Deadline looms for firms to sign foreign exchange conduct code

EXCLUSIVE

15 May 2018 10:36 GMT

By Jon Rees

Leading foreign exchange players have until May 25 to sign up to a code of conduct designed to purge the $5 trillion-a-day market of abuse, amid suggestions some banks could curtail bonuses for those who deviate from its principles.

Organizations were asked by Guy Debelle, the deputy governor of the Reserve Bank of Australia who oversaw its inception, to sign up for FX Global Code within a year of its publication on May 25, 2017. He stressed that, for it to be effective, it would have to be endorsed across the full spectrum of market participants.

The code, drawn up by the world's central banks and private sector foreign exchange operators under the auspices of the Bank for International Settlements, is designed to eradicate bad practice in global foreign exchange market and break with the scandals of the recent past.

Scandal-hit sector

A file photo of Royal Bank of Scotland's offices in London, Sept. 11, 2014. Groups of traders plotted using Internet chat rooms to manipulate currency markets, resulting in large fines against banks, including RBS, in 2015.

Work began three years ago after six banks were ordered to pay $6 billion in fines by U.S. and British regulators for manipulating forex markets.

Traders at the banks — Barclays PLC, Royal Bank of Scotland Group PLC, JPMorgan Chase & Co., UBS Group AG, Citigroup Inc., and Bank of America Corp. — colluded to rig euro-dollar currency markets to profit at the expense of customers, in what Benjamin Lawsky, the head of New York's Department of Financial Services at the time, called "a brazen 'Heads I win, tails you lose' scheme to rip off their clients." One Barclays trader wrote in electronic messages: "If you ain't cheating, you ain't trying."

The code's purpose is to promote ethical behavior by encouraging all participants in the market — where, according to BIS figures, global trading averages $5 trillion per day — to commit to behaving with integrity. It is a principles-based, not rules-based, system with 55 principles split into six broad categories: ethics; governance; execution; information sharing; risk management and compliance; and confirmation and settlement.

The Bank of England and six European central banks signed up to the code in February, and now 180 financial institutions in total have signed up.

"Central banks won't trade with banks unless they have signed the code," said James Kemp, managing director of the Global Financial Markets Association's FX division.

"But the code is for all market participants and we will start seeing an expectation from the underlying asset owners that the buy-side operators will only engage with dealers who sign up to the code. That is already happening."

Voluntary code

The code carries no statutory power and adherence is voluntary because those who helped draw it up believe that rules-based systems have proved easier to circumvent.

Regulators are considering how they might take account of the code. In the U.K., which accounts for 40% of the foreign exchange market, the Financial Conduct Authority is considering how it might incorporate the code into its senior managers regime, whereby senior personnel need FCA approval before being appointed.

Market participants will be expected to embed the new code within their day-to-day activities and corporate culture, with the ultimate sanction for breaking the rules being a loss of business.

It is up to individual businesses whether they sign up, but the penalty for not doing so "is likely to be that you get less business in the future," said Roger Rutherford, chief operating officer of ParFX, a currency-trading platform.

David Clark, chairman of European Ventures and Intermediaries Association, who sits on the Bank of England Foreign Exchange Joint Standing Committee, said enforcing the code could see firms link adherence to remuneration.

"I know a number of banks have hard-wired compliance with internal codes of conduct with their bonus structure, so that's one way,' he said.

"It is not about how to recognize bad behavior, that is pretty easy to do, but all of us now have to demonstrate good behavior. It is important that the public feels comfortable with the way financial markets behave. The old mantra 'My word is my bond' is not a bad thing to go on."

Though the code was drawn up following malpractice on the sell-side of the foreign exchange market, participants from all parts of the market are likely to sign up, said Richard Purssell, head of currency trading at asset manager Insight Investment International Ltd., who also sits on the BoE FX committee.

"I believe a number of buy-side institutions are very close to signing," he said. "The code was always designed to accommodate people on both sides in the market."