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CIRCULAR TO AUTHORISED DEALERS

NIGERIA FOREIGN EXCHANGE CODE BOOK: DRAFT EXPOSURE

The Central Bank of Nigeria (CBN) has developed the Nigeria Foreign Exchange Code Book (FX Code Book) to set standards for transactions in the Nigerian Fx Market. This is in continuation of its efforts to promote the integrity and efficient functioning of the Nigeria Foreign Exchange Market. The Code Book is expected to significantly enhance price discovery, ethical conduct, market discipline and transparency in the Nigeria Foreign Exchange Market.

A draft exposure of the Nigeria Foreign Exchange Code Book can be accessed at the CBN website via the url below for your comments and input to enrich the document.

CENTRAL BANK OF NIGERIA FX CODE.pdf (cbn.gov.ng)

Kindly forward your comments and input to the Financial Markets Department, Central Bank of Nigeria via the following emails fmdfxdealers@cbn.gov.ng; and ooduke@cbn.gov.ng on or before October 18, 2024.

Signed:

A handwritten signature in blue ink, appearing to read "Omolara O. Duke".

Omolara O. Duke (Ph.D.)
Director, Financial Markets Department

CENTRAL BANK OF NIGERIA



NIGERIA FOREIGN EXCHANGE (FX) CODE OCTOBER 2024

*A set of principles of good practice in the Nigerian Foreign Exchange Market
(NFEM)*

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Executive Summary

The Central Bank of Nigeria (CBN) regulates the financial system in Nigeria and plays a supervisory role in the management of foreign exchange business. Over the years, the Nigeria financial landscape has experienced considerable and positive transformation. However, weaknesses have also emerged as well as risks. The Nigeria Foreign Exchange Code (FX Code) has been developed in response to these changes and sets out standards which aim to holistically strengthen and promote the integrity and effective functioning of the wholesale foreign exchange (FX) market in Nigeria. It will facilitate better functioning of the market, further reinforcing Nigeria's flexible exchange rate regime.

The FX Code is intended to promote a robust, fair, liquid, open, and appropriately transparent Market in which a diverse set of Market Participants, supported by resilient infrastructure, can confidently and effectively transact at competitive prices that reflect available market information in a manner that conforms to accepted global standards of behaviour and best practices.

The FX Code applies to Market Participants. These are banks licensed by the Central Bank of Nigeria under the CBN Act 2007 and Bank and Other Financial Institutions Act (BOFIA) 2020 and engage in the wholesale foreign exchange business in Nigeria as part of their licensed business.

The FX Code is organised around six leading principles:

- **Ethics:** Market Participants are expected to behave in an ethical and professional manner to promote the fairness and integrity of the FX Market.
- **Governance:** Market Participants are expected to have a sound and effective governance framework to provide for clear responsibility for and comprehensive oversight of their FX Market activity and to promote responsible engagement in the FX Market.
- **Execution:** Market Participants are expected to exercise care when negotiating and executing transactions to promote a robust, fair, open, liquid, and appropriately transparent FX Market.
- **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.
- **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.
- **Confirmation and Settlement Processes:** Market Participants 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.

Introduction

The FX Code draws on principles from the FX Global Code and best practices adopted in leading jurisdictions. There are some principles that need to be incorporated in the FX Code to ensure efficiency in Nigeria market.

The FX Code requires Market Participants to ensure that illegal financial transfers are avoided, and appropriate money laundering policies put in place to protect the integrity of the domestic markets and the global financial framework as a whole.

In the context of the FX Code, the term Market Participant is generally used to refer to both firms and personnel. However, in some cases it will be clear that a principle is by its nature more relevant to only one or the other. For example, certain principles deal primarily with business or firm-level policies and procedures rather than individual behaviours. The terms “firm” and “personnel” are occasionally used where principles focus on good practice by firms with regard to personnel in their capacity as such, and vice versa.

The FX Global Code, https://www.globalfxc.org/docs/fx_global.pdf is a set of globally acceptable standards that fosters good practice in the foreign exchange market which has been supported in 51 countries in Europe, Africa, Asia and the Americas. The Global Code is maintained by Global Foreign Exchange Committee (GFXC) as a set of guidelines to ensure a well-functioning wholesale foreign exchange market that is effective and promotes integrity. The GFXC was established in May 2017 as a forum to bring together central banks and private sector participants to promote collaboration and communication on FX matters, exchange views on trends and developments in FX markets as well as promote, maintain and update the Global Code. The GFXC assesses regularly whether foreign exchange market developments warrant specific revisions to the Global Code and when judged appropriate, undertakes a comprehensive review of the Global Code. The Global Code is intended to foster a high standard of conduct and good market practices, ensure equitable and healthy relationships between participants, and facilitate market efficiency.

Nigeria pursues a floating exchange rate regime, and the value of the Nigeria naira (₦) is determined by the market forces according to the demand and supply of foreign exchange. The FX Code has been developed to respond to emerging issues and address the dynamic nature of the financial markets and specifically address emerging challenges in the foreign exchange market.

This set of principles of good practice in the foreign exchange market has been developed to provide a common code of practice to promote the integrity and effective functioning of the foreign exchange market in Nigeria. It is intended to promote a robust, fair, liquid, open, and appropriately transparent market in which a diverse set of Market Participants, supported by resilient infrastructure can confidently and effectively transact at competitive prices that reflect available market information and in a manner that conforms to acceptable standards of behaviour.

While every effort has been made to ensure that this FX Code comprehensively addresses various aspects of conduct and market practice, it does not purport to be exhaustive. Where specific standards are absent on a particular issue or in relation to new or emerging financial products, Market Participants should draw on the broad principles in this FX Code and resolve any issues reasonably and in good faith in accordance with the spirit of the FX Code.

The foreign exchange interbank market features a diverse set of participants who engage in the market in different ways and across various foreign exchange products. The FX Code is developed with this diversity in mind. The FX Code supported by consistent monetary, exchange rate and fiscal policies will maintain competitiveness, support a revitalised interbank market, protect foreign exchange reserves, and ensure continued financial stability.

The CBN acknowledges and greatly appreciates the efforts of all those who contributed to the successful preparation of this FX Code.

Compliance with FX Code

The FX Code is issued pursuant to CBN Act 2007 and BOFIA Act 2020 which empowers the Central Bank of Nigeria (CBN) to issue directions with respect to the standards to be adhered to by an institution in the conduct of foreign exchange business in Nigeria.

Market Participants will be required to conduct a self-assessment and submit to the CBN a report on the institution's level of compliance with the FX Code by December 31, 2024. All Market Participants will thereafter be required to submit to the CBN a detailed compliance implementation plan that is approved by its Board by December 31, 2024.

The FX Code should be fully implemented, and each Market Participant be in full compliance by December 31, 2024.

