



# **INTERBANK FOREIGN EXCHANGE MARKET CODE OF CONDUCT**

**January 2024**

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## FOREWORD

The Interbank Foreign Exchange Market (IFEM) in Tanzania, established in 1994, has witnessed substantial growth under the regulatory oversight of the Bank of Tanzania. The Bank of Tanzania has consistently played a supervisory role in ensuring the effectiveness of the wholesale foreign exchange market. The IFEM Code of Conduct, initiated in 2011 and last reviewed in 2019, aimed to establish standardized principles to govern foreign exchange market operations, primarily focusing on enhancing the proficiency and integrity of market participants.

Recognizing the dynamic nature of the market, taking into account economic changes and emerging risks, regular reviews of the FX Code are essential for continuous improvement. In response to these imperatives, the IFEM Code of Conduct 2024 ("FX Code 2024") has been developed to address evolving market dynamics, setting standards to strengthen and promote the integrity and effective functioning of the wholesale foreign exchange market in Tanzania. Guidance from global standard-setting bodies and supervisory authorities in other jurisdictions has informed the preparation of this code.

The FX Code 2024 draws significantly from the FX Global Code 2017 which consists of 55 principles organized into six major pillars. These pillars include Ethics, Governance, Execution, Information Sharing, Risk Management and Compliance, and Confirmation and Settlement Processes. The pillars outlines expectations for market participants to ensure ethical behavior, effective governance, robust execution and risk management, accurate information sharing, and efficient confirmation and settlement processes.

The FX Code 2024 is designed to promote a robust, fair, liquid, open, and transparent market, where diverse participants can confidently transact at competitive prices in line with global standards. The Bank of Tanzania anticipates that the FX Code will contribute to the better functioning of the market and reinforce Tanzania's exchange rate regime. Market participants are strongly encouraged to engage with and implement the code to support its objectives and foster a thriving foreign exchange market in Tanzania.

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January 2024

## 1. BACKGROUND

The financial sector reforms undertaken in the 1990s paved the way to, among others, the adoption of a market-determined exchange rate mechanism in Tanzania. As part of implementing this, the Interbank Foreign Exchange Market (IFEM), a wholesale market, was established in 1994 to provide a platform for market players to conduct foreign currency exchange and therefore facilitate in deriving the official exchange rate.

The operations of the IFEM market adhere to the principles of market-reinforced mechanisms, the establishment of a Code of Conduct plays a pivotal role in guiding market participants and maintaining orderly market conduct. The IFEM Code of Conduct was initially instituted in 2011, and was last reviewed in 2019, aiming to set fundamental and standardized principles in the conduct of foreign exchange market operations. Its primary objective is to ensure the proficiency and integrity of market participants. Given the dynamic nature of the market, which evolves in response to economic changes and emerging risks, regular reviews of the code are imperative for continuous improvement.

In July 2015, the Bank for International Settlements (BIS) central bank governors established the Foreign Exchange Working Group (FXWG) to facilitate the development of a single global code of conduct for the foreign exchange market (the FX Global Code) and to promote greater adherence. In May 2017, the BIS published the FX Global Code, which has been developed in partnership with central banks and market participants: in particular, wholesale clients and end users of the currency markets. The FX Global Code is principle-based instead of detailed and rule-based, and therefore considers the diversity of market participants, while promoting discipline to prevent misconduct.

This FX Code 2024 has been prepared to align with the FX Global Code and underscores the necessity to bring into line the IFEM operations with the globally recognized principles of good practice in the foreign exchange market, tailored to suit Tanzania's financial market structure and needs.

## **2. INTRODUCTION**

The Bank is aligning with global financial trends by adopting the FX Global Code, emphasizing fair and efficient practices in the foreign exchange market. By adhering to international standards, the country signals its dedication to transparency, market integrity, and investor protection, fostering confidence and capital inflow.

While embracing global norms, the Bank notes that the scope of activities covered by the Global Code is broader than currently undertaken in the Tanzanian FX market, given its smaller and less complex nature and developing infrastructure and technology. For this reason, three Global Code principles have been omitted and the text of some principles has been adjusted. The Bank will review the FX Code from time to time to assess its continued appropriateness for the level of market development.

