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Model Code 2015 Launched at World Congress

ACI – The Financial Markets Association unveiled the updated ACI Model Code for 2015 in front of 1700 attendees at the 54th World Congress in Milan, along with a new interactive e-learning and self-certification portal.

The Model Code places a renewed focus on education and ensuring individuals are educated on the appropriate ethical standards and behaviour expected of them by their employers and the market. The update is part of ACIFMA's continued response to the industry being hit by scandals of FX manipulation and Libor. ACI's Committee for Professionalism, chaired by David Woolcock, reviewed and approved The Model Code 2015, adding in new procedures and practices around prime brokerage, last look, aggregation, high frequency trading, dark pools and algos. It also offers advice on best practice during times of extreme market volatility such as that which followed the removal of the 1.20 EUR/CHF floor on January 15.

The CFP also revamped various sections of the Code as a result of changes in the regulatory world and the Fair and Effective Markets Review (FEMR). Speaking at the World Congress General Assembly, ACIFMA President Marshall Bailey said, "The new 2015 ACI Model Code is ready for release. In it, we not only continue to provide practical guidance on ethical conduct in wholesale financial markets, but we also provide new guidance on certain areas like 'last look', which is so important to the electronification of markets."

A Living Code

The Model Code is now available online to all ACI FMA members globally. Members need to enter their email details to download the new version, which also allows them to be alerted when further updates are made.

MARSHALL BAILEY

The Model Code was last updated in February 2013. Woolcock anticipates that it will be updated more frequently going forward in order for members to stay abreast of the rapidly changing regulatory and market environment. "It shall always remain a work in progress, and balance the calls for high-level, principles-based guidance with the frequent demands to provide more precise guidance," he says.

DAVID WOOLCOCK

The CFP also plans to extend the Code to cover other market participants, such as corporates and wealth and asset management firms, as well as add additional language capabilities. Woolcock emphasises that the Code – first published in 1975 to cover FX and euro-currency dealing – has always been there to promote fair and orderly markets. "It was interesting to compare the old version with the new one against the events that happened in January when we had a black swan event," he said during his speech at the General Assembly. "The old Model Code stood the test of time well – it covers what market participants should have been doing regarding trade

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ACI Head Office:
8 rue du Mail,
F-75002 Paris,
Tel: +33 1 42975115
Fax: +33 1 42975116

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cancellations, rebooking of rates, etc. It is all there in black and white."
Currently, the Australian Foreign Exchange Committee and the ECB's Foreign Exchange Contact Group, along with a number of other regional groups, endorse the ACI Model Code. Moreover, according to Woolcock, the Association has recently seen an unprecedented interest from central banks, particularly those from the non-G3/G7 countries.

Regulation of "Last Look" Practices (p95)

- Use of "last look" should be made fully transparent to customers, to ensure full disclosure as to how business will be conducted, whilst ensuring compliance with applicable market codes and regulatory rules. Terms and conditions should state explicitly that customers will see "last look" pricing from the liquidity provider.
- Market participants will be aware of their general obligations under existing codes of practice. Accordingly, whilst "last look" has evolved in a way that fosters narrow spreads, participants shall take steps to ensure that provision of "last look" liquidity does not create a false impression of market levels or depth. Under no circumstances should orders with "last look" be placed for the purpose of price discovery and with no intention to trade. It should only be used in order to mitigate technological anomalies and latencies when showing firm prices to customers.
- Having been fully apprised of the benefits of "last look" pricing to them, customers should be in a position to decide to trade or not, in line with customer's own requirements and execution style. Customer preference can vary – some might prefer as tight a price as possible, accepting a higher rejection rate through "last look", others might prefer certainty of execution at a different price. When a platform uses "last look" pricing from its liquidity providers, this must be transparent to the customer and the consequences explained fully to the customer.
- Use of electronic algorithms solely to accept trades that are favourable to the bank and to reject non-favourable deals, when the criteria for assessing are equal, should be avoided. Use of "last look" as a risk control mechanism is permitted, subject to transparent disclosure as above.
- Liquidity providers, aggregators and platforms should keep accurate statistics on fill and reject ratios (both by volume and ticket numbers), alongside audit trails showing the rejected price against contemporaneously observed market prices.