Reporting Mechanisms

Market Participants will be required to submit a quarterly report to the Financial Markets Department (FMD), on the level of compliance to the FX Code within 14 days after the end of every calendar quarter, with the first report due by December 31, 2024.

Enforcement Mechanisms

CBN may take appropriate enforcement and other administrative action including monetary penalties as provided for under the CBN Act 2007 and BOFIA Act 2020 against any Market Participant for failure to comply with the FX Code.

Effective Date

The Nigerian FX Code is effective from October 14, 2024.

Ethics

LEADING PRINCIPLE: Market Participants are expected to behave in an ethical and professional manner to promote the fairness and integrity of the FX Market. The ethical and professional behaviour of Market Participants underpins the fairness and integrity of the FX Market. The exercise of judgement is central to acting ethically and professionally, and Market Participants (meaning both firms and their personnel) should be guided in doing so by the high-level principles below, both when applying the specific guidance in the Global Code and at all times when participating in the FX Market.

PRINCIPLE 1: Market Participants should strive for the highest ethical standards

Market Participants should:

- act honestly in dealings with Clients and other Market Participants;
- act fairly, dealing with Clients and other Market Participants in a consistent and appropriately transparent manner; and
- act with integrity, particularly in avoiding and confronting questionable practices and behaviours.

Maintaining high standards of behaviour is the responsibility of:

- firms, which should promote ethical values and behaviour within the organisation, support efforts to promote high ethical standards in the wider FX Market, and encourage involvement by personnel in such efforts;
- senior and front-line management, which should be proactive in embedding and supporting the practice of ethical values within the firm's culture and be prepared to give appropriate advice to personnel; and
- personnel, who should apply judgement when facing ethical questions, expect to be held responsible for unethical behaviour, and seek advice where appropriate. Personnel should report and/or escalate issues of concern to appropriate parties internally or externally, having regard to the circumstances.

PRINCIPLE 2: Market Participants should strive for the highest professional standards

All Market Participants share a common interest in maintaining the highest degree of professionalism and the highest standards of business conduct in the FX Market.

High standards of conduct are underpinned by:

- having sufficient knowledge of, and complying with, Applicable Law;
- having sufficient relevant experience, technical knowledge, and qualifications;
- acting with competence and skill;
- applying professional judgement in following the firm's guidelines and operating procedures, including, but not limited to, methods of execution, record keeping, and ethical behaviour; and

- engaging in efforts to strive for the highest standards of professionalism in the wider FX Market.

Firms should have personnel who are appropriately trained and who have the necessary experience to discharge their employment duties in a professional manner.

PRINCIPLE 3: Market Participants should identify and address conflicts of interest

Market Participants should identify actual and potential conflicts of interest that may compromise or be perceived to compromise the ethical or professional judgement of Market Participants. Market Participants should eliminate these conflicts or, if this is not reasonably possible, effectively manage them so as to promote fair treatment of their Clients and other Market Participants, up to and including abstaining from undertaking the relevant activity or action due to the conflict of interests. Personnel should be aware of the potential for conflicts of interest to arise and comply with their firm's policies in these areas.

Contexts in which conflicts may arise include, but are not limited to:

- situations where personal or firm interests may conflict with those of a Client or other Market Participant, or where such a conflict arises for the Market Participant because the interests of one Client may conflict with those of another;
- personal relationships;
- gifts and corporate entertainment; and
- Personal Dealing.

Market Participants should put in place appropriate and effective arrangements to eliminate or manage conflicts of interest. This could include:

- segregation of duties and/or reporting lines;
- establishing information barriers (for example, physical segregation of certain departments and/or electronic segregation);
- altering the duties of personnel when such duties are likely to give rise to conflicts of interest;
- providing training to relevant personnel to enable them to identify and handle conflicts of interest;
- establishing declaration policies and/or records for identified conflicts of interest and personal relationships, as well as for gifts and corporate entertainment received; and
- having policies and controls on Personal Dealing.

Where it is concluded that a specific conflict of interest cannot reasonably be avoided or effectively managed (including by ceasing to undertake the relevant service or activity), Market Participants should disclose sufficient details of the conflict to enable the affected parties to decide beforehand whether or not they wish to proceed with the transaction or service.

Governance

LEADING PRINCIPLE: Market Participants are expected to have a sound and effective governance framework to provide for clear responsibility for and comprehensive oversight of their FX Market activity and to promote responsible engagement in the FX Market. Appropriate governance structures should be in place to promote and support the principles set out in this Code. Different firms' governance structures may vary in complexity and scope. The precise structure adopted should be commensurate with the size and complexity of the Market Participant's FX Market activities, and the nature of the Market Participant's engagement in the FX Market, taking into account Applicable Law.

PRINCIPLE 4: The Bank is ultimately responsible for the Market Participant's FX business strategy and financial soundness should put in place adequate and effective structures and mechanisms to provide for appropriate oversight, supervision, and controls with regard to the Market Participant's FX Market activity.

The Bank is ultimately responsible for the Market Participant's FX business strategy and financial soundness and should put in place:

- o an operational structure with clearly defined and transparent lines of responsibility for the Market Participant's FX Market activity;
- o effective oversight of the Market Participant's FX Market activity based on appropriate management information;
- o an environment that encourages effective challenge to senior management charged with day-to-day responsibility for the Market Participant's FX Market activity; and
- o independent control functions and mechanisms to assess whether the Market Participant's FX Market activities are conducted in a manner that reflects the Market Participant's operational risk and conduct requirements. Such functions should have sufficient stature, resources, and access to the Bank that is ultimately responsible for the Market Participant's FX business strategy and financial soundness.

In implementing the above, consideration should be given to the types of activities that the Market Participant engages in, including if the Market Participant engages in the provision or usage of Electronic Trading Activities or Prime Broker services.

PRINCIPLE 5: Market Participants should embed a strong culture of ethical and professional conduct with regard to their FX Market activities.

Market Participants should, among other things expect senior management to be highly visible to relevant personnel of the Market.

- Participant in articulating and modelling the desired practices, values, and conduct;
- take appropriate steps to promote and reinforce all relevant personnel's awareness and understanding of;
 - (i) the values and the ethical and conduct standards that should be adhered to in their engagement in the FX Market; and
 - (ii) Applicable Law that is relevant to them (see Principle 25); and
- make all relevant personnel (including senior management) aware that disciplinary or other actions may result from unacceptable behaviours and transgressions of the Market Participant's policies.

PRINCIPLE 6: 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.

Factors that should be taken into account include but are not limited to:

- the mix of pay components, such as fixed and variable;
- the form and timing of payment for the variable pay component;
- how such structures align the interest of relevant personnel with the interests of the firm over both short- and long-term horizons; and
- appropriate mechanisms to discourage inappropriate practices or behaviours.

PRINCIPLE 7: Market Participants should have appropriate policies and procedures to handle and respond to potentially improper practices and behaviours effectively.