Customization of the Global FX Code emphasizes four key considerations for local market tailoring;

1. Recognizing the smaller and less complex nature of the FX market, adjustments should ensure proportional requirements.
2. Aligning with the evolving regulatory framework to avoid imposing excessive burdens on market participants.
3. Acknowledging developing infrastructure and technology, the code considers limitations and affordability.
4. Accommodating local practices ensures practicality within the Tanzania context.

This balanced approach aims to enhance the FX market's robustness, transparency, and investor appeal, contributing to economic growth and development while maintaining alignment with international standards.

### **2.1 Compliance with FX Code Legal Basis**

The FX Code supersedes the Interbank Foreign Exchange Market Code of Conduct, 2019 and is issued pursuant to Section 71 of the Banking and Financial Institutions Act 2006, which empowers the Bank of Tanzania ("the Bank") to issue directives for the better carrying out of the purposes and provisions of the Act. FX Code 2024 should be fully complied by market participants. FX Code compliance is a requirement for the good standing of Market Participants.

### **2.2 Market Opening and Closing Times**

The dealing time in the IFEM runs from 9:00 hours to 15:00 hours from Monday to Friday except for Public Holidays or unless otherwise communicated by the Bank and appropriately submitted to the Bank by 15:30 hours in the order prescribed by the Bank. Transactions concluded beyond 15.00 hours, during weekends and Public Holidays should be recorded and reported to the Bank before closure of next business day.

### **2.3 Price Quotation**

- 2.3.1 Market participants are obliged to present a binding two-way quote during trading hours i.e. providing both bid and ask rates through an authorized trading platform.
- 2.3.2 Market participants are obliged to update the indicative two-way quote on authorized trading platform screen at least once per day, during trading hours and immediately after a dealer has traded a new level.
- 2.3.3 The quoted price is good for amount of USD 250,000 (U.S dollar two hundred fifty thousand). For different amount the price maker can qualify the amount.

### **2.4 Participation in the FX auction.**

Market participants are prohibited from participating in any form of auction initiated by an unauthorized person (including exporter or foreign exchange earner) in Tanzania.

### **2.5 Front office authorized staff**

Market participants shall submit to the Bank and between themselves the names of front office authorized staff that deal on behalf of their institution. Market participant shall regularly update the members in case of new recruitment or change of dealing personnel.

### **2.6 Enforcement Mechanisms**

The Bank shall take appropriate enforcement and other administrative action including monetary penalties as provided for under the Banking and Financial Institutions Act 2006, against any market participant that fails to comply with the standards set forth in this FX Code.

### 3. 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 behavior 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 FX Code and at all times when participating in the FX Market.

#### Principle 1

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*Market Participants should strive for the highest ethical standards.*

Market Participants should:

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

Maintaining high standards of behavior is the responsibility of:

- i. firms, which should promote ethical values and behavior within the organization, support efforts to promote high ethical standards in the wider FX Market, and encourage involvement by personnel in such efforts;
- ii. senior and front-line management, which should be pro-active in embedding and supporting the practice of ethical values within the firm's culture and be prepared to give appropriate advice to personnel; and
- iii. personnel, who should apply judgement when facing ethical questions, expect to be held responsible for unethical behavior, 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**

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*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:

- i. having sufficient knowledge of, and complying with, Applicable Law;
- ii. having sufficient relevant experience, technical knowledge, and qualifications;
- iii. acting with competence and skill;
- iv. applying professional judgement in following the firm's guidelines and operating procedures, including, but not limited to, methods of execution, record keeping, and ethical behavior; and
- v. 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. Firms shall ensure that their dealing officers are adequately qualified to deal with foreign exchange transactions and must possess the ACI Dealing certificate as a minimum qualification.

## **Principle 3**

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*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:

- i. 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;
- ii. personal relationships;
- iii. gifts and corporate entertainment; and
- iv. Personal Dealing.



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

- i. segregation of duties and/or reporting lines;
- ii. establishing information barriers (for example, physical segregation of certain departments and/or electronic segregation);
- iii. altering the duties of personnel when such duties are likely to give rise to conflicts of interest;
- iv. providing training to relevant personnel to enable them to identify and handle conflicts of interest;
- v. establishing declaration policies and/or records for identified conflicts of interest; and
- vi. 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.