ACI Launches ELAC

In tandem with the release of The Model Code 2015, ACI – the Financial Markets Association has launched a new e-Learning Annual Certification (ELAC) Portal, which is intended to help reduce conduct risk for banks and help them align their internal processes and training with the wider regulatory environment.

The ELAC Portal aims to facilitate easier teaching and testing of The Model Code by allowing individuals and their employers to learn, test and monitor their understanding. It will also help embed a strong culture of individual accountability and reinforce the right messages across all divisions and staff members.
Marshall Bailey, president of ACI FMA, says: "Regulators are rightly stepping up efforts to tackle trader misbehaviour and place ethics at the heart of their market reforms. There is a clear and urgent need to reform the culture and conduct of the financial services sector, and ACI's Model Code and ELAC Portal set the benchmark for industry best practice across the fixed income, currencies and commodities in order to achieve this."
As well as enabling members to self-certify through an online exam, the ELAC Portal is interactive. Members can seek expert advice by posting questions and creating new trading scenarios when dealing with grey areas of The Model Code. The CFP will assess the scenarios and provide feedback, as well as determine whether they should be added to a future update to the Code.
Furthermore, through the ELAC Portal members can access ACI's dispute resolution and arbitration services, should these services be required. It also provides a search function so members can go straight to the relevant section, as well as email or print particular sections instead of the whole Code.

MARSHALL BAILEY

"We are making this conduct and trading education available to all institutions and individuals globally, to match the needs of local and international regulators to create a level playing field across markets," Bailey explains. "The industry must avoid the opportunity for ethical arbitrage across time zones, so that all traders behave consistently ethically, in accordance with established and acceptable global industry norms.
"Our ACI Model Code, long established as the global leader in cross-jurisdictional conduct, has been written with both the sell side and buy side in mind," he adds. "The new acronym ELAC not only stands for the e-Learning Annual Certification Portal, it can also stand for eLearning Annual Compliance Portal. We are offering the chance to have constant updates and annual reminders of your obligation as professionals to maintain the highest standards."

ACI Responds to ESMA Consultation

ACI – The Financial Markets Association continues to be fully engaged with global regulators. Following its responses to consultations over FX benchmarking and the Fair and Effective Markets Review, ACI FMA has more recently represented its members as part of the European Securities and Markets Authority's (ESMA) consultation on transparency requirements.

Welcoming the opportunity to consult with ESMA, ACI's responses apply to the FX derivatives and specific other derivative asset classes (CFDs, CDS) as addressed in the *MiFID/R - ESMA LEVEL 2 Consultation - Addendum Consultation Document on Transparency Requirements*.

ACI FMA records "common concerns" among its membership, members' organisations and their customers, noting that while it fundamentally supports the legislative goals and objectives that the Consultation endeavours to achieve, it proposes caution in that "liquidity standards and criteria introduced to fulfil these transparency objectives should not impact market liquidity through incorrect categorisation of illiquid instruments as liquid and *vice versa*".

ACI points out that transparency in FICC markets does not necessarily equate to liquidity as is the case in equity markets. "Furthermore, liquidity determination methodology among FICC asset classes, sub-asset classes, instruments and currency pairs must, by virtue of the diverse nature of those market and product characteristics, be guided according to robust operational/historical market data collation," ACI FMA states.

It further advocates that ESMA encourage the involvement of expert practitioner panels from trade organisations or regulator and central bank practitioner panels to ensure "a robust outcome" regarding the evaluation of FICC derivative market liquidity under the MiFID 2 regime.

ACI further notes the cost of clearing related services, even those preparatory to market participation in instruments which have not yet been approved or made subject to mandatory clearing, are already rising, and are expected to rise further. "Experience in other jurisdictions and under past regulatory modification regimes has demonstrated that two principled considerations must underpin every stage of regulatory reform," ACI FMA argues, continuing that these include the sourcing and analysis of the data upon which policy will be based.