Market Participants should maintain policies and procedures, supported by effective mechanisms, to;

- (i) provide confidential channels for personnel or external parties to raise concerns about potentially improper practices and behaviours
- (ii) investigate and respond to such reports as appropriate.

Specifically, firms should be clear with relevant personnel and external parties about where and how to report concerns about potentially improper practices and behaviours (including but not limited to cases of illegal, unethical, or questionable practices and behaviours) confidentially and without fear of reprisal or retribution.

Reports of potentially improper practices or behaviour of the Market Participant should be investigated by independent parties or functions. Such parties or functions should possess sufficient skills and experience and be given the necessary resources and access to conduct the investigation.

Market Participants should complete the investigation and determine the appropriate outcome within a reasonable time frame, taking into account the nature and complexity of the matter in question. Escalation within the firm and reporting outside the firm may be appropriate before

an investigation is concluded. The reports and results should be brought to the attention of the appropriate individuals within the Market Participant, and to relevant regulatory or public authorities.

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Execution

LEADING PRINCIPLE: Market Participants are expected to exercise care when negotiating and executing transactions in order to promote a robust, fair, open, liquid, and appropriately transparent FX Market.

The FX execution landscape is diverse, with execution taking place through authorized channels and with Market Participants taking on different roles with regard to that execution. All FX Market Participants, regardless of their role in the execution of transactions, should behave with integrity to support the effective functioning of the FX Market.

PRINCIPLE 8: Market Participants should be clear about the capacities in which they act.

Market Participants should understand and clearly communicate their roles and capacities in managing orders or executing transactions. Market Participants may have a standing agreement or other terms of business as to their roles that govern all trades, or they may manage their relationship by determining their roles on a trade-by-trade basis. If a Market Participant wishes to vary the capacity in which it or its counterpart acts, any such alternative arrangement should be agreed by both parties.

A Market Participant receiving a Client order may:

- act as an Agent, executing orders on behalf of the Client pursuant to the Client mandate, and without taking on market risk in connection with the order; or
- act as a Principal taking on one or more risks in connection with an order, including credit risk and varying degrees of market risk. Principals act on their own behalf and there is no obligation to execute the order until both parties are in agreement. Where the acceptance of an order grants the Principal executing the order some discretion, it should exercise this discretion reasonably, fairly, and in such a way that is not designed or intended to disadvantage the Client.

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.

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, an 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 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.

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.

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

Indicative Examples of Unacceptable Practices:

- buying or selling a larger amount around the period rates are referenced for computation with the intent of manipulating the market price
- 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.

PRINCIPLE 11: A Market Participant should only Pre-Hedge Client orders when acting as a Principal and should do so fairly and with transparency.

Pre-Hedging is the management of the risk associated with one or more anticipated Client orders, designed to benefit the Client in connection with such orders and any resulting transactions.

Market Participants may Pre-Hedge for such purposes and in a manner that is not meant to disadvantage the Client or disrupt the market. Market Participants should communicate their Pre-Hedging practices to their Clients in a manner meant to enable Clients to understand their choices as to execution.

- In assessing whether Pre-Hedging is being undertaken in accordance with the principles above, a Market Participant should consider prevailing market

- conditions (such as liquidity) and the size and nature of the anticipated transaction.
- While undertaking Pre-Hedging, a Market Participant may continue to conduct ongoing business, including risk management, market making, and execution of other Client orders. When considering whether Pre-Hedging is being undertaken in accordance with the principles above, Pre-Hedging of a single transaction should be considered within a portfolio of trading activity, which takes into account the overall exposure of the Market Participant.

PRINCIPLE 12: Market Participants should not request transactions, create orders, or provide prices with the intent of disrupting market functioning or hindering the price discovery process.

Market Participants should not engage in trading strategies or quote prices with the intent of hindering market functioning or compromising market integrity. Such strategies include those that may cause undue latency, artificial price movements, or delays in other Market Participants' transactions and result in a false impression of market price, depth, or liquidity. Such strategies also include collusive and/or manipulative practices, including but not limited to those in which a trader enters a bid or offer with the intent to cancel before execution (sometimes referred to as "spoofing," "flashing," or "layering") and other practices that create a false sense of market price, depth, or liquidity (sometimes referred to as "quote stuffing" or "wash trades").

Market Participants providing quotations should always do so with a clear intent to trade. Prices provided for reference purposes only should clearly be labelled as such.

Market Participants should give appropriate consideration to market conditions and the potential impact of their transactions and orders. Transactions should be conducted at prices or rates based on the prevailing market conditions at the time of the transaction. Exceptions to this, such as historical rate rollovers, should be covered by internal compliance policies.

Without limitation, Market Participants handling Client orders may decline a transaction when there are grounds to believe that the intent is to disrupt or distort market functioning. Market Participants should escalate as appropriate.

PRINCIPLE 13: Market Participants should understand how reference prices, including highs and lows, are established in connection with their transactions and/or orders.

This understanding should be supported by appropriate communications between the parties, which may include disclosures. In the event that a third-party pricing source is an input in establishing this reference price, both parties should understand how that pricing measure is determined and what the contingency arrangements are in the event that the third-party pricing is unavailable.

PRINCIPLE 14: The Mark Up applied to Client transactions by Market Participants acting as Principal should be fair and reasonable.

Mark Up is the spread or charge that may be included in the final price of a transaction in order to compensate the Market Participant for a number of considerations, which might include risks taken, costs incurred, and services rendered to a particular Client.

Market Participants should promote transparency by documenting and publishing a set of disclosures regarding their FX business that, among other things:

- makes it clear to Clients that their final transaction price may be inclusive of Mark Up;
- makes it clear to Clients that different Clients may receive different prices for transactions that are the same or similar;
- helps Clients understand the determination of Mark Up, such as by indicating the factors that may contribute to the Mark Up (including those related to the nature of the specific transaction and those associated with the broader Client relationship, as well as any relevant operating costs); and
- discloses to Clients how Mark Up may impact the pricing and/or execution of any order linked to or triggered at a specific level.

Firms should have policies and procedures that enable personnel to determine an appropriate and fair Mark Up. These policies and procedures should include, at a minimum:

- guidance that prices charged to Clients should be fair and reasonable considering applicable market conditions and internal risk management practices and policies; and
- guidance that personnel should always act honestly, fairly, and professionally when determining Mark Up, including not misrepresenting any aspect of the Mark Up to the Client.

Market Participants should have processes to monitor whether their Mark Up practices are consistent with their policies and procedures, and with their disclosures to Clients. Mark Up should be subject to oversight and escalation within the Market Participant.

PRINCIPLE 15: Market Participants should identify and resolve trade discrepancies as soon as practicable to contribute to a well-functioning FX Market.