## **4. 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**

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

- i. an operational structure with clearly defined and transparent lines of responsibility for the Market Participant's FX Market activity;
- ii. effective oversight of the Market Participant's FX Market activity based on appropriate management information;
- iii. an environment that encourages effective challenge to senior management charged with day-to-day responsibility for the Market Participant's FX Market activity; and
- iv. independent control functions and mechanisms to assess whether the Market Participant's 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 board 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 usage of Electronic Trading Activities.

## **Principle 5**

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*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:

- i. expect senior management to be highly visible to relevant personnel of the Market Participant in articulating and modelling the desired practices, values, and conduct;
- ii. 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 23); and
- iii. make all relevant personnel (including senior management) aware that disciplinary or other actions may result from unacceptable behaviors and transgressions of the Market Participant's policies.

## **Principle 6**

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*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.*

Firms' remuneration and promotion structures should encourage practices and behaviors that are consistent with the firm's ethical and professional conduct expectations; they should not incentivize personnel to engage in inappropriate behaviors or practices, or to take risks beyond the overall business risk parameters of the Market Participant.

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

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

## **Principle 7**

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*Market Participants should have appropriate policies and procedures to handle and respond to potentially improper practices and behaviors 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 behaviors; and
- 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 behaviors (including but not limited to cases of illegal, unethical, or questionable practices and behaviors) confidentially and without fear of reprisal or retribution.

Reports of potentially improper practices or behavior 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 if appropriate, to relevant regulatory or public authorities.

## 5. 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 many different 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

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*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:

- i. 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
- ii. 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

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*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.

Irrespective of their role, Market Participants handling orders should:

- i. have clear standards in place that strive for a fair and transparent outcome for the Client;
- ii. be truthful in their statements;
- iii. use clear and unambiguous language;
- iv. make clear whether the prices they are providing are firm or merely indicative;
- v. have adequate processes in place to support the rejection of Client orders for products they believe to be inappropriate for the Client;
- vi. not enter into transactions with the intention of disrupting the market (see Principle 12 in Execution for further guidance); and
- vii. 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:

- i. how orders are handled and transacted, including whether orders are aggregated or time prioritized;
- ii. the potential for orders to be executed either electronically or manually, depending on the disclosed transaction terms;
- iii. 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;
- iv. where discretion may exist or may be expected, and how it may be exercised;
- v. the basis on which trade requests and/or orders might be rejected; and
- vi. 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 (see Principle 34 in Risk Management and Compliance for further guidance).

Market Participants handling Client orders in a Principal role should:

- i. disclose the terms and conditions under which the Principal will interact with the Client, which might include:
  - a. that the Principal acts on its own behalf as a counterparty to the Client;
  - b. 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

- c. how potential or actual conflicts of interest in Principal-dealing and market-making activity may be identified and addressed.
- ii. establish clarity regarding the point at which market risk may transfer;
- iii. 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
- iv. have internal Mark Up policies consistent with applicable guidelines elsewhere in this FX Code.

Market Participants handling Client orders in an Agent role should:

- i. communicate with the Client regarding the nature of their relationship;
- ii. seek to obtain the result requested by the Client;
- iii. establish a transparent order execution policy that should supply information relevant to the Client order that may include:
  - a. information on where the firm may execute the Client orders;
  - b. the factors affecting the choice of execution venues; and
  - c. information as to how the Agent intends to provide for the prompt, fair, and expeditious execution of the Client order.
- iv. 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
- v. 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 17 in Information Sharing for further guidance).

Market Participants operating FX E-Trading Platforms should:

- i. have rules that are transparent to users;
  - a. make clear any restrictions or other requirements that may apply to the use of the electronic quotations; and
  - b. establish clarity regarding the point at which market risk may transfer.
- ii. 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); and
- iii. 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 acting as Clients should:

- i. be aware of the responsibilities they should expect of others as highlighted above;
- ii. be aware of the risks associated with the transactions they request and undertake; and
- iii. regularly evaluate the execution they receive.

## **Principle 10**

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*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:

- i. 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; and
- ii. 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:

- i. trading or otherwise acting in a manner designed to move the market to the Stop Loss level; and
- ii. offering Stop Loss Orders on a purposefully loss-making basis.

Market Participants filling a Client order, which may involve a partial fill, should:

- i. 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;
- ii. 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
- iii. fully fill Client orders they are capable of filling within the parameters specified by the Client, subject to factors such as the need to prioritize among Client orders and the availability of the Market Participant's credit line for the Client at the time.

