Understanding the FX Global Code of Conduct

FX hub

Why is it needed?

2008 The global financial crisis, caused by lax regulations and misconduct among major lenders, led governments to bail out banks - affecting FX markets.

2013 Revealed FX traders colluded to manipulate benchmark fixes, leading to lawsuits and fines against banks.

2015 Several traders were fined and barred for life.

2016
2017 Criminal charges filed, resulting in traders going to jail. Over 100 FX traders were disciplined or dismissed following internal investigations.

FX businesses were restructured to limit information access and separate principal and agency businesses and banks enhanced supervision and oversight. However, cultural issues within institutions persisted.

Customers also engaged in questionable practices resulting in the use of 'last look' as protection, but this too was open to abuse, which also resulted in fines.

Work on the FX Global Code began...

The industry suffered from a lack of trust, necessitating self-regulation or external regulation. The FX market is crucial for the global economy, requiring best practice risk management.

2015 Work on the FX Global Code began.

2017 First Global Code released, and The Global FX Committee (GFXC) formed to promote collaboration and communication on FX matters and maintain and update the Code

2021
2024 3year review cycle – last updated Dec 2024

Developed by a public/private partnership, the Code sets global principles of good practice for all participants in the wholesale FX market.

The Code is **not regulation** but a set of minimum requirements for good practice

What is the FX Global Code?

The FX Global Code of Conduct ("the Code") is a set of global principles and guidance designed to promote integrity, effective functioning, and confidence in the FX market. It has 6 key areas and 55 principles covering:

Ethics	Promote fairness and integrity by behaving ethically and professionally.
Governance	Implement effective governance frameworks for clear responsibility and oversight.
Execution	Exercise care in transactions to maintain a robust, fair, open, liquid and appropriately transparent FX market.
Information Sharing	Communicate clearly and accurately while protecting confidential information.
Risk Management & Compliance	Maintain robust control and compliance to manage risks effectively.
Confirmation & Settlement	Establish efficient, transparent, and risk-mitigating post-trade processes for smooth and timely settlement.

Does it apply to me?

It applies to ALL participants in the wholesale FX market.

That means YOU!

It is designed to ensure that all market participants, including corporates, adhere to high standards of conduct

Proportional Application

Meaning that its principles are adapted to each participants specific circumstances and business activities.

This ensures it is realistic and achievable for all corporates, regardless of their size or level of market engagement

Governance & Professionalism

Corporates are expected to behave in an ethical and professional manner to promote the fairness and integrity of the FX market.

Effective governance frameworks and understanding of FX conventions promote responsible engagement in the FX market.

Where do I find out more?

- Visit the FX-Hub (fx-hub.org) and join the newsletter
- Use the Proportionality tool on the GFXC website: (Click here...)
- Look out for the upcoming FX Code bite-sized series to demystify each area and apply to the Corporate interaction with the FX market
- Email lisaFX@dukesandking.com or use the (Ask the expert...) section on the FX-hub.

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FX GLOBAL CODE OF CONDUCT

ETHICS

PRINCIPLES 1-3

BITE-SIZED CORPORATE FOCUS

All are expected to behave in an ethical and professional manner to promote fairness and integrity of the FX Market

Principles 1 - 3

#1 We should strive for the highest ethical standards by acting Honestly, Fairly and with Integrity.

#2 We should strive for the highest professional standards. e.g. traders should be appropriately trained/experienced

#3 We should identify and address conflicts of interest, this could come from your own companies Code of Conduct e.g. corporate entertaining and gifts

The awareness and ethical behaviour of traders, senior management, and the business are fundamental to maintaining fairness and integrity within the FX Markets.

Exercising good judgement is central to acting ethically and professionally.

How could this be applied for Corporates?

