

Regulatory News Alert

FX Global Code

1 June 2017

The Foreign Exchange Working Group (FXWG) under the Bank for International Settlements published on 25 May 2017 a global code of conduct for wholesale foreign exchange markets (hereafter referred to as “the code”).

The code should be seen as “an essential reference for market participants when conducting business in the FX Market and when developing and reviewing internal procedures” and applies to all FX Market Participants (buy-side and sell-side).

The good practices laid out in the code are built around six pillars:

1. Ethics
2. Governance
3. Information Sharing
4. Execution
5. Risk management and compliance
6. Confirmation and settlements

The code was developed in cooperation with central banks and market participants from 16 jurisdictions and is meant to be a complement to the national law and regulations in place. However, the FCA recently put out a statement expecting “firms, senior managers, certified individuals, and other relevant persons to take responsibility for and be able to demonstrate their own adherence with standards of market conduct.”

	Key Principles	Estimated functions to be affected
Ethics <i>Market participants are expected to behave in an ethical and professional manner to promote the fairness and integrity of the FX market.</i>	<ul style="list-style-type: none">• Market participants should strive for the highest ethical and professional standards.• Market participants should identify and address conflicts of interest.	<ul style="list-style-type: none">• Senior Management• Compliance

Governance

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

- The body, or individual(s), that is ultimately responsible for the market participant's FX business strategy and financial soundness should put adequate and effective structures and mechanisms in place to provide appropriate oversight, supervision, and controls with regard to the market participant's FX market activity.

- Market participants should have remuneration and promotion structures that promote market practices and behaviors that are consistent with the market participant's ethical and professional conduct expectations.

- Senior Management
- Potentially Risk Management, Compliance, and Human Resources

Information Sharing

Market participants 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.

- Market participants should clearly and effectively identify and appropriately limit access to confidential information.

- Market participants should not disclose confidential information to external parties, except under specific circumstances.

- Market participants should provide personnel with clear guidance on approved modes and channels of communication.

- Senior Management
- Internal Audit
- Training Facilitators

Risk Management and Compliance

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

- Market participants should have frameworks for risk management and compliance and should abide by all applicable laws and standards.

- Market participants should have processes in place to independently review the effectiveness of and adherence to the risk management and compliance functions.

- Market participants should have independent processes in place to mark-to-market trading positions to measure the size of their profit and loss and the market risk arising from trading positions.

- Market participants should perform “know-your-customer” (KYC) checks on their counterparties to ascertain that their transactions are not used to facilitate money laundering, terrorist financing, or other criminal activities.

- Senior Management
 - Internal Audit
 - Compliance
 - Risk Management
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Confirmation and Settlement

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

- Market participants should institute a robust framework for monitoring and managing capacity in both normal and peak conditions.

- Market participants should utilize standing settlement instructions (SSIs).

- Market participants should identify and resolve confirmation and settlement discrepancies as soon as possible.

- Risk Management
- IT Department
- Middle office/back office

Your contacts

Xavier Zaegel, FRM

Partner – Capital Markets/Financial Risk
Leader

Tel : +352 45145 2748

xzaegel@deloitte.lu

Julien Baguet

Manager - Capital Markets

Tel : +352 45145 4609

jbaguet@deloitte.lu

Deloitte Luxembourg

560, rue de Neudorf

L-2220 Luxembourg

Tel: +352 451 451

Fax: +352 451 452 401

www.deloitte.lu

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