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**

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*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.

- i. 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.
- ii. 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.
- iii. When a Market Participant is acting as an Agent, the Market Participant should not Pre-Hedge.

## **Principle 12**

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*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**

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*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**

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*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:

- i. makes it clear to Clients that their final transaction price may be inclusive of Mark Up;
- ii. makes it clear to Clients that different Clients may receive different prices for transactions that are the same or similar;
- iii. 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
- iv. 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:

- i. guidance that prices charged to Clients should be fair and reasonable considering applicable market conditions and internal risk management practices and policies; and
- ii. 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**

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*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 minimize the number of trade discrepancies arising from their FX Market activities and should manage such discrepancies promptly.

### **Principle 16**

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*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:

- i. 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;
- ii. whether the algorithm provider or the aggregation service provider could execute as Principal;
- iii. the fees applicable to the provision of the services;
- iv. in the case of algorithmic trading services, general information regarding how routing preferences may be determined; and
- v. 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 standardized 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 services to Clients are encouraged to disclose pertinent information to be used for the purpose of Transaction Cost Analysis (TCA) in a market-wide standardized format – for example, by using the GFXC’s Transaction Cost Analysis Data Template. Additional data should be provided if it is considered useful.

Client of algorithmic trading providers should use such data and disclosed information in order to evaluate, on an ongoing basis, the appropriateness of the trading strategy to their execution strategy.

Clients that use an aggregator to access trading venues should understand the parameters that will define the prices displayed by the aggregator.

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

## 6. 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.*

### 6.1 Handling Confidential Information

#### Principle 17

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*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:

- a. details of a Market Participant's order book;
  - b. other Market Participants' Axes; and
  - c. spread matrices provided by Market Participants to their Clients.
- 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 formalized 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.

- i. 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.
- ii. 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.
- iii. 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.
- iv. 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 "re-tagging" is fit for purpose, and not used to facilitate trading among participants where one party has already previously requested to avoid facing another. For Market Colour, please see Principle 20.

## **Principle 18**

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*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:

- i. to Agents, market intermediaries (such as trading platforms), or other Market Participants to the extent necessary for executing, processing, clearing, novating, or settling a transaction;
- ii. with the consent of the counterparty or Client;
- iii. required to be publicly disclosed under Applicable Law, or as otherwise requested by a relevant regulatory or public authority;
- iv. as requested by a central bank acting for policy purposes; and

- v. 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 18. 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.

## 6.2 Communications

### Principle 19

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*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:

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

## Principle 20

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*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 anonymized 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 anonymized.

To this end:

- i. 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;
- ii. 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;
- iii. communications should be restricted to sharing market views and levels of conviction, and should not disclose information about individual trading positions;
- iv. 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;
- v. option interest not publicly reported should only be discussed in terms of broadly observed structures and thematic interest;
- vi. references to the time of execution should be general, except where this trading information is broadly observable;
- vii. Market Participants should take care when providing information to Clients about the status of 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);
- viii. Market Participants should not solicit Confidential Information in the course of providing or receiving Market Colour; and
- ix. 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.).

## **Principle 21**

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

Market Participants should communicate with other Market Participants through approved 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. Where possible:

- i. 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; and
- ii. 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.

## **7. 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.

### **7.1 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:

- i. The responsibility rests with the business unit which owns the risk it incurs in conducting its activities;
- ii. 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; and
- iii. 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.

The principles below describe numerous recommendations that illustrate how to achieve robust frameworks for risk management, compliance, and review.

## **Principle 22**

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*Market Participants should have frameworks for risk management and compliance. The common components of these two frameworks may include:*

- i. 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,
  - a. the board should make strategic decisions on the risk appetite of the FX business.
  - b. The board 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; and
  - c. Risks should be managed prudently and responsibly in accordance with established principles of risk management and Applicable Law.
- ii. The provision of concise, timely, accurate, and understandable risk- and compliance- related information to the board;
- iii. 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; and
- iv. 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**

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*Market Participants should familiarize 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:

- i. identification of Applicable Law and Standards that apply to their FX Market activities;



- ii. 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;
- iii. capturing and retaining adequate records to enable effective monitoring of compliance with Applicable Law and Standard;
- iv. well-defined escalation procedures for issues identified;
- v. consideration of the need to periodically restrict relevant personnel's access through measures such as mandatory vacation to facilitate detection of possible fraudulent activities;
- vi. 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;
- vii. training and/or attestation processes to promote awareness of and compliance with Applicable Laws and Standards;
- viii. appropriate implementation and utilization of compliance programs (for example, the establishment of processes to monitor daily activities and operations); and
- ix. 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 board should oversee the timely resolution of any issues.

