

GLOBAL FOREIGN EXCHANGE COMMITTEE

GFXC Request for Feedback – April 2021

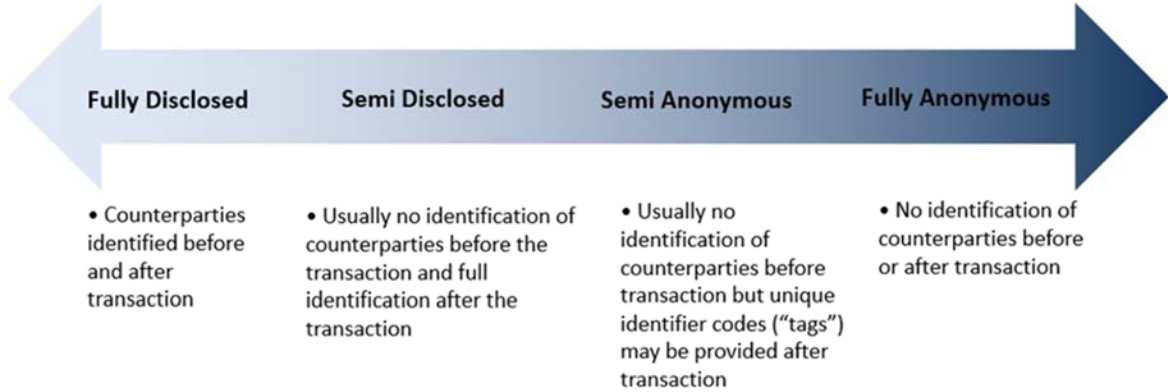
Attachment A: Anonymous Trading

Introduction

Following the Global Foreign Exchange Committee’s (GFXC) December 2019 meeting, an Anonymous Trading sub-working group was formed as part of the Three-Year Review, with the objective of assessing potential gaps in the FX Global Code with respect to anonymous trading. The group’s work was built off of previous GFXC work on anonymous trading, including the January 2020 report on [The Role of Disclosure and Transparency on Anonymous E-Trading Platforms](#), and the February 2019 report on [The Role of Disclosure and Transparency in the Global FX Market](#).

This report lays out the GFXC’s key recommendations for additions to the FX Global Code, with a general focus on multi-dealer, semi- and fully- anonymous platforms (see figure 1), although a few recommendations extend beyond this subset.

Figure 1: Spectrum of E-Trading Platforms



The recommendations that follow span several different existing Code Principles. The intention is to provide guidance for best practices on several anonymous trading related sub-topics, including:

1. Data Policies
2. Tag Management
3. Credit Policies
4. Identification of Code-signatories

The recommendations should also be viewed in the context of the GFXC’s Disclosures working group, as the issues covered in this report should inform some of the topics covered in the proposed FX Platform Cover Sheets, as deemed appropriate.

For the purposes of this document, existing Code text is written in blue, while proposed additions are written in red.

Recommendations

1: Data Policies:

Trading activity on platforms across the disclosed/anonymity spectrum generates a large amount of market related data that can be extremely valuable, or even essential, to the trading activity of both LPs and LCs.

As such, in order to maintain a fair and healthy market, it is important that all platforms apply appropriate transparency and disclosure of market data policies, so that all users (and prospective users) are fully aware of these policies.

The GFXC recommends adding language to the Code that specifically states that FX E-Trading Platforms (including anonymous platforms) disclose to users and prospective users what specific market data is available, to whom, and at what frequency and latency this data is available.¹

Current Code Language

The most appropriate place in the Code to address the issue of data sharing policies appears to be in Principle 9:

Market Participants should handle orders fairly and with transparency in line with the capacities in which they act.

Principle 9 further states:

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).*

Proposed addition to Code:

¹ The GFXC does not recommend that the Code contain language related to the pricing frameworks of data or what specific data categories should or should not be made available. Furthermore, prescribing symmetry (among LPs and LCs) to data sharing policies was viewed as being outside of the scope of the Code. While such symmetry might be desirable to some, cementing that concept as a best practice would run counter to the inherent asymmetry that exists in OTC markets generally, as users acting as LPs and LCs can be fundamentally different.

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The GFXC recommends adding the following additional bullet to the E-Trading Platform section in Principle 9:

- *[FX E-Trading Platforms] should explicitly state market data policies on disclosure cover sheets and/or within applicable platform rulebooks, 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.*

For Comment

A1	Do you agree with the proposed Data-related addition to Principle 9?
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2: Tag Management

Tags are unique alphanumeric identifiers assigned to specific users that trade on semi-anonymous platforms and are used in lieu of fully disclosing the identity of a counterparty. Each semi-anonymous platform has its own policy around its usage of tags, including whether or not an identifier is actually provided, how and when it is presented, which market participants receive the tag, and what information is included (“colour”)². Tags can also be re-assigned for various reasons (“re-tagging”) as part of the tag management process.

As such, semi-anonymous platforms have a responsibility to both parties of a trade to ensure that tags are managed and administered in a transparent and fair way to all. The current version of the Code does not make any reference to tags or tag-related policies. Some important aspects of tag management that the Code could clarify are:³

- 1) what tag information is available to which users
- 2) when tags are made available to users
- 3) how re-tagging is administered and accounted for

Current Code Language:

The sections in the Code where these issues could be addressed are:

- Principle 9: *Market Participants should handle orders fairly and with transparency in line with the capacities in which they act*
- Principle 19: *Market Participants should clearly and effectively identify and appropriately limit access to Confidential Information*

² An example of colour in this case would be “Bank, GUI User primarily during APAC hours, etc”

³ The GFXC does not recommend that the Code specify which categories of tag “colour” should or should not be provided, as long as such categories are properly disclosed. Additionally, the GFXC does not recommend that the Code explicitly state that LPs and LCs should receive the exact same tag information, since asymmetry between user types is an inherent feature of the FX market.