Some illustrative Ethics corporate considerations include:

- Appropriate review and oversight by committees
- Appropriate segregation of duty within teams
- Documented policies and procedures covering trading approach, segregation, transparency and trading with counterparts
- Sourcing trading indications from more than one party
- Including centralised mailbox to increase visibility
- Introducing trader interview process
- Introducing trading mandate with authorities tiered based on knowledge and experience
- Implement benchmarking and feedback process
- Group policy on corporate entertaining & gifts to be referenced in policy

Don't forget… Everyone is different

The Code is applied proportionally – it should be adapted to your specific circumstances and business activities.

This makes the Code realistic and achievable for all, regardless of size or level of market engagement.

Banks might fully integrate all principles due to their extensive market involvement, while corporates will apply only those applicable to them to a degree that aligns with their scale of operations

Use the GFXC designed Self-Assessment Proportionality Tool to help get you started.

Where do I find out more?

- Visit the FX-Hub (fx-hub.org) and join the newsletter
- Use the Proportionality tool on the GFXC website: (Click here...)
- Look out for the next FX Code bite-sized instalment covering Governance principles
- Email lisaFX@dukesandking.com or use the (Ask the expert...) section on the FX-hub.

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GOVERNANCE

PRINCIPLES 4-7

BITE-SIZED CORPORATE FOCUS

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All are expected to have sound and effective governance frameworks to provide for clear responsibility for and comprehensive oversight of their FX Market activity and to promote responsible engagement in the FX Market.

Principles 4-7

#4 Management responsible for the FX strategy and financial soundness should put in place adequate and effective structures and mechanisms to provide for appropriate oversight, supervision, and controls over their FX activity.

#5 Senior management should embed a strong culture of ethical and professional conduct over FX activities.

#6 There should be remuneration/promotion structures that promote good market practices and behaviours that are consistent with ethical and professional conduct expectations.

#7 There should be appropriate policies and procedures to handle and respond to potentially improper practices and behaviours effectively

How could this be applied for Corporates?

Some illustrative Governance corporate considerations include:

- Appropriate segregation of duty within teams
- Centralised mailbox to maximise visibility
- Documented policy, procedures and process for reporting/ escalation of trade errors, audit log and other agreed KPI's
- Regular training/support for designated "back office" individuals
- Periodic internal audit process or consultant review
- For larger corporates, segregated reporting lines of front office and back office
- Reporting provided to senior management/risk committees prepared by independent individuals where possible
- Disciplinary actions from unacceptable behaviours and transgressions documented in policy and procedures
- Define clearly the risk appetite, commenting on accepted and unacceptable exposures
- Those interacting with the market to be familiar with the FX Code

Don’t forget…
Everyone is different

The Code is applied **proportionally** – it should be adapted to your specific circumstances and business activities.

This makes the Code **realistic and achievable** for all, regardless of size or level of market engagement.

Proportional governance should be in place to promote and support the principles. Governance structures **will vary** in complexity and scope and will be in line with the **size** and **complexity** of FX activities and the **nature** of engagement, considering applicable law.

Use the GFXC designed
<u>Self-Assessment Proportionality Tool</u>
to help get you started.

Where do I find out more?

- Visit the FX-Hub (fx-hub.org) and join the newsletter
- Use the Proportionality tool on the GFXC website: (Click here...)
- Look out for the next FX Code bite-sized instalment covering Execution principles
- Email lisaFX@dukesandking.com or use the (Ask the expert...) section on the FX-hub.

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EXECUTION

PRINCIPLES 8-18

BITE-SIZED CORPORATE FOCUS

All are expected to exercise care when negotiating and executing transactions to promote a robust, fair, open, liquid, and appropriately transparent FX Market.

Principles 8-18

#12 We should not request transactions, create orders, or provide prices with the intent of disrupting market functioning or hindering the price discovery process.

#13 If used, we should understand how reference prices (or fixes), including highs and lows, are established in connection with our transactions and/or orders.

#15 We should identify and resolve trade discrepancies as soon as practicable to contribute to a well-functioning FX Market.

The other principles under Execution are typically not applicable to Corporates, these cover:

Acting as principal or agent, handling orders, pre-hedging client orders, applying Mark-Up, acting as Voice Broker, last look disclosure and providing algorithmic trading

How could this be applied for Corporates?