#### **Principle 24:**

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*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:

- i. an appropriate and well-documented approval process for the setting of risk limits;
- ii. 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 provides market access;
- iii. documented policies, procedures, and controls, which are periodically reviewed and tested, to manage and mitigate risks;

- iv. 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;
- v. information systems to facilitate the effective monitoring and timely reporting of risks;
- vi. robust incident management, including appropriate escalation, mitigating actions, and lessons learned;
- vii. robust risk assessment for all (and approval processes for new) products, services, and procedures to identify new or emerging risks;
- viii. sound accounting policies and practices encompassing prudent and consistent valuation methods and procedures; and
- ix. an appropriately robust risk control self-assessment process that includes processes to remediate identified gaps or weaknesses.

### **Principle 25:**

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*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:

- i. The regular monitoring of trading activities, including the identification and internal escalation, as appropriate, of failed, cancelled, or erroneous trades;
- ii. 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 behavior 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;
- iii. Verification of the valuations used for risk management and accounting purposes, conducted by personnel independent of the business unit that owns the risk;
- iv. 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;
- v. Transactions should be promptly and accurately captured so that risk positions can be calculated in an accurate and timely manner for monitoring purposes (see Principle 34);
- vi. Regular reconciliations of front, middle, and back office systems, with differences identified and their resolution tracked by personnel independent of the business unit;
- vii. Timely reporting to the board when risk limits have been breached, including follow-up action

- to bring exposures within limits, and any appropriate measures to prevent a recurrence; and
- viii. 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 pre-set 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**

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

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

The above may be undertaken by the audit function where appropriate.

## **7.2 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:**

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*Market Participants should have adequate processes to manage counterparty credit risk exposure, including where appropriate, through the use of appropriate collateral arrangements, such as credit support arrangements.*

The use of 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:

- i. what mechanisms and/or controls are in place to set, amend, and monitor all applicable credit limits;
- ii. 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
- iii. what specific methodologies are used to calculate credit exposures (such as Net Open Position, etc).

## **Market Risk**

### **Principle 28**

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*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**

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*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:

- i. useful sources of data include screen services and other third-party providers;
- ii. a function independent of the front office should check that prices and marked-to-market valuations are measured accurately and regularly; and
- iii. 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 follow the 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**

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*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:**

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*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:

- i. 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;
- ii. The regular review, updating, and testing of contingency plans, including drills to familiarize 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;
- iii. 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;
- iv. 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;
- v. Emergency contact information for both internal and external dependencies. Communication tools should be secure; and
- vi. 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:**

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*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 utilization) 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 applications 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**

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*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) 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.

### **Principle 34**

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*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 unauthorized 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), quantity, price, trader, and Client identity. Market Participants should apply sufficiently granular and consistent time-stamping 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 behavior standards.

Market Participants should set guidelines that specify personnel authorized 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**

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*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:

- i. appropriate measures in place to enforce the KYC principle (see Principle 45 in Confirmation and Settlement section);
- ii. a clear understanding of all Applicable Law on the prevention of money laundering and terrorist financing;



- iii. internal processes in place to facilitate the prompt reporting of suspicious activities (for example, to the compliance officer or appropriate public authority, as necessary); and
- iv. effective training 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**

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*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 authorized personnel only.*

Market Participants should:

- i. 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;
- ii. periodically review trading access in order to confirm that such access, either direct or indirect, is limited to authorized access only; and
- iii. 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**

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*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**

### **Principal 38**

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

Market Participants should have:

- i. an understanding of 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; and
- ii. 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 finalize documentation promptly.

## 8. CONFIRMATION AND SETTLEMENTS

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.

### 8.1 Overarching Principles

#### Principle 39

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*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

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*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**

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*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.

#### **Principles 42**

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*Market Participants should conduct any novation, 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.

### **8.2 Confirmation Process**

#### **Principle 43**

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*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, standardized message types and industry-agreed templates should be used to confirm FX products.