Market Participants should have effective policies and procedures designed to minimise the number of trade discrepancies arising from their FX Market activities and should manage such discrepancies promptly.

PRINCIPLE 16: Market Participants providing algorithmic trading or aggregation services to Clients should provide adequate disclosure regarding how they operate.

Market Participants may provide Clients with algorithmic trading services that use computer programs applying algorithms to determine various aspects, including price and quantity of orders.

Market Participants may also provide aggregation services to Clients, services that provide access to multiple liquidity sources or execution venues and that may include order routing to those liquidity sources or venues.

Market Participants providing algorithmic trading or aggregation services to Clients should disclose the following:

- a clear description of the algorithmic execution strategy or the aggregation strategy and sufficient information to enable the Client to evaluate the performance of the service, in a manner that is consistent with appropriate protection of related confidential Information.
- whether the algorithm provider or the aggregation service provider could execute as Principal;
- the fees applicable to the provision of the services;
- in the case of algorithmic trading services, general information regarding how routing preferences may be determined; and
- in the case of aggregation services, information on the liquidity sources to which access may be provided.

Market Participants providing algorithmic trading or aggregation services should disclose any conflicts of interest that could impact the handling of any Client order (for example, arising from their interaction with their own principal liquidity, or particular commercial interests in trading venues or other relevant service providers) and how such conflicts are addressed.

Market Participants providing algorithmic trading services to Clients are encouraged to share disclosure information in a market-wide standardised format – for example, by aligning with the structure of the GFXC's FX Algo Due Diligence Template where appropriate, to allow Clients to more easily compare and understand the services. Such disclosure information should be easily available to both existing and prospective Clients – for example, by being shared bilaterally or made available publicly on the provider's website.

Market Participants providing algorithmic trading or aggregation services should provide services that perform in the manner disclosed to the Client.

Information Sharing

LEADING PRINCIPLE: 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.

I. Handling Confidential Information

PRINCIPLE 17: Market Participants should clearly and effectively identify and appropriately limit access to Confidential Information.

Market Participants should identify Confidential Information. Confidential Information includes the following information not in the public domain received or created by a Market Participant:

(i) FX Trading Information. This can take various forms, including information relating to the past, present, and future trading activity or positions of the Market Participant itself or of its Clients, as well as related information that is sensitive and is received or produced in the course of such activity. Examples include but are not limited to:

- details of a Market Participant's order book;
- other Market Participants' Axes;
- spread matrices provided by Market Participants to their Clients; and
- orders for benchmark fixes.

(ii) Designated Confidential Information. Market Participants may agree to a higher standard of non-disclosure with respect to confidential, proprietary, and other information, which may be formalised in a written non-disclosure or a similar confidentiality agreement.

Identification of Confidential Information should be in line with any legal or contractual restrictions to which the Market Participant may be subject.

Market Participants should limit access to and protect Confidential Information.

- Market Participants should not disclose Confidential Information except to those internal or external parties who have a valid reason for receiving such information, such as to meet risk management, legal, and compliance needs.
- Market Participants should not disclose Confidential Information to any internal or external parties under any circumstances where it appears likely that such party will misuse the information.
- Confidential Information obtained from a client, prospective Client, or other third party is to be used only for the specific purpose for which it was given, except as provided above or otherwise agreed with a Client.
- Market Participants should disclose at a high level how Confidential Information, in the form of FX Trading Information, is shared internally in accordance with this Principle.

Operators of trading platforms that feature tags should ensure that the practice of “retagging” is fit for purpose, and not used to facilitate trading among participants where one party has already previously requested to avoid facing another.

PRINCIPAL 18: Market Participants should not disclose Confidential Information to external parties, except under specific circumstances.

Market Participants should disclose Confidential Information only under certain circumstances. These may include, but are not limited to, disclosure:

- to Agents, market intermediaries (such as brokers or trading platforms), or other Market Participants to the extent necessary for executing, processing, clearing, novating, or settling a transaction;
- with the consent of the counterparty or Client;
- required to be publicly disclosed under Applicable Law, or as otherwise requested by a relevant regulatory or public authority;
- as requested by a central bank acting for policy purposes; and
- to advisors or consultants on the condition that they protect the Confidential Information in the same manner as the Market Participant that is disclosing the Confidential Information to such advisors or consultants.

Market Participants may actively choose to share their own prior positions and/or trading activity so long as that information does not reveal any other party’s Confidential Information and the information is not shared in order to disrupt market function or hinder the price discovery process, or in furtherance of other manipulative or collusive practices.

Market Participants should only ask for Confidential Information where it is appropriate to do so consistent with Principle 20.

When determining whether to release Confidential Information, Market Participants should take into account Applicable Law, as well as any agreed-to restrictions that may limit the release.

II. Communications

PRINCIPAL 19: Market Participants should communicate in a manner that is clear, accurate, professional, and not misleading.

Communications should be easily understood by their intended recipient. Therefore, Market Participants should use terminology and language that is appropriate for the audience and should avoid using ambiguous terms. To support the accuracy and integrity of information, Market Participants should:

- attribute information derived from a third party to that third party (for example, a news service);
- identify opinions clearly as opinions;
- not communicate false information;

- exercise judgement when discussing rumours that may be driving price movements, identify rumours as rumours, and not spread or start rumours with the intention of moving markets or deceiving other Market Participants; and
- not provide misleading information in order to protect Confidential Information—for example, when executing partial orders. Accordingly, Market Participants could, if asked, decline to disclose whether their request to transact is for the full amount rather than inaccurately suggest that it is for the full amount.

Market Participants should be mindful that communications by personnel reflect on the firm they represent as well as the industry more broadly.

PRINCIPAL 20: Market Participants should communicate Market Colour appropriately and without compromising Confidential Information.

The timely dissemination of Market Colour between Market Participants can contribute to an efficient, open, and transparent FX Market through the exchange of information on the general state of the market, views, and anonymised and aggregated flow information.

Firms should give clear guidance to personnel on how to appropriately share Market Colour. In particular, communications should be restricted to information that is effectively aggregated and anonymised.

To this end:

- communications should not include specific Client names, other mechanisms for communicating a Client's identity or trading patterns externally (for example, code names that implicitly link activity to a specific Market Participant), or information specific to any individual Client;
- Client groups, locations, and strategies should be referred to at a level of generality that does not allow Market Participants to derive the underlying Confidential Information;
- communications should be restricted to sharing market views and levels of conviction, and should not disclose information about individual trading positions;
- flows should be disclosed only by price range and not by exact rates relating to a single Client or flow, and volumes should be referred to in general terms, other than publicly reported trading activity;
- option interest not publicly reported should only be discussed in terms of broadly observed structures and thematic interest;
- references to the time of execution should be general, except where this trading information is broadly observable;
- Market Participants should take care when providing information to Clients about the status of orders (including aggregated and anonymised Fixing Orders) to protect the interests of other Market Participants to whom the information relates (this is particularly true when there are multiple orders at the same level or in close proximity to one another);

- Market Participants should not solicit Confidential Information in the course of providing or receiving Market Colour;
- operators of trading platforms that feature tags should only disclose user information (colour) that has been clearly stated in their disclosure documents (including rule- books, guidelines, etc).