Some illustrative Execution corporate considerations include:

- Reference and follow market fixing procedure in the policy & procedure documents as appropriate.
- For larger corporates, segregated reporting lines of front office and back office
- Segregation of roles for smaller teams
- Reference and follow trade dispute process in the policy & procedure documents
- Centralised mailbox & trade reporting log to document confirmation process
- KPIs and reporting summary to senior management (i.e. number of trades, type of trades, errors, time to resolve)

All, regardless of their role, should behave with integrity to support the effective functioning of the FX Market.

Don't forget…
Everyone is different

The Code is applied proportionally – it should be adapted to your specific circumstances and business activities. This makes the Code realistic and achievable for all, regardless of size or level of market engagement.

The FX execution landscape is diverse, with execution taking place through many different channels and with Market Participants taking on different roles for execution.

For Corporates, not all principles apply - the Self-Assessment Proportionality Tool is there to help you to determine which are applicable for your organisation to adhere to the code.

For the principles that do not apply, Corporates should know and understand them to hold counterparts to account.

The Global FX Committee ("GFXC"), the code custodian, undertakes a full review of the code on a three-year cycle.

The last review concluded in December 2024 and focussed on:

- enhancing guidance on FX Settlement Risk, and;
- the use of FX data.

Within this Execution section principles 9 and 10 were updated:

#9 (Order handling with capacity) – minor language change to provide more clarity on what data is in scope as well as adding clarity on what is meant by "third-parties"

#10 (Order handling by activity) – addition to introduce disclosure obligations to enhance transparency for the Client to assess the quality of execution

These principles do not usually apply to Corporates however we should understand them to hold counterparts to account.

Where do I find out more?

- Visit the FX-Hub (fx-hub.org) and join the newsletter
- Use the Proportionality tool on the GFXC website: (Click here...)
- Look out for the next FX Code bite-sized instalment covering Information Sharing principles
- Email lisaFX@dukesandking.com or use the (Ask the expert...) section on the FX-hub.

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INFORMATION SHARING

PRINCIPLES 19-23

BITE-SIZED CORPORATE FOCUS

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All are expected to be clear and accurate in their communications and to protect Confidential Information to promote effective communication that supports a robust, fair, open, liquid, and appropriately transparent FX Market.

Principles 19-23

#19 We should clearly and effectively identify and appropriately limit access to Confidential Information.

#20 We should not disclose Confidential Information to external parties, except under specific circumstances.

#21 We should communicate in a manner that is clear, accurate, professional, and not misleading.

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

#23 We should provide personnel with clear guidance on approved modes and channels of communication.

How could this be applied for Corporates?

Some illustrative Information Sharing corporate considerations include:

- Team training and interview process ensuring those interacting with the market know the appropriate language and process
- Document approved methods of communication within policy & procedures
- Require all methods to be recorded, or evidenced after the fact by agreed trade recap

Don't forget… Everyone is different

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Where do I find out more?

- Visit the FX-Hub (fx-hub.org) and join the newsletter
- Use the Proportionality tool on the GFXC website: (Click here…)
- Look out for the next FX Code bite-sized instalment covering Risk Management and Compliance (part 1) principles
- Email lisaFX@dukesandking.com or use the (Ask the expert…) section on the FX-hub.

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FX GLOBAL CODE OF CONDUCT

RISK MANAGEMENT & COMPLIANCE (PART 1)

PRINCIPLES 24-28

BITE-SIZED CORPORATE FOCUS

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All are expected to promote and maintain a robust control and compliance environment to effectively identify, manage, and report on the risks associated with their FX Market engagement.

Principles 24-28

#24 We should have frameworks for risk management and compliance. Senior Management should decide on their FX risk appetite.

#25 We should familiarise ourselves and follow all relevant Applicable Law and Standards and should have an appropriate compliance framework in place.