The two principles are the cost/risk analysis of the compliance/avoidance decision across all categories of market participant, and the potential for regulatory arbitrage.

Categorisation

As part of the consultation, ACI FMA also expressed its concern that the potential for incorrect categorisation of derivative products as "liquid" may have undesired consequences for financial market participants and for European financial markets overall.

ACI's specific concerns are the potential costly and onerous burden of additional transparency and Systemic Internaliser (SI) compliance requirements under MiFIR on the sell-side, which may have a detrimental impact on liquidity and lead to a reluctance to quote, thus causing shortages in particular currencies, securities or instruments and potentially increasing product cost.

It is also concerned about an increase in systemic risk to corporate or institutional portfolios as customers are either reluctant to hedge/invest due to increased costs, or, with a reduced product offering, are forced to accept less than optimal hedging or investment instruments.

ACI FMA notes that the recent increase in FX market volatility illustrates the systemic risk attendant to under-hedging by end users. As many smaller investment related businesses, such as private equity and multi-family offices, are swept into the definition of financial institutions, and many end users are categorised as large non-financial counterparties based upon the ESMA data, the cost of cleared hedging will become, or appear, greater to them then the potential losses from unhedged alternatives. "The cumulative systemic risk from such a result is self-evident," ACI FMA states.

ACI FMA advocates "prudence and consideration" regarding the process for the introduction of further regulation and espouses a phased implementation approach to allow regulators time to discern the full impact of the on-going regulatory initiatives.

The association is also worried that the definition of liquidity as ascribed to each individual currency and cross currency pair is "too arbitrary" because the data is derived from trade repositories (TR) gathered over a relatively brief period (March-May 2014) following the introduction of mandatory trade reporting under EMIR.

It adds that the tenors are based on a very protracted snapshot of trade data, which may not represent and accommodate any trading anomalies; and says the data may contain compression trade data, which distorts liquidity thresholds as these are not price-predictive, market impacting trades.

ACI FMA further notes that during the time frame used for the Consultation, due to the absence of any exception reporting, counterparties would not have been able to perform validation tests either intra- or inter-TR.

Further multiple complications to the sample collected include the double counting of mirror offset trades under prime brokerage and give up relationships, ACI FMA observes.

Additionally, many counterparties were hindered in their reporting ability by the absence of, or delay in, Legal Entity Identifier (LEI) provision; delayed processing of applications for multiple LEIs for certain counterparties and their affiliates; tardy reactivation of LEIs after their expiration; and some as yet unquantified levels of general non-compliance.

"While netting is taken into account for threshold calculations at the individual counterparty level, it is unlikely that the absolute values of aggregate notional exposures in the ESMA data are robust, especially when the disparity to trade volumes is noted," ACI FMA argues.

"The importance of high volume largely retail contracts such as currency spread bets and CFDs, which are overwhelmingly traded on an intraday basis, is likewise of deceptive relevance."

ACI FMA recommends, on the subject of data retention, that ESMA extends the calibration and sampling period to a future six month period to take into

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account the changing structure of the industry, specifically the additional TRs now live.

FX Specifics

ACI FMA describes the fundamental nature of the FX market and its use for hedging and commercial reasons before questioning some recommendations of the Consultation Paper. It notes that for many of the cross currency pairs illustrated in the paper, liquidity can be and is arrived at by trading the component parts so that the volumes in the actual iterative crosses are not representative of the total prospective liquidity.

Zone differences make a sizeable difference to the criteria, it continues, noting that, for example, whilst there might be consensus the USDCLP is a liquid currency, that is surely only the case when Latin America is open. The data captured for the Consultation, however, is, of necessity, European market centric. "Therefore, while the liquidity framework may seek to describe only the liquidity of the EU portion and segmentation of those markets, it appears potentially to demonstrate a percentage of the market in the European time-zone, rather than the liquidity available," ACI FMA states.