PRINCIPAL 21: Market Participants should provide personnel with clear guidance on approved modes and channels of communication.

Market Participants should communicate with other Market Participants through ap- proved methods of communication that allow for traceability, auditing, record keeping, and access control. Standards of information security should apply regardless of the specific mode of communication in use.

Market Participants should maintain a list of approved modes of communication, and it is recommended that communication channels on sales and trading desks be recorded, particularly when being used to transact or share Market Colour.

Market Participants should give consideration, under exceptional circumstances (for example, in an emergency and for business continuity purposes), to allowing the use of unrecorded lines but should provide guidance to personnel regarding any permitted use of such unrecorded lines or devices.

Risk Management and Compliance

LEADING PRINCIPLE: 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.

I. Frameworks for Risk Management, Compliance, and Review

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

- The responsibility rests with the business unit which owns the risk it incurs in conducting its activities.
- In addition, there may be both a risk management function that oversees risk-taking activities and assesses those risks independently from the business line, and an independent compliance function that monitors compliance with Applicable Law and Standards.
- Finally, there may be a review or audit function that provides independent review of, among other things, internal control systems and the activities of the business unit and the risk management and compliance functions.

Periodic independent reviews of risk and compliance controls should also be undertaken, including a review of the qualitative and quantitative assumptions within the risk management system.

PRINCIPLE 22: Market Participants should have frameworks for risk management and compliance.

The common components of these two frameworks may include:

- Effective oversight by the senior body or individual(s), consistent with Principle 4, including support for the stature and independence of risk management and compliance. In particular:
 - the senior body or individual(s) should make strategic decisions on the risk appetite of the FX business.
 - the senior body or individual(s) should be responsible for the establishment, communication, enforcement, and regular review of a risk management and compliance framework that clearly specifies authorities, limits, and policies. Risks should be managed prudently and responsibly in accordance with established principles of risk management and Applicable Law.
 - The provision of concise, timely, accurate, and understandable risk- and compliance-related information to the senior body or individual(s).
- The appropriate segregation of duties and independent reporting lines, including the segregation of trading from risk management and compliance and from deal

processing, accounting, and settlement. While risk managers and compliance personnel may work closely with business units, the risk management and compliance functions should be independent of the business unit and should not be directly involved in revenue generation. Compensation structures should be designed not to compromise such independence.

- Adequate resources and employees with clearly specified roles, responsibilities, and authority, including appropriate access to information and systems. These personnel should have appropriate knowledge, experience, and training.

PRINCIPLE 23: Market Participants should familiarise themselves with, and abide by, all Applicable Law and Standards that are relevant to their FX Market activities and should have an appropriate compliance framework in place.

An effective compliance framework should provide independent oversight and control and could comprise, but is not limited to:

- identification of Applicable Law and Standards that apply to their FX Market activities;
- appropriate processes designed to prevent and detect abusive, collusive, or manipulative practices, fraud, and financial crime, and to mitigate material risk that could arise in the general conduct of the FX Market activities;
- capturing and retaining adequate records to enable effective monitoring of compliance with Applicable Law and Standard;
- well-defined escalation procedures for issues identified;
- consideration of the need to periodically restrict relevant personnel's access through measures such as mandatory vacation to facilitate detection of possible fraudulent activities;
- the provision of advice and guidance to senior management and personnel on the appropriate implementation of Applicable Law, external codes, and other relevant guidance in the form of policies and procedures and other documents such as compliance manuals and internal codes of conduct;
- training and/or attestation processes to promote awareness of and compliance with Applicable Laws and Standards;
- appropriate implementation and utilisation of compliance programs (for example, the establishment of processes to monitor daily activities and operations); and
- the periodic review and assessment of compliance functions and controls, including mechanisms to alert senior management about material gaps or failures in such functions and controls. The appropriate senior body or individual(s) should oversee the timely resolution of any issues.

PRINCIPLE 24: Market Participants should maintain an appropriate risk management framework with systems and internal controls to identify and manage the FX risks they face.

Effective risk management starts with the identification and understanding by Market Participants of the various types of risks to which they are exposed (see the section on Key Risk Types below), and typically involves the establishment of risk limits and monitoring mechanisms, as well as the adoption of risk-mitigating and other prudent practices. An effective risk management framework could comprise, but is not limited to:

- an appropriate and well-documented approval process for the setting of risk limits;
- a comprehensive and well-documented strategy for the identification, measurement, aggregation, and monitoring of risks across the FX business, including, for example, risks that may be specific to a Market Participant that intermediates Client trades as a Prime Broker or that provides market access;
- documented policies, procedures, and controls, which are periodically reviewed and tested, to manage and mitigate risks;
- the clear communication of risk management policies and controls within the institution to promote awareness and compliance, as well as processes and programs to facilitate the understanding of such policies and controls by personnel;
- information systems to facilitate the effective monitoring and timely reporting of risks;
- robust incident management, including appropriate escalation, mitigating actions, and lessons learned;
- robust risk assessment for all (and approval processes for new) products, services, and procedures to identify new or emerging risks;
- sound accounting policies and practices encompassing prudent and consistent valuation methods and procedures; and
- an appropriately robust risk control self-assessment process that includes processes to remediate identified gaps or weaknesses.

Certain Market Participants provide credit intermediation and/or market access to other Market Participants—for example Prime Brokers and FX E-Trading Platforms. These Market Participants should have a risk management and compliance framework that takes this activity into account. In addition, these Market Participants are encouraged to engage in ongoing dialogue with those for whom they are providing credit intermediation and/or access to the market to underscore expectations regarding appropriate behaviour in the market.

PRINCIPLE 25: Market Participants should have practices in place to limit, monitor, and control the risks related to their FX Market trading activity.

These practices could comprise, but are not limited to:

- The regular monitoring of trading activities, including the identification and internal escalation, as appropriate, of failed, cancelled, or erroneous trades.