#26 We should maintain an appropriate risk management framework with systems and internal controls to identify and manage the FX risks we face.

#27 We should have practices in place to limit, monitor, and control the risks related to our FX Market trading activity.

#28 We should have processes in place to independently review the effectiveness of and adherence to the risk management and compliance functions.

Use the FX Code as a foundation to your FX policy, procedures and controls

- Approved risk limits and appetite
- Review and update cycle
- Identification, measurement, aggregation and monitoring of risks
- Governance and oversight
- Relevant regulation, laws and standards
- KPIs
- Delegations and approvals
- Valuation methods and accounting
- Incident management
- Segregation and reporting requirements

How could this be applied for Corporates?

Some illustrative Risk Management and Compliance corporate considerations include:

- Alignment and clear governance within the policy & procedures
- Segregated front and back-office individuals where possible, additional reporting and oversight where not
- Full and regular reporting to management and risk committees
- Trader authorities, trader interviews and training to ensure appropriate knowledge & experience
- System to document one source of all market interaction including automation and reporting
- Embedded Portfolio Reconciliation process (EMIR)
- Post trade review process including segregated post trade review and audit log reviews
- Independent verification of bank provided valuations
- Timely reporting to senior management/risk committees on findings through KPI performance
- Policy review and internal review cycle minimum annually, approved by management

Don't forget…
Everyone is different

The Code is applied **proportionally**, it should be adapted to your specific circumstances and business activities.

This makes the Code **realistic and achievable** for all, regardless of size or level of market engagement.

Appropriate risk management, compliance, and review structures should be in place to manage and mitigate the risks that arise from activities in the FX Market. These will vary in complexity and scope, but generally share some common aspects.

The Self-Assessment Proportionality Tool is there to help you to determine which are applicable for your organisation to adhere to the code.

Where do I find out more?

- Visit the FX-Hub (fx-hub.org) and join the newsletter
- Use the Proportionality tool on the GFXC website: (Click here...)
- Look out for the next FX Code bite-sized instalment covering Risk Management and Compliance (part 2) principles
- Email lisaFX@dukesandking.com or use the (Ask the expert...) section on the FX-hub.

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RISK MANAGEMENT & COMPLIANCE (PART 2)

PRINCIPLES 29-34

BITE-SIZED CORPORATE FOCUS

Everyone will be subject to different risks to varying degrees, depending on the size and complexity and the nature of their engagement. These principles outline some of the good practices relevant to the key risk types applicable to FX activities.

Principles 29-34

#29 We should have processes to manage counterparty credit risk exposure, using netting and collateral arrangements like master netting agreements and credit support arrangements where appropriate.

#30 We should have processes to measure, monitor, report, and manage market risk in an accurate and timely way.

#31 We should have independent processes in place to mark-to-market trading positions to measure the size of the P&L and market risk arising from trading positions.

#32 We should have processes to identify and manage operational risks from human error, system failures, or external events.

#33 We should have business continuity plans (BCPs) in place that are appropriate to our nature, scale, and complexity.

#34 We should have processes to address potential adverse outcomes from using or relying on technological systems (hardware and software).

How could this be applied for Corporates?

Some illustrative Risk Management and Compliance corporate considerations include:

- Clear governance & oversight in place and documented within the policy & procedures
- Document counterparty review and limit approval specific to FX
- Live monitoring of counterparty exposure via TMS or similar
- Document and report on unhedged market risk
- Document and report on the of hedged exposures on a worst-case basis (where optionality included)
- Produce independent valuations or checks and ability to assess secondary risks (credit exposure and future ability to hedge)
- Segregated front and back-office individuals where appropriate
- Trader authorities, trader interviews, and training to ensure appropriate knowledge & experience
- Ability to run trade audit logs for post trade review
- BCP or known process in the event of a disruption

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Appropriate risk management, compliance, and review structures should be in place to manage and mitigate the risks that arise from activities in the FX Market. These will vary in complexity and scope, but generally share some common aspects.