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- Principle 22: *Market Participants should communicate Market Colour appropriately and without compromising Confidential Information*

Proposed additions to Code:

Clarification of disclosures could be added under the Principle 9 section on E-Trading. The GFXC recommends the following addition:

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 disclosures and/or rulebooks 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*

Additional language within Principle 19 could be used to further clarify practices related to tag management. The GFXC recommends the following addition:

- *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 previously requested to avoid facing another.*

Additional language to Principle 22 could be used to further clarify the disclosure of user information on platforms that feature tags. The GFXC recommends the following addition:

- *Operators of trading platforms that feature tags should only disclose user information (colour) that has been clearly stated in their rulebook’s tag policies.*

For Comment:

A2	Do you agree with the proposed Tag-related additions to Principles 9, 19 and 22?
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3: Credit Policies

Market participants’ ability to effectively allocate and monitor credit exposure is critical to reducing risks in the FX market.

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Those who trade FX on E-trading Platforms (including but not limited to anonymous platforms) via a Prime Broker (PB) may not be able to optimally manage their credit limits across multiple platforms on a pre-trade basis.⁴ A significant portion of credit monitoring is currently conducted on a post-trade basis, and methodologies can differ depending on platforms, leading to increased risks of limit breaches and trade rejections.

One solution to address pre-trade credit checks could potentially take the form of a widely-accepted cross-platform credit monitoring utility. Alternatively, more immediate risk mitigation benefits for the market could be achieved through FX E-trading Platforms monitoring credit on a net (versus gross) basis as well as improved credit limit management functionality. However, recommendations to create such a utility and/or advocate for a specific methodology were considered to be outside the scope of the FX Code.

In the absence of a fuller solution, parts of the Code could be updated to better address these issues via increased transparency and disclosures, which could ultimately help the industry mitigate the risks outlined above.

Current Code Language:

Sections of the Code where these issues could be addressed are:

- 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.*
- 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.*

Proposed additions to Code:

Principle 29 outlines best practices for credit monitoring and management among “market participants,” but does not make specific reference to platforms.

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.

⁴ This is complicated further when multiple PBs are utilized.

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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

Expanding Principle 29 to cover the responsibilities of platforms could include the following:

E-Trading FX Platforms 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 the responsibility of monitoring credit limit breaches fall upon the platform or the users.*
- *What specific methodologies are used to calculate “Net Open Position”*

Principle 41 specifically covers risk management activity of PBs, but does not mention best practices related to information disclosures to their clients:

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.

Principle 41 could be expanded to encourage more detailed disclosures on how credit limits are managed:

Prime Brokers should clearly disclose to clients how they monitor their credit limits and how limit breaches are managed.⁵

For Comment:

⁵ While this recommendation relates to PBs rather than platforms, the GFXC deemed it likely in scope, given the inherent anonymity provided by the use of PBs.

A3	Do you agree with the proposed Credit-related additions to Principles 29 and 41?
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4: Identification of Code signatories on anonymous trading platforms

Under disclosed trading relationships, market participants know the identity of their counterparties and can therefore easily assess whether they have signed the Statement of Commitment (SoC) to the FX Global Code. By definition, this level of full transparency is not available on anonymous platforms. However, depending on where on the spectrum of anonymity a trading platform falls (fully anonymous, semi anonymous, semi disclosed), there are mechanisms through which the Code signatory status of counterparties can potentially be revealed at some point during the trading process without violating a counterparty's anonymity.

The Code does not currently address the topic of the identification of Code signatories by anonymous platform. While a range of views were expressed on how this could be best addressed in the Code, the GFXC broadly felt that it was preferable to include language encouraging anonymous trading platform to make available the Code signatory status of its users, without providing specific details on how to do so. Anonymous trading platforms could then decide how best to achieve that goal. Further, the GFXC recommends that the burden of conveying accurate and up-to-date Code signatory status should be placed on the user, whereas the platform itself would be responsible for storing and reporting this information as presented to them. This would also serve to clarify that a platform displaying the signatory status of its users does not represent an endorsement of conduct or behavior of the user.

Proposed Additions to the Code:

The section of the Code where this issue could be best addressed is in Principle 22: *Market Participants should communicate Market Colour appropriately and without compromising Confidential Information.*

Expanding Principle 22 to include the identification of Code signatories could include the following:

- **If feasible under the trading protocol used, 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.⁶**

In addition, the GFXC recommends the following footnote to be added to the new text in order to further clarify the roles and responsibility of the relevant parties.

- **“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**

⁶ The use of the term “trading protocol” seeks to represent the variety of types of anonymous platforms (including CLOBs, RFQ, RFS, etc.) covered under the proposed addition.

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of Commitment status of the user, the obligation is on the user to update the platform with that information.”

This proposal ultimately leaves it entirely to the platform to determine what form this information disclosure would take, and whether it would occur on a pre- or post-trade basis. In order to possibly provide more guidance on the subject, an example of how this could be achieved could be added to Annex 1 of the Code. One possible example (among many) could include:

“A firm operating an anonymous multi-dealer E-Trading Platform asks users (as part of standard onboarding 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.”

For Comment:

A4.1	Do you agree with the proposed Identification of Code Signatory-related addition to Principle 22?
A4.2	Do you agree with the included footnote to the proposed addition to Principle 22?
A4.3	Do you agree with the added example to Annex 1, which would map to Principle 22?