- Automated or manual monitoring systems to detect actual or attempted market misconduct and market manipulation. Relevant personnel should be qualified to detect trading patterns that may suggest unfair or manipulative practices. Market Participants may use certain statistics or metrics to flag behaviour warranting further review, such as off-market rates, repetitive orders, and unusually small or large orders. There should be appropriate processes whereby suspicious practices can be promptly reviewed and escalated as appropriate.
- Verification of the valuations used for risk management and accounting purposes, conducted by personnel independent of the business unit that owns the risk.
- Independent reporting on a regular and timely basis of risk positions and trader profit/loss statements to the relevant risk management function or senior management, as appropriate, including a review of exceptional deviations of profit/loss from expected levels.
- Transactions should be promptly and accurately captured so that risk positions can be calculated in an accurate and timely manner for monitoring purposes.
- Regular reconciliations of front, middle, and back-office systems, with differences identified and their resolution tracked by personnel independent of the business unit.
- Timely reporting to a senior body or individual(s) when risk limits have been breached, including follow-up action to bring exposures within limits, and any appropriate measures to prevent a recurrence.
- Appropriate controls around proper order and quote submission, such as kill switches or throttles in the case of electronic trading submissions. These controls should be designed to prevent the entry or transmission of erroneous orders or quotes that exceed preset size and price parameters as well as financial exposure thresholds.

Market Participants should be aware of the risks associated with reliance on a single source of liquidity and incorporate contingency plans as appropriate.

PRINCIPLE 26: Market Participants should have processes in place to independently review the effectiveness of and adherence to the risk management and compliance functions.

- Independent review should be performed regularly, with any review findings recorded and corrective action tracked.
- All material risk related to FX Market activities should be covered, using an appropriate assessment methodology.
- The review team should be given the necessary mandate and support, including adequate personnel with requisite experience or expertise.
- Findings should be reported to an appropriately senior level for review and follow-up.

II. Key Risk Types

Market Participants may be subject to different risks, and to varying degrees, depending on the size and complexity of their FX Market activities, and the nature of their engagement in the FX Market. With this in mind, the principles below outline some of the good practices relevant to the key risk types applicable to FX activities.

CREDIT/COUNTERPARTY RISK

PRINCIPLE 27: **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.**

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.

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.

FX E-Trading Platforms that have multiple liquidity providers and consumers 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 and how the responsibility of monitoring credit limit breaches falls upon the platform or the users, and which parties are responsible for resolving credit limit breaches; and
- what specific methodologies are used to calculate credit exposures (such as Net Open Position, etc).

MARKET RISK

PRINCIPLE 28: **Market Participants should have processes to measure, monitor, report, and manage market risk in an accurate and timely way.**

Changes in FX prices or rates give rise to market risk, which could have an adverse effect on the financial condition of Market Participants. Market risk measurement should be based on generally accepted measurement techniques and concepts, including the use of stress testing. Such measurement techniques should be periodically and independently reviewed. The measurement of market risk should take into account hedging and diversification effects.

Market Participants should be aware of, monitor, and where appropriate mitigate the liquidity risk that could arise from their transactions in the FX Market.

PRINCIPLE 29: 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.

In marking-to-market trading positions, quoted market prices, where available, are generally the best guide. When obtaining external data for valuation purposes:

- useful sources of data include screen services, brokers, and other third-party providers;
- a function independent of the front office should check that prices and marked-to-market valuations are measured accurately and regularly;
- there should be understanding of what the data represent—for example, if the price was the last actual trade, when the last trade was executed, and if prices were not actual trades how these were calculated.

Market Participants should have an internal agreed close of business for each trading day against which end-of-day positions can be monitored and evaluated.

Where reference market prices are not available (for example, in marking-to-market complex derivatives or exotic instruments), internal models, validated by an internal function that is independent from the front office, can be used to guide the appropriate pricing of risks.

OPERATIONAL RISK

PRINCIPLE 30: Market Participants should have appropriate processes in place to identify and manage operational risks that may arise from human error, inadequate or failed systems or processes, or external events.

Market Participants should take into consideration operational risks arising from a global cross-border environment, such as time differences or differences in industry conventions. Operational risks could include those arising from human error, misconduct, systems issues, or unforeseen external circumstances.

Market Participants should put in place strict security measures to address the vulnerability of trading areas and infrastructure to possible operational disruptions, terrorism, or sabotage. Access to the dealing function should be controlled, with procedures in place that specify time constraints, security checks, and management approvals around access, where appropriate, for non-dealing personnel and external visitors.

PRINCIPLE 31: Market Participants should have business continuity plans (BCPs) in place that are appropriate to the nature, scale, and complexity of their FX business and that can be implemented quickly and effectively in the event of large-scale disasters, loss of access to significant trading platforms, settlement, or other critical services, or other market disruptions.

BCPs could comprise, but are not limited to, the following elements:

- Contingency plans that support business continuity across the FX business, including plans related to data storage and usage, and procedures in the event of the non- availability of FX fixes, where relevant.
- The regular review, updating, and testing of contingency plans, including drills to familiarise senior management and relevant personnel with the arrangements under a contingent situation. This should include the regular review of potential scenarios that would require the activation of such plans.
- Disaster recovery plans that identify requisite systems and procedural backups. All critical automated processes as determined by the Market Participant should have a documented automated and/or manual contingency.
- The identification of external dependencies, including an understanding of the BCPs of settlement system operators and other infrastructure and critical service providers, as well as the appropriate inclusion of these plans, or other back-up processes, into Market Participants' own BCPs.
- Emergency contact information for both internal and external dependencies. Communication tools should be secure.
- Non-primary location backup sites that can accommodate essential personnel, systems, and operations, and that are maintained and tested on a regular basis.

TECHNOLOGY RISK

PRINCIPLE 32: Market Participants should have in place processes to address potential adverse outcomes arising from the use of or reliance on technological systems (hardware and software).

Market Participants should have processes in place to assign clear ownership of every system on which they rely, and changes should be approved according to internal policies. Any system should be thoroughly tested before release into production use, with an audit trail of all actions taken saved and available for review. This should apply to the development, testing, deployment, and subsequent updates of trading systems and algorithms. Market Participants should also be aware of broader risks that may exist and affect their FX Market activity, such as risks related to cyber security.

Market Participants operating FX E-Trading Platforms should monitor the intraday health of the platform (for example, capacity utilisation) and should conduct periodic capacity testing of critical systems to determine such system's ability to process transactions in an accurate, timely, and robust manner.

Market Participants involved in electronic trading should put in place appropriate and proportionate controls to reduce the likelihood of and mitigate any consequences of generating or acting upon electronic quotations that may result in erroneous transactions or market disruption such as off-market quotes or trades, fat finger errors, unintended or uncontrolled trading activity arising from technological failures, flaws in trading logic, and unexpected or extreme market conditions.

Market Participants should not knowingly generate or attempt to act upon quotations in a way that is beyond the technical capabilities of the recipient or inconsistent with advertised protocols. Excessive message rates that are known to approach or breach the limitations of the platform should be controlled, for instance via the application of throttling logic and/or circuit breakers. Any identified platform flaws or features that may risk its continued operation should be escalated appropriately.

The inclusion of a third party into the electronic workflow between those participants generating and acting upon quotations does not remove either party's obligations. Market Participants such as aggregators and multibank venues that may perform both the function of distributing and acting upon electronic quotations should abide by all relevant principles.