The Self-Assessment Proportionality Tool is there to help you to determine which principles are applicable for your organisation to adhere to the code.

Where do I find out more?

- Visit the FX-Hub (fx-hub.org) and join the newsletter
- Use the Proportionality tool on the GFXC website: (Click here...)
- Look out for the next FX Code bite-sized instalment covering Risk Management and Compliance (part 3) principles
- Email lisaFX@dukesandking.com or use the (Ask the expert...) section on the FX-hub.

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RISK MANAGEMENT & COMPLIANCE (PART 3)

PRINCIPLES 35-41

BITE-SIZED CORPORATE FOCUS

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Everyone will be subject to different risks to varying degrees, depending on the size and complexity and the nature of their engagement. These principles outline some of the good practices relevant to the key risk types applicable to FX activities.

Principles 35-40

#35 We should reduce Settlement Risk as much as practicable, including by using payment-versus-payment (PVP) where available. Updated in Dec 2024 version to introduce a risk waterfall approach for settlement methods.

#36 We should keep a timely, consistent, and accurate record of market activity to facilitate appropriate levels of transparency and auditability and have processes in place designed to prevent unauthorised transactions.

#37 We should perform "know-your-customer" (KYC) checks on counterparties to ascertain transactions are not used to facilitate criminal activities.

#38 We should have in place reasonable policies and procedures (or governance and controls) such that trading access, either direct or indirect, is limited to authorised personnel only.

#39 We should generate a timely and accurate record of transactions to enable effective monitoring and auditability.

#40 We should have processes in place to identify and manage legal risks arising in relation to their FX Market activities.

Principle **#41** not applicable to Corporates, as it covers Prime Broker activity

How could this be applied for Corporates?

Some illustrative Risk Management and Compliance corporate considerations include:

- Clear SSIs in place and/or auto settlement in place with netting enabled where possible
- System to document one source of all market interaction
- Automation of trade repository, confirmation, and valuation through trading portals and systems
- Documented counterparty policy, KYC requirements and new counterparty process
- Has the counterparty signed a FX Code Statement of Commitment
- Centralised mailbox to ensure full visibility for all
- Documenting trading authorities, ensuring that the trading authorities are tiered based on experience knowledge.
- Introduce multi-trader platform or aggregator and utilise controls they offer or consider use of recorded trade platform
- Policy includes documentation requirements – e.g. ISDA etc
- Legal / compliance review and training

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Everyone is different

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This makes the Code **realistic and achievable** for all, regardless of size or level of market engagement.

The Self-Assessment Proportionality Tool is there to help you to determine which principles are applicable for your organisation to adhere to the code.

Always check your **counterparty** has **signed** a FX Code Statement of **Commitment.**

Where do I find out more?

- Visit the FX-Hub (fx-hub.org) and join the newsletter
- Use the Proportionality tool on the GFXC website: (Click here...)
- Look out for the next FX Code bite-sized instalment covering Confirmation and Settlement (part 1) principles
- Email lisaFX@dukesandking.com or use the (Ask the expert...) section on the FX-hub.

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CONFIRMATION AND SETTLEMENT (PART 1)

PRINCIPLES 42-49

BITE-SIZED CORPORATE FOCUS

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All are expected to put in place robust, efficient, transparent, and risk-mitigating post-trade processes to promote the predictable, smooth, and timely settlement of transactions in the FX Market.

Principles 42-49

#42 We should establish consistency between operating practices, documentation, and policies for managing credit and legal risk.

#43 We should have a robust framework for monitoring and managing capacity in both normal and peak conditions.

#44 We are encouraged to implement straight-through automatic transmission of trade data from front office systems to their operations systems.

#45 We should conduct novations, amendments, and/or cancellations of transactions in a carefully controlled manner.

#46 We should confirm trades as soon as practicable, and in a secure and efficient manner.

#48 We should identify and resolve confirmation and settlement discrepancies as soon as practicable.

