Single Code and adherence: an update

Ankur Pruthi, NBIM
Cédric Beaurain, SGIB
Guy-Charles Marhic, ECB

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Content

A) Single Code

• Draft 2 Feedback
  1. Overview
  2. Execution
  3. Examples
  4. Governance
  5. RM&C

• Next Steps

B) Adherence

• Statement of Commitment

• Adherence work-stream updates
  1. Market-led mechanisms
     a) training
     b) certification
  2. Outreach to Associations and Infrastructures
  3. Central Bank counterparty expectations
     a) CB own adherence
     b) CB Counterparty adherence
A) Single Code

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Timeline

Developing the Global FX Code: A Road Map

26 May 2016 Interim Publication

MPG Development

Secretariat WG Development

June/Jul New material first draft
Aug New material second draft
Sept/Oct Third draft with full content
Nov/Dec Fatal flaw draft
Jan/Feb Proposed publication to go to ECC
Mar 7

We are here

Refuel & get directions from FXWG (sometimes from FXCs where appropriate)

May 2017 Final Publication and Adoption by FXCs

MPG Development

Secretariat WG Development

Timeline

Finish Line

Refuel & get directions from FXWG (sometimes from FXCs where appropriate)

MPG Development

Secretariat WG Development

Outline & initial Draft

New material first Draft

New material second draft

Third draft with full content

Proposed publication to go to ECC

625x652

www.ecb.europa.eu
Feedback received from 24+ different channels
1900+ individual comments (1450 on phase 1 draft 2)

- 2% general
- 2% ethics, 1% info sharing
- 15% governance
- 46% execution
- 16% risk management and compliance
- 17% examples

Comments largely focused on content
Feedback generally consistent across channels
• Proportionality
• Granularity
• Duplication/Overlap
• Ankur and Cédric: key themes and questions

  ➢ Execution E-Trading

  ➢ Prime Brokerage

  ➢ Inter Dealer Broker
3-Examples. Summary of feedback

• Many more comments this round (ca 300), the majority from FXCs and market participants.

• About two thirds are modifications that will clarify and improve the examples.
3-Examples. Key questions

• Examples are the first test of where the FX Global Code meets reality
  ➢ Natural diversity of interpretation of the principles

• Way forward
  ➢ Examples work group re-works text in light of comments
  ➢ Examples work group will meet to review comments
  ➢ Prepare list of new examples and draft (some) Phase 2 examples
4-Ethics & Governance

• Ethics: refine the list of possible measures for managing conflicts of interest
  ➢ Take the comments – including disclosure when cannot manage or eliminate the conflicts

• Governance
  ➢ References to “board” attracted many comments: replace
  ➢ Remove references to other external guidance (BIS, OECD, etc.)
  ➢ Do not include statements that do not provide specific guidance (e.g. “tone from the top”)
5-Risk Management and Compliance

- Draft broader principle on record keeping

- Be mindful of the word "standards" given confusion about term and proper application

- Refer generally to overall risk management frameworks, rather than naming the "three lines of defense" model specifically
Next Steps. Single Code

- SWG prepared list of key agreed items, circulated to each drafting team
- SWG and MPG leads to redraft and address comments on their section in the comment log (Nov 7–Nov 28)
- New draft circulated to FXWG, MPG and to FXCs (5-19 Dec)
  - FXCG members are strongly invited to review and provide comments
  - Work streams organisation
- Fatal flaw in February
- March: ECC Governors approval
- May: Publication
Content

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• Single standardised form: **statement of commitment**

• As well as being used for FXC membership, will be available to all market participants including central banks, infrastructures, trade associations

• Brief and high level in style

• Will be made available as an Annex to the Code

• Draft will be circulated in December comment round
• Embodies a clear commitment to adhere to the Code

• In a manner commensurate with size and nature of FX business (‘proportionality’):

• An accompanying explanatory note will be drafted, including questions (e.g. transitional arrangements and implementation issues)
1-Market-led mechanisms

• Methodology applied – approximately 25 market-led mechanisms were compiled by the MPG AWG

  ➢ Feedback solicited from full list of MPG
  ➢ Mechanisms ranked as a function of effectiveness, global reach and feasibility
  ➢ Fatal flaw objections were also solicited

• Two figured prominently with the MPG

  a) Training
  b) Certification – from Public Register to “Kitemark”
2-Outreach to associations

• Work plan
  - Briefing pack (background document, set of questions) serves to support FXWG members’ outreach efforts to associations.
  - Each FXWG members to reach out to associations located in their jurisdiction
  - ASG coordinates for international ones
  - Regular updates provided at FXWG meetings

• Key initial findings
  - Associations supportive of the Code
  - Commitment to raise awareness
  - Public statement
  - Some supportive of training

• Continue outreach
3-Central Bank own adherence and counterparty expectations

- FX Global Code Public Update on Adherence May 2016
  
a) Own adherence: FXWG central banks intend to adhere to the Code.
b) CB counterparty: CB expect their regular FX trading counterparties to adhere (*subject to effective discharge of policy functions*).
Thank you

for your attention