SETTLEMENT RISK

PRINCIPLE 33: Market Participants should reduce their Settlement Risk as much as practicable, including by settling FX transactions through services that provide PVP settlement where available.

Whenever practicable, Market participants should eliminate Settlement Risk by using settlement services that provide payment-versus-payment (PVP) settlement. Where PVP settlement is not used, Market Participants should reduce the size and duration of their Settlement Risk as much as practicable.

The management of each area involved in a participant's FX operations should 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.

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.

COMPLIANCE RISK

PRINCIPLE 34: Market Participants should keep a timely, consistent, and accurate record of their market activity to facilitate appropriate levels of transparency and auditability and have processes in place designed to prevent unauthorised transactions.

Market Participants should keep an accurate and timely record of orders and transactions that have been accepted and triggered/executed, as well as the reasons behind electronic trade request and order rejections, consistent with those set out under Principle 9, to create an effective audit trail for review and to provide transparency to Clients where appropriate.

This record may include, but is not limited to, the following: the date and time, product type, order type (for example, a Stop Loss Order, or an order where price is subject to last look), quantity, price, trader, and Client identity. Market Participants should apply sufficiently granular and consistent timestamping so that they record both when an order is accepted and when it is triggered/executed.

Market Participants should have processes in place to support appropriate related data storage and retention of such detail.

Information should be made available to Clients upon request, to provide sufficient transparency regarding their orders and transactions to facilitate informed decisions regarding their market interactions. Information may also be used in resolving trade disputes. Records should allow Market Participants to effectively monitor their own compliance with internal policies, as well as their adherence to appropriate market behaviour standards.

Market Participants should set guidelines that specify personnel authorised to deal in after-hours or off-premise transactions and the limit and type of transactions permitted. A prompt written reporting process should be developed and appropriate records should be kept.

PRINCIPLE 35: 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.

Market Participants should have appropriate measures in place to enforce the KYC principle.

Market Participants should have a clear understanding of the applicable laws of the national antimoney laundering and combating financing of terrorism (AML/CFT).

Market Participants should have internal processes in place to facilitate the prompt reporting of suspicious activities (for example, to the compliance officer or appropriate public authority, as necessary). Effective training should be provided for relevant personnel, to raise awareness of the serious nature of these activities, and reporting obligations, while not revealing their suspicions to the entity or individual suspected of illegal activities. Such training should be regularly updated to keep pace with the rapidly changing methods of money laundering.

PRINCIPLE 36: Market Participants 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.

Market Participants should maintain trader or desk mandates, which detail what products each trader is permitted to trade, as well as post-trade surveillance in order to detect exceptions from the trader's mandate.

Market Participants should periodically review trading access in to confirm that such access, either direct or indirect, is limited to authorised access only.

Market Participants should implement monitoring practices designed to detect the concealment or manipulation of (or the attempt to conceal or manipulate) profit and loss and/or risk using trades or adjustments that are not for a genuine business purpose.

PRINCIPLE 37: Market Participants should generate a timely and accurate record of transactions undertaken to enable effective monitoring and auditability.

At the request of a Client, Market Participants should be able to provide information regarding the actions taken in handling a specific transaction with such Client. Clients requesting data from a Market Participant are expected to do so in a reasonable manner, avoiding spurious or extraneous requests. When requesting data, a client should outline the reason for the request. Market Participants should have processes in place to respond to Client requests for the data.

LEGAL RISK

PRINCIPLE 38: Market Participants should have processes in place to identify and manage legal risks arising in relation to their FX Market activities.

Market Participants should understand where Applicable Law may affect the legality or enforceability of rights and obligations with other Market Participants and should take steps to mitigate material legal risks.

Market Participants should have in place legal agreements with their counterparties, and should use standard terms and conditions, where appropriate. Market Participants should maintain a record of the agreements they have in place with their counterparties.

When trading, Market Participants should make clear if standard terms are used, and if changes are proposed. Where changes are substantial, these should be agreed before any transaction. Where standard terms do not exist, Market Participants should take more care in the negotiation of these terms. Market Participants should strive to finalise documentation promptly.

Confirmation and Settlement

LEADING PRINCIPLE: Market Participants 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.

The principles below relate to systems and processes surrounding the confirmation and settlement of FX trades. These principles should be applied in a manner consistent with the size and complexity of the Market Participant's FX Market activities, and the nature of its engagement in the FX market.

I. Overarching Principles

PRINCIPLE 39: Market Participants should establish consistency between their operating practices, their documentation, and their policies for managing credit and legal risk.

Operating practices (including processes for confirming and settling trades) should be consistent with legal and other documentation. Similarly, the use of mitigants for credit risk should be consistent with this documentation and with the Market Participant's credit risk policies.

PRINCIPLE 40: Market Participants should institute a robust framework for monitoring and managing capacity in both normal and peak conditions.

At a minimum, Market Participants should have sufficient technical and operational capability to support end-to-end FX processing in both normal and peak market conditions without undue impact on the processing timeline.

Market Participants should have defined mechanisms in place to respond to extreme changes in demand, as required and on a timely basis. Furthermore, clearly defined and documented capacity and performance management processes should be in place and reviewed regularly, including with external vendors.

PRINCIPLE 41: Market Participants are encouraged to implement straight-through automatic transmission of trade data from their front office systems to their operations systems.

Such transfer of trade data should be facilitated by means of secure interfaces where the transmitted trade data cannot be changed or deleted during transmission. When trade data cannot be transmitted automatically from the front office to the operations system, adequate controls should be in place so that trade data are captured completely and accurately in the operations system.

PRINCIPLE 42: Market Participants should conduct any novations, amendments, and/or cancellations of transactions in a carefully controlled manner.

Processes for novating, amending, or cancelling transactions should be clearly defined and should provide for the maintenance of appropriate segregation between operations and sales and trading personnel. Reporting on amendments and cancellations should be made available to management in these areas on a regular basis.

II. Confirmation Process

PRINCIPLE 43: Market Participants should confirm trades as soon as practicable, and in a secure and efficient manner.

Market Participants should confirm FX trades as soon as practicable after execution, amendment, or cancellation. The use of automated trade confirmation matching systems, when available, is strongly recommended. Market Participants should also implement operating practices that segregate responsibility for trade confirmation from trade execution.

Confirmations should be transmitted in a secure manner whenever possible, and electronic and automated confirmations are encouraged. When available, standardised message types and industry-agreed templates should be used to confirm FX products. Trades arranged via an IDB should be confirmed directly between both parties to the transaction. Market Participants should receive affirmation from the IDB to assist in accurately booking trades.

Open communication methods such as e-mail can significantly increase the risk of fraudulent correspondence or disclosure of Confidential Information to unauthorised parties. If confirmations are communicated via open communication methods, those methods should comply with information security standard.

