of the transaction, such as revenue generated from the trade, are shared with the platform's auditors.

The platform should disclose that it shares non-aggregated and non-anonymised transaction data with a TCA provider and with the FX analytics firms within applicable disclosure document(s) and the GFXC's Disclosure Cover Sheet. The platform does not need to disclose that it shares revenue data with its auditors as this is permissible under Principle 20.

Do you agree with the added example to Annex 1, which would map to Principle 9? If not, why not? Please elaborate.

Example on disclosures for a Principal executing a transaction on behalf of a Client, which is initiated by the Principle subject to a pre-agreed written agreement.

A Market Participant acting in a Principal role and in association with custodial responsibilities and the terms of a written FX services agreement with a Client, purchases ZAR to fund security purchases on behalf of its Client and applies a pre-agreed spread/fee to the exchange rate transacted on-market. The Market Participant also makes available information to assist the Client to judge the quality of execution, including the time and date of the transaction, along with the market reference rate prevailing at the time, where available.

These circumstances fulfil the criteria in Principle 10 for heightened disclosure requirements, namely:

- The Market Participant acting as Principal initiates the trade on behalf of the Client
- There is a pre-agreed written agreement authorising the Principal to initiate the trade

A Market Participant acting in these circumstances should clearly set out the terms and conditions of that execution relationship, including any applicable fees and commissions.

Do you agree with the added example to Annex 1, which would map to Principle 10? Please elaborate.