Open communication methods such as e-mail can significantly increase the risk of fraudulent correspondence or disclosure of Confidential Information to unauthorized parties. If confirmations are communicated via open communication methods, those methods should comply with information security standards (and also see Principle 21 in Information Sharing).

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 are 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**

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*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**

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*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**

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*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 familiarize personnel responsible for operations with the additional terms and conditions associated with various FX products and the protocols and processes around life cycle events in order to reduce operational risk. Market Participants should also be fully versed in the appropriate terminology, contract provisions, and market practices associated with FX products.

### **8.3 Netting and Settlement Processes**

#### **Principle 47**

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*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:**

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*Market Participants should utilize 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 standardized, 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**

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*Market Participants should request Direct Payments.*

Market Participants should request Direct Payments when conducting FX transactions and recognize 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**

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*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 standardized 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.

## 8.4 Account Reconciliation Processes

### Principle 51

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*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

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*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 counterparty's operations and/or trading units. Market Participants should update their settlement exposure with the most recent projected cash flow movements. Market Participants may wish to consider a limited dealing relationship with counterparties that have a history of settlement problems and continue to fail on their payments.



## **APPENDIX 1: Relationship of Tanzania's FX Code with the FX Global Code**

The FX Global Code has three Principles that have not been included in Tanzania's FX Code for the reasons below. Consequently, the numbering of Principles in this Code differs from that in the FX Global Code.

1. **Principle 16** addresses interdealer brokers (restricted as per applicable laws).
2. **Principle 17** addresses 'last look', a practice utilized in Electronic Trading Activities whereby a Market Participant receiving a trade request has a final opportunity to accept or reject the request against its quoted price. (This is not practiced in Tanzania).
3. **Principle 41** addresses Prime Brokerage – a bundled package of services offered by investment banks, wealth management firms, and securities dealers. (This is not practiced in Tanzania).

## **APPENDIX 2: Applicable Law**

1. The Bank of Tanzania Act, 2006;
2. The Banking and Financial Institutions Act, 2006; and
3. The Foreign Exchange Act, 1992.

### APPENDIX 3: Glossary of Terms

**Agent:** A Market Participant that executes orders on behalf of its clients pursuant to the Client mandate, and without taking on market risk in connection with the order.

**Algorithmic execution:** Trade execution through computer programs that apply algorithms. For example, at the most basic level, a computer program automates the process of splitting a larger order known as the 'parent order' into multiple smaller orders known as 'child orders' and executes them over a period of time.

**Applicable Law:** With respect to a Market Participant, the laws, rules, and regulations applicable to it and the FX Market in each jurisdiction in which it does business.

**Axe:** An interest that a Market Participant might have to transact in a given product or currency pair at a price that may be better than the prevailing market rate.

**Client:** A Market Participant requesting transactions and activity from, or via, other Market Participants that provide market making or other trade execution services in the FX Market. A Market Participant can act as a client in some instances while making markets in other instances.

**Compliance Risk:** Risk of legal or regulatory sanctions, material financial loss, or loss to reputation as a result of a Market Participant's failure to comply with laws, regulations, rules, industry standards, and codes of conduct applicable to its FX activities. Compliance concerns include observing proper standards of market conduct, managing conflict of interest, treating customers fairly, and taking measures for the prevention of money laundering and terrorist financing.

**Confidential Information:** Information that is to be treated as confidential, including FX Trading Information and Designated Confidential Information.

**Corporate Treasury Centre:** A Market Participant within a group of mainly non-financial companies that enters into external (non-Group) transactions as a client (unless it explicitly declares otherwise) either on its own account or on behalf of the parent companies, subsidiaries, branches, affiliates, or joint ventures of the Group it represents.

**Designated Confidential Information:** Confidential, proprietary, and other information for which Market Participants may agree to a higher standard of non-disclosure, which, at their discretion, may be formalized in a written non-disclosure or similar confidentiality agreement.

**Direct Market Access Algo ('DMA Algo'):** A particular type of execution algorithm. In fulfilling a Client's DMA Algo, a Market Participant selects liquidity by looking across multiple sources, with the

intention of delivering the highest possible execution quality available at that time to the Client. All liquidity obtained to fill the order is passed directly to the Client through Principal transactions between the Market Participant and Client. Where the Market Participant provides its own internal liquidity to the algo, it should compete on an equivalent and fair basis as the external liquidity sources, and it should be transparent about its dual roles as the algo provider and provider of liquidity.

