GFXC Priorities for the 3-Year Review of the FX Global Code

Feedback on establishing priorities for the 3-year review was received from the local FXCs and via the GFXC's annual survey of FX market participants. Based on that feedback, a set of potential issues for review will be discussed and finalised at the December GFXC meeting, as well as the means for taking these issues forward.

As circulated previously, the following criteria were used to establish priorities:

(1) The issue either reflects changes in market practice, structure, or environment of the global FX market since the launch of the code; or if the issue has been discussed before in developing the Code, there should be a sizeable degree of support to reconsider the issue in a way that hasn't occurred before.

(2) The practice is taking place in the global FX market, ie, not a practice that is only taking place in one region

(3) Industry practice in the area of concern can be improved through the development and industry-wide adoption of high level principles of conduct and/or examples

(4) The clarification of the practice should contribute to good structure, functioning, and communication across the FX market.

(5) The current formulation of the issue/principle (or the absence of any statement) is an impediment to committing to the Code for a significant share of market participants

In the event, the feedback received was broadly consistent and did reflect global developments. Some of the areas suggested for review reflect changes to the market over the past three years.

A final consistent theme of the feedback was that changes to the Code should only be as necessary and where they reflect the evolution of the market.

Taking that into account, the proposed areas of focus are grouped into five categories:

1. Buy-side engagement

A consistent theme of the feedback was the need to improve buy-side engagement and take-up of the Code. This has been a focus of the GFXC through the Buy-Side Working Group. That group has some initiatives that are being finalised which should address some of the feedback. However, it is appropriate to continue to discuss this issue at the December meeting, including ways in which the proportionality already inherent in the Code could be brought out more clearly for buyside firms, and ways in which the case for signing up could be made persuasively to the most senior levels of those firms. Some Committees felt there was a particularly pressing need to do more on this issue to underscore the credibility of the Code as a market-wide tool. Other options, such as the suggestion of a buy-side version of the Code, or a buy-side specific Statement of Commitment would also be discussed further.

2. Anonymous Trading

One area that reflects the evolution of the market is the role of anonymous trading. Consideration should be given in the Code to the roles and obligations that trading venue providers and prime brokers may have in promoting the fair and effective functioning of the FX market. This would include their role in facilitating appropriate disclosures. More broadly, the changing landscape for prime brokerage warrants consideration of whether the Code adequately clarifies their responsibilities.

The Disclosures Working Group Report will form a substantive starting point for the discussion, including through its assessment of which principles in the Code require refinement.

3. Disclosures

The issue of the informativeness and usefulness of disclosures. Some aspects of this are relevant to the previous topic, but the feedback extended beyond that to other aspects of the Code, including guidance on time stamps and reject codes, and whether the Code could more fully set out a minimum set of issues that disclosures should address, in light of experience with the more indicative approach adopted to date. The Disclosures Working Group has covered some of this territory but the feedback indicates that it needs further consideration and review.

4. Algos/Transactions Costs Analysis (TCA)

While the Code has material on algorithmic execution already, there was general feedback that this should be reviewed, and that relatedly consideration should be given to providing more guidance around transaction cost analysis (TCA) for increasing transparency. As discussed at the GFXC Tokyo meeting, the trading logic of algos and the associated 'guardrails' are a related area for review.

5. 'Trading' principles

Finally, there was extensive feedback on principles 9, 11 and 17. That is, the issues of principal/agent (and riskless principal), pre-hedging and last look (including hold times). While each of the these topics has been extensively debated, the strength of the feedback warrants further discussion by the GFXC as to how these concerns might be addressed (though without reprosecuting all the debates that occurred when the Code was drafted). This could be addressed through providing guidance or explanatory material around the intent of the Code.

The GFXC will finalise its priorities for the 3 year review of the Code at the December meeting. The discussion will also cover how the review will be taken forward. In thinking about this, it should be kept in mind that the response to a particular issue may not involve changing the text of the principles. The GFXC's response may be through other means such as greater guidance, reports, examples, promotional activities etc.

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