If Market Participants bilaterally choose to match trades using front-end electronic dealing platforms in place of exchanging traditional confirmation messages, the exchange of trade data should be automated and flow straight-through from the front-end system to operations systems. Strict controls should be in place so that the flow of data between the two systems is not changed and that data is not deleted or manually amended. Any agreements between the parties to use electronic dealing platforms for trade matching rather than exchanging traditional confirmation messages should be documented in the legal agreement between the parties.

PRINCIPLE 44: Market Participants should review, affirm, and allocate block transactions as soon as practicable.

Block transaction details should be reviewed and affirmed as soon as practicable following execution. Investment managers or others acting as Agent on behalf of multiple counterparties may undertake block transactions that are subsequently allocated to specific underlying counterparties. Each underlying counterparty in a block transaction should be an approved and existing counterparty of the dealer-counterparty prior to allocation. Each post-allocation transaction should be advised to the counterparty and confirmed as soon as practicable.

PRINCIPLE 45: Market Participants should identify and resolve confirmation and settlement discrepancies as soon as practicable.

Market Participants that identify discrepancies between received confirmations or alleged trades and their own trade records should investigate internally and inform their counterpart with the aim to resolve such discrepancies as soon as practicable. Market Participants should also carefully reconcile all alleged trades and inform senders of unknown confirmations that the recipient cannot allocate to any internal trade record.

Escalation procedures should be established to resolve any unconfirmed or disputed terms as a matter of urgency, and processes should be in place to detect and report adverse trends that emerge in the discrepancies.

Escalation procedures should also include notification to trading and other relevant internal parties so that they know which counterparties may have practices that do not align with best practices regarding confirmation of trades. Senior management should receive regular information on the number and latency of unconfirmed deals so that they can evaluate the level of operational risk being introduced by maintaining dealing relationships with their firms' counterparties.

PRINCIPLE 46: Market Participants should be aware of the particular confirmation and processing features specific to life cycle events of each FX product.

Market Participants should establish clear policies and procedures for the confirmation, exercise, and settlement of all FX products in which they transact, including those with unique features. Where applicable, Market Participants should familiarise personnel responsible for operations with the additional terms and conditions associated with various FX products and the protocols and processes around life cycle events to reduce operational risk. Market Participants should also be fully versed in the appropriate terminology, contract provisions, and market practices associated with FX products.

III. Netting and Settlement Processes

PRINCIPLE 47: 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 used, Settlement Risk should be properly measured, monitored and controlled. 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.

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 upon with the relevant counterparty.

To avoid underestimating the size and duration of exposures, Market Participants should recognize that Settlement Risk exposure to their counterparty begins when a payment order on the 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 settled with finality during the reconciliation process.

PRINCIPLE 48: Market Participants should utilise standing settlement instructions (SSIs)

SSIs for all relevant products and currencies should be in place, where practicable, 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 SSIs with the same counterparty for a given product and currency is discouraged. Because of the Settlement Risks it introduces, the use of multiple SSIs with the same counterparty for a given product and currency should have appropriate controls.

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. 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.

PRINCIPLE 49: Market Participants should request Direct Payments.

Market Participants should request Direct Payments when conducting FX transactions and recognise that Third-Party Payments may significantly increase operational risk and potentially expose all parties involved to money laundering or other fraudulent activity. Market Participants engaging in Third-Party Payments should have clearly formulated policies regarding their use and any such payments should comply with such policies.

At a minimum, these policies should require the payer to be furnished with a clear understanding of the reasons for Third-Party Payments and for risk assessments to be made in respect of anti-money laundering, counter-terrorism financing, and other Applicable Law. Arrangements for Third-Party Payments should also be agreed upon and documented between

the counterparties prior to trading. In the event a Third-Party Payment is requested after a trade has been executed, the same level of due diligence should be exercised, and relevant compliance and risk approvals should be sought and secured.

PRINCIPLE 50: Market Participants should have adequate systems in place to allow them to project, monitor, and manage their intraday and end-of-day funding requirements to reduce potential complications during the settlement process.

Market Participants should appropriately manage their funding needs and ensure that they are able to meet their FX payment obligations on time. A Market Participant's failure to meet its FX payment obligations in a timely manner may impair the ability of one, or more, counterparties to complete their own settlement, and may lead to liquidity dislocations and disruptions in the payment and settlement systems.

Market Participants should have clear procedures outlining how each of their accounts used for the settlement of FX transactions is to be funded. Whenever possible, those Market Participants with nostro accounts should be projecting the balance of these accounts on a Real-Time basis, including all trades, cancellations, and amendments for each tenor (value date) so that they can diminish the overdraft risk from the nostro account.

Market Participants should send payment instructions as soon as practicable, taking into consideration time zone differences as well as instruction receipt cut-off times imposed by their correspondents. Market Participants should communicate expected receipts (via standardised message types, when possible) to allow nostro banks to identify and correct payment errors on a timely basis and aid in the formulation of escalation procedures.

Market Participants should communicate with their nostro banks to process the cancellations and amendments of payment instructions. Market Participants should understand when they can unilaterally cancel or amend payment instructions and should negotiate with their nostro banks to make these cut-off times as close as possible to the start of the settlement cycle in the relevant currencies.

IV. Account Reconciliation Processes

PRINCIPLE 51: Market Participants should perform timely account reconciliation processes.

Market Participants should conduct a regular reconciliation process to reconcile expected cash flows against actual cash flows on a timely basis. The sooner reconciliations are performed, the sooner a Market Participant can detect missing or erroneous entries and know its true account balances so that it can take appropriate actions to confirm that its accounts are properly funded. Reconciliations should be carried out by personnel who are not involved in processing transactions that would affect the balances of accounts held with correspondent banks.

Full reconciliation should occur across nostro accounts as early as possible. To aid in the full reconciliation of their nostro accounts, Market Participants should be capable of receiving automated feeds of nostro activity statements and implement automated nostro reconciliation systems. Market Participants should also have measures in place to resolve disputes.

Escalation procedures should be in place and initiated to deal with any unreconciled cash flows and/or unsettled trades.

PRINCIPLE 52: Market Participants should identify settlement discrepancies and submit compensation claims in a timely manner.

Market Participants should establish procedures for detecting non-receipt of payments, late receipt of payments, incorrect amounts, duplicate payments, and stray payments and for notifying appropriate parties of these occurrences. Escalation procedures should be in place for liaising with counterparties that fail to make payments and more broadly for the resolution of any disputes. Escalation should also be aligned to the commercial risk resulting from fails and disputes. Market Participants that have failed to make a payment on a value date or received a payment in error (for example, a stray payment or duplicate payment) should arrange for proper value to be applied or pay compensation costs in a timely manner.

All instances of non-receipt of payment should be reported immediately to the counter-party's operations and/or trading units. Market Participants should update their settlement exposure with the most recent projected cash flow movements.