The association also points out that according to the Bank of International Settlements (BIS) *2013 Triennial Central Bank Survey of FX Turnover*, NDFs constitute only a fifth of the global foreign exchange market in outright forwards and a tiny fraction of overall foreign exchange trading. "In fact, NDF volumes at just $127 billion per day, represent about 2.7% of the $5.3 trillion total global FX volumes based on BIS 2013 Triennial FX Survey data, with London accounting for some $43 billion per day which is about 34% of NDF trading," ACI states, adding the UK FX Joint Standing Committee's (JSC) survey in 2014 indicated that NDF volumes amounted $55 billion per day versus $1.398 billion per day of deliverable forwards (swaps and outright forwards).

ACI further notes that in the introduction on pages 15/16 of the Consultation Paper, the percentage of trades deemed as forwards and swaps in deliverable currencies looks much too low against the NDF data. "Also, we see no evidence that the analysis has taken data such as the number and type of market participants, as well as the average size of spreads into consideration when discerning liquidity," it points out. "In comparison, the Consultation Paper data differs radically from the data illustrated in both the BIS and JSC surveys of 2014 mentioned above." This means, ACI FMA asserts, that the inference from the ESMA data is that the NDF market is significant in size, whereas it actually represents approximately 4% of non-spot markets. As such, ACI argues that NDFs, *per se*, be categorised as illiquid.

The association also points out further anomalies, "which are of concern" in the Consultation Paper's data. These anomalies are the inclusion of non-deliverable currency crosses within the Deliverable Forward bucket, for example CNH/USD, EUR/RUB, INR/USD. It also notesd that a large proportion of instruments that typically are not deemed liquid (non-USD crosses) in the normal course of trading have been categorised as "liquid" by ESMA.

"In particular, we note that, under Table 48 of draft RTS 9 (FX NDF Liquid Classes), COP-USD pair with a tenor from four days to seven days is considered 'liquid' and the Large-In-Scale (LIS) thresholds are set at a €700 million, which is greater than the average daily volume for that market," ACI states. "ACI FMA would propose that some LIS thresholds need re-calibrating or re-consideration as they appear unrealistic."

ACI is also concerned at the inclusion of precious metals in the analysis, particularly for FX derivatives. It notes that under Table 48, USD-XAU is included as a liquid class of NDF. "The XAU symbol is representative of Gold, which is not a currency, rather a commodity," ACI FMA argues. "Therefore, we would suggest that contracts relating to precious metals should, for good order's sake and in order to avoid any duplication of regulatory treatment, be included in the ESMA assessment of Commodity Derivatives."

Another anomaly is the inclusion of deliverable currency crosses within the NDF category, which rarely or never trade as non-deliverable forwards – therefore categorising them as illiquid. "The inclusion of deliverable currency crosses within the NDF category offers the potential for regulatory arbitrage," ACI FMA says. "Regulatory reform is rendered moot where market rules can be easily avoided by the substitution of economically identical unregulated transactions.

"Multiple possibilities are demonstrated in the data presented," it continues. "Some of these are of a 'plug and play' nature, such as the substitution of spot or deliverable forward currency pair transactions for NDFs. This is a simple adjustment for the many contracts in underlying deliverable major currencies, such as AUD/JPY, which counterparties elect to trade on an NDF basis.

"The ESMA data on NDFs reveal that a substantial percentage of contracts that are categorised as liquid NDFs fall within this category, and the majority of those in the one to three month maturity range," it adds. "Not only could NDF clearing requirements be easily avoided by reliance on the much more liquid existing spot or deliverable forward market for such pairs, but the inclusion of these contracts in the data introduces considerable distortion in the calculation of threshold volumes. This is especially of concern because the users of such 'elective' NDFs tend to be non-financial counterparties, who are doing so for hedging purposes."