**Direct Payment:** The transfer of funds in settlement of an FX transaction to the account of the counterparty to the transaction.

**Electronic Trading Activities:** These activities may include operating an FX E-Trading Platform, making and/or taking prices on an FX E-Trading Platform, and providing and/or using trading algorithms on an FX E-Trading Platform.

**FX:** Foreign exchange.

**FX E-Trading Platform:** Any system that allows Market Participants to execute trades electronically in the FX Market.

**FX Market:** The wholesale foreign exchange market. **FX Trading Information:** Can take various forms, including information relating to the past, present, and future trading activity or positions of the Market Participant itself or its clients, as well as related information that is sensitive and is received in the course of such activity.

**FXC:** Foreign exchange committee.

**Fixing Order:** An order to transact at a particular fixing rate.

**Give-Up:** A process by which trades are passed on to a Prime Broker by a party designated by the Prime Broker to execute transactions with a Prime Broker Client.

**Global Code:** A set of global principles of good practices in the foreign exchange market.

**Interdealer Broker (IDB):** A financial intermediary that facilitates transactions between broker-dealers, dealer banks, and other financial institutions rather than private individuals. This includes brokers executing by voice or electronic means, or a hybrid thereof. Brokers with any degree of electronic execution are also a subcategory of FX E-Trading Platforms.

**Mark Up:** 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 Colour:** A view shared by Market Participants on the general state of, and trends in, the market.

**Market Order:** A request or communication from a counterparty to enter into an FX transaction with a Market Participant for the sale or purchase of an FX instrument at the current available level.

**Market Participant:** is a person or organization that: (i) is active in the Interbank Foreign Exchange Market activities (banks and financial institutions licensed by Bank of Tanzania); or (ii) operates a facility, system, platform, or organization through which participants have the ability to execute the type of transactions described in (i); or (iii) provides FX benchmark execution services (central bank); and (iv) is not considered a retail market participant in the relevant jurisdiction(s).

**Personal Dealing:** Where personnel deal for their personal account or indirect benefit (for example, for their immediate family members or other close parties).

**Pre-Hedging:** 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.

**Prime Broker (PB):** An entity that provides credit intermediation to one or more parties to a trade based on pre-agreed terms and conditions governing the provision of such credit. Prime Broker can also offer subsidiary or allied offerings, including operational and technology services.

**Prime Brokerage Participant:** A Market Participant that is either (i) a Prime Broker, (ii) a client using the services of a Prime Broker, or (iii) a Market Participant acting as an executing dealer (price maker) or execution intermediary (such as an Agent or platform) between the Prime Brokerage Client and the Prime Broker.

**Principal:** A Market Participant who transacts for its own account.

**Real Time:** Near, or close to, the actual time during which a process or event occurs.

**Settlement Risk:** The risk of outright loss of the full value of a transaction resulting from the counterparty's failure to settle. This can arise from paying away the currency being sold but failing to receive the currency being bought. (Settlement Risk is also referred to as "Herstatt Risk.")

**SSI: Standing** settlement instruction.

**Standards:** A Market Participant's internal policies, external codes (the FX Global Code and any annexes to the Code published by regional FX committees or jurisdictions in which the Market Participant is based or operating), and other relevant guidance (for example, guidance provided by public sector international organizations such as the Bank for International Settlements and the Financial Stability Board).

**Stop Loss Orders:** A contingent order that triggers a buy or sell order for a specified notional amount

when a reference price has reached or passed a pre-defined trigger level. There are different variants of Stop Loss Orders, depending on the execution relationship between counterparties, the reference price, the trigger, and the nature of the triggered order. A series of parameters are required to fully define a Stop Loss Order, including the reference price, order amount, time period, and trigger.

**Third-Party Payment:** The transfer of funds in settlement of an FX transaction to the account of an entity other than that of the counterparty to the transaction.

**Transaction Cost Analysis (TCA):** Analysis to evaluate the quality of trade execution – for example, by comparing the resultant price of an execution against a benchmark.

**Voice Broker:** An Interdealer Broker with responsibility to both counterparties, who negotiates FX transactions via telephone, conversational systems, and/or hybrid solutions.