FX industry pauses for reflection as Global Code adoption gathers momentum

25 May marked the first of anniversary of the FX Global Code, which aims to instil fairness, transparency and equality in day-to-day market practices. The industry has made good progress to date, but the next few months will be crucial to maintaining momentum, writes Roger Rutherford.

Following the launch of the FX Global Code in May 2017, the industry was given a 12-month deadline to commit to its principles. While it's hard to track the number of sign-ups due to the lack of one centralised or even several regional registers, it's reported that more than 180 institutions have publicly committed to date.

In my view, this deadline is somewhat a checkpoint for the industry – an opportunity to reflect on progress made over the past year and discuss what more needs to be done to promote adoption across the industry – rather than a final cut-off point for institutions to sign up.

Regardless of whether or not they have signed the Code, many institutions have nevertheless begun amending their terms and conditions and communicating more openly to ensure their clients are fully appraised of their operating practices. Yet, it is clear that there are some institutions that either are not ready to change or feel they will not benefit from changing their practices.

Examining the last look trading window

Some market participants rightly remain concerned about how the information gained during the last look window is used, rather than the overarching practice of itself. They want to know what a liquidity provider does with a counterparty's trade information.

The revised language in the Code aims to address this by providing clear guidance on when and how the last look practice should be used.

There are legitimate uses for a holding timer in some circumstances, but those uses need to be transparent and made clear pre-trade. If this doesn't become the prevailing market practice there continues to be scope for misconduct to occur, particularly if trading information gained during the last look window is used to learn more about a counterparty's market position with no intention to execute the trade.

I believe there needs to be more disclosure from bank and non-bank institutions about their trading practices. This will provide greater clarity to their clients and counterparties.

Anonymous trading comes under the microscope

Coming out of the consultation on last look, the Global Foreign Exchange Committee (GFXC), which oversees the development of the Code, has made clear its intention to explore other areas of the FX market where greater transparency is necessary. Working groups have been established to examine topics such as opaque pricing, execution on electronic trading platforms and 'cover-and-deal.

Market participants will continue to face difficulties if they trade anonymously on ECNs. Counterparties are unable to identify each other or understand their policies on last look, pricing and execution and this means a challenge when conducting TCA or measuring best execution. This goes against the spirit of the Code, which actively encourages greater communication and clarity around trading practices, so disclosures, as it's called, is an important focus.

There is no question that the lack of post-trade transparency will come under increasing scrutiny. This is a symptom of a wider problem relating to the lack of fairness, equality and transparency in the FX market. ParFX therefore welcomes the GFXC' s decision to undertake further work in this area.

Subject to the outcome of the working groups, there is a very real possibility that any platform or counterparty continuing to facilitate anonymous trading practices will come under the microscope.

A year of progress – but more is yet to come

Twelve months on from the launch of the Code, no other platform epitomises its principles like ParFX. We continue to demonstrate adherence by treating all participants fairly and equally, and promoting firm pricing, transparency and good trading behaviour. Combined, these features promote a robust, fair, open, liquid and transparent FX market.

There are others in the FX industry that are awaiting the findings of the working groups before they commit to the Code. When these findings are released, I expect to see an acceleration of market participants committing to the Code.

One can imagine that institutions that don' t sign up risk losing out on business. Several central banks, including the European Central Bank and the Reserve Bank of Australia, have taken the lead, recently stating they would only maintain counterparty relationships with firms that commit to the Code.

As the Code evolves, and more participants, vendors and platforms sign up and operate according to its guidelines, ethics and conduct will increasingly become front and centre for everyone across the front-office, back-office and compliance departments.

This makes the adoption of the Code an important moment in the evolutionary cycle of the FX market. This focus on ethical trading behaviour, coupled with increasing transparency, could well be the golden bullet to stimulate the FX market to restore confidence in the FX market.

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