On a related issue, ACI FMA also suggests that, given the BIS survey measures FX options turnover at 9% of the total market volume (of which, according to market intelligence, FX complex exotic options represent approximately 2% of the FX market) all FX options, whether exotic or generic, should be regarded as "illiquid".

Maturities

ACI FMA also points out that the ESMA document uses BIS data for analysing the maturity of instruments, but this does not paint the most accurate picture. BIS data highlights that turnover was concentrated for contracts with a maturity below one year, however it points out that the consultation documentation referenced analysis of DTCC data (NDF only), which revealed that liquidity was concentrated on the shortest maturities. For all currencies except CNY, 90% of the contracts in the sample had a maturity below three months, 98% of the contracts in the sample had a maturity below six months.

Using the UK's JSC October 2014 data, ACI FMA notes the liquidity concentration is focussed in the one-to-six month bucket, tenors not aggregated by the BIS which uses "up to seven days" and "under one year" as its two criteria. "Whilst difficult, and subject to considerable debate, a more simple criteria of what is or is not a liquid currency is a recommendation based on market

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intelligence from, and discussion with, ACI's members," the association states.

"We would propose the following for the determination of maturity vs liquidity – all major currencies against the US dollar and euro up to one year and all minor currencies against the dollar up to six months (with minor Europeans against the euro also) would appear to encapsulate what is trying to be achieved by this CP.

"Additionally, the only other definition is that for minor currencies and/or NDFs the definition of liquidity would only encompass the times those centres are open," ACI FMA continues. "We would propose that notional amount per day should be increased significantly from EUR 500 million to circa EUR 5 billon.

"It should be noted that Table 1 on page 17 of the CP confirms that the notional amount per day well exceeds the suggested EUR 500 million and as such there is the potential of categorising some instruments as liquid, which are actually not liquid, ACI FMA observes.

"Moreover, as mentioned previously, FX OTC (derivative) trades can be executed (24/6) at any time and are thereby not restricted to certain trading hours or days."

Definitions

With reference to the CP data, ACI FMA notes that there are significant differences in Large in Scale (LIS) thresholds between currency pairs and tenor buckets, which is attributable to the complications ESMA has experienced in calibrating the data. For example, as mentioned previously, regarding NDFs the COP-USD pair with a tenor from four days to seven days is considered liquid and the LIS thresholds are set at EUR 700 million, which is greater than the average daily volume for that market. "This is, therefore, obviously erroneous and requires amendment," ACI points out.

It is also of concern to ACI that the Size Specific to Instrument (SSTI) threshold has been set at 50% of the LIS threshold as opposed to any other percentage, which appears to be quite an arbitrary level. The SSTI and LIS are different thresholds with different intended objectives, ACI FMA notes. The SSTI threshold is to protect liquidity providers and SIs from "undue risk".

ACI believes that it would be more appropriate if LIS/SSTI thresholds were set at a level appropriate to the liquidity (or illiquidity) of each instrument and reflect local market conditions, rather than a 'one size fits all fixed threshold' within the EU. Failure to rectify this could potentially impose costly and onerous burdens of additional transparency and SI compliance requirements under MiFIR on sell-side market participants, which could then have a detrimental impact on liquidity and instigate a reluctance to quote. "This could cause shortages in particular currencies, securities or instruments or increase product cost for customers," ACI FMA argues.

While ACI agrees regarding a minimum deferral period of 48 hours for transactions that are equal to or exceed LIS, or transactions equal to or above the SSTI threshold, it proposes that this should actually be expressed as T+2 (business days) to accommodate transactions with counterparties at close of business before the weekend or before national holidays to ensure adequate time for market risk mitigation of large or illiquid transactions on the part of the market makers.

However, with regard to transactions that are both LIS and illiquid, this time deferral may not be adequate, it accepts, adding that ACI would urge prudence and caution and counsel that a longer deferral period may be considered.

"A further point of consideration, which ACI FMA would advocate and encourage, is that there should be a pan-EU adoption and harmonisation by National Competent Authorities (NCAs) of the supplemental volume omission deferral regime."