#49 We should be aware of confirmation and processing features specific to life cycle events of each FX product

Principle **#47** usually not applicable to Corporates, as it covers reviewing, affirming and allocating block transactions

How could this be applied for Corporates?

Some illustrative Confirmation and Settlement corporate considerations include:

- ISDA or other appropriate documentation in place
- Documented policy, procedures, controls and oversight
- System to document one source of all market interaction
- Appropriate resourcing and segregation for trading activity and front and back-office individuals
- Automation of trade repository, confirmation, and valuation through systems or trading portals
- Include processes for novating, amending, or cancelling transactions within policy document
- Secure confirmations with audit trail

Don’t forget… Everyone is different

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Where do I find out more?

- Visit the FX-Hub (fx-hub.org) and join the newsletter
- Use the Proportionality tool on the GFXC website: (Click here...)
- Look out for the next FX Code bite-sized instalment covering Confirmation and Settlement (part 2) principles
- Email lisaFX@dukesandking.com or use the (Ask the expert...) section on the FX-hub.

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CONFIRMATION AND SETTLEMENT (PART 2)

PRINCIPLES 50-55

BITE-SIZED CORPORATE FOCUS

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All are expected to put in place robust, efficient, transparent, and risk-mitigating post-trade processes to promote the predictable, smooth, and timely settlement of transactions in the FX Market.

Principles 50-55

#50 We should properly measure, monitor and control Settlement Risk. Updated in Dec 2024 version to provide guidance on measuring, monitoring, and controlling FX Settlement Risk.

#51 We should utilise standard settlement instructions (SSI's). Updated in Dec 2024 version to promote the use of SSIs and discourage multiple settlement instructions for the same product and currency.

#52 We should request Direct Payments.

#53 We should have adequate systems in place to allow us to project, monitor, and manage funding requirements to reduce potential complications during settlement.

#54 We should perform timely account reconciliation processes.

#55 We should identify settlement discrepancies and submit compensation claims in a timely manner.

How could this be applied for Corporates?

Some illustrative Confirmation and Settlement corporate considerations include:

- Auto-settlement to SSIs without reconfirming bank details, avoiding manual intervention
- Enabled netting provisions
- New bank detail verification process
- Linked bank accounts to the TMS feeding the bank account positions on an ongoing basis.
- Process to verify receipt of funds

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Where do I find out more?

- Visit the FX-Hub (fx-hub.org) and join the newsletter
- Use the Proportionality tool on the GFXC website: (Click here…)
- Revisit the bite-size series and look out for the next instalment covering the Statement of Commitment
- Email lisaFX@dukesandking.com or use the (Ask the expert…) section on the FX-hub.

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FX GLOBAL CODE OF CONDUCT

STATEMENT OF COMMITMENT

BITE-SIZED CORPORATE FOCUS

What is the Statement of Commitment?

The FX Global Code sets out globally recognised principles of good practice in the wholesale FX Market.

It is designed to promote a robust, fair, liquid, open, and appropriately transparent market, to help build and maintain market confidence, and in turn, to improve market functioning.

The Statement of Commitment provides Market Participants with a common basis by which they can demonstrate their recognition of, and commitment to, adopting the good practices set forth in the Code.

What does using the Statement represent?

You have determined to support the Code and recognise it as a set of principles of good practice for the FX Market

You are committed to conducting FX activity in a manner that is consistent with the principles of the Code

You consider that your company has taken appropriate steps, based on the size and complexity of its activities, and the nature of its engagement in the FX Market, to align its activities with the principles of the Code.

The Code is applied proportionally – it should be adapted to your specific circumstances and business activities. This makes the Code realistic and achievable for all, regardless of size or level of market engagement.

Corporates can share their statements of commitment on the FX-Hub (fx-hub.org)

Where do I find out more?

- Visit the FX-Hub (fx-hub.org) and join the newsletter
- Use the Proportionality tool on the GFXC website: (Click here...)
- Revisit the bite-size series
- Email lisaFX@dukesandking.com or use the (Ask the expert...) section on the FX-hub.

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