ACI FMA believes that the Consultation document, and the responses from the various market participants will help the regulators, industry participants and the public to be better informed regarding the issues discussed. "The greater awareness that comes from this knowledge will assist the industry in assuring that best practices are implemented and followed," it concludes.

ACI FMA Responds to the Fair and Effective Markets Review

The concept of the UK's Fair and Effective Markets Review (FEMR) is unprecedented – it is the first time that a government has consulted with its central bank and financial regulator on the fixed income, currencies and commodities (FICC) markets.

Although the review was driven by damaging events such as benchmark manipulation including around the WM/R 4pm Fix, the financial industry has shown a determined effort to put its house in order. When announcing FEMR in June, UK Chancellor of the Exchequer George Osborne was clear, "We're not going to wait for more scandals to hit – instead we are going to act now and get ahead," and the industry got behind this vision.

FEMR has actively engaged with market participants to determine the best way forward in rebuilding confidence and trust in the fairness and effectiveness of the markets. It has sought out responses from across the industry to ensure the major constituents have a voice. Its aim is to ensure that markets are open and transparent, with improved conduct and behaviour, but without compromising market efficiency and liquidity.

ACI – The Financial Markets Association welcomes the opportunity to be involved in FEMR. It believes that through such engagement with various market participants the regulators, industry participants and the public will be better educated on the structure and uses of the FICC markets, which in turn will help to ensure that best practices are followed.

Additionally, it quickly became clear to most market participants that FEMR would have a much wider influence than just the UK market. Effectively the review was looking at how to deal with a market that is essentially wholesale and global in nature, and therefore does not fall under national regulations. Thus, regulators around the world have paid close attention to the process with the belief that the responses will also help them shape policies and rules.

This is illustrated by the recent publication of an updated common global preamble for best practice and market conduct by eight central bank FX

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committees, which were undoubtedly influenced by FEMR.

The Consultation Process

FEMR opened its market consultation on 27 October 2014, focusing its questions on the "most critical sources of vulnerability" and identifying the potential solutions from both structural and conduct perspectives. By the 30 January deadline, it had received 67 responses from sell and buy side firms, market infrastructure providers and financial market associations – many with operations spanning numerous jurisdictions across the globe.

ACI FMA openly supports the consultation, especially the idea that the debate should take place in a public forum. It specifically welcomes the importance that the consultation document places on the behaviour and ethical conduct of individual market participants, reflecting the need for cultural change.

However, it advocates in favour of "prudence and consideration" regarding the introduction of further regulation. "Regulators need to allow the full impact of the ongoing regulatory initiatives and revisions and the ensuing changes to be absorbed by the global markets, in order to evaluate whether further intervention is necessary to capture hitherto unidentified risks and to prevent the emergence of new systemic risks and/or the disruption of existing, functioning markets and liquidity," it says in its response.

The Association produced its response paper, which is available on the ACI FMA website, after considered debate amongst its leadership bodies and members. Its starting point is a firm belief in a coordinated international response and the role that the ACI Model Code could play in helping the industry enhance its integrity and credibility. Fundamentally it believes that for markets to be "fair and effective", there must be a "willingness on all sides to engage in economic activity without concerns on the part of either party that the role they are performing is unduly prejudiced".

Spearheaded by the ACI FX Committee (ACIFXC), ACI FMA provided responses to all 49 questions, with a particular focus on those questions that are most relevant to the FX asset class, such as last look, stop losses and the need for a global code of conduct.

Last Look

One area of growing concern in the market is around the risk associated with internalisation and last look practices in the FX market. ACI has made recommendations for procedures and practices around the use of last look, and incorporated them in a new entry for the recently launched Model Code 2015 (see page 1).

In its response to the consultation document, ACI FMA says that while it does not believe internalisation is perceived to create risks, it does warn that that it believes last look can "represent a risk to foreign exchange markets if its use is inappropriate and clients are not adequately informed of its application and the consequences to their trading".

"In particular, it is important that provision of last look liquidity does not create a false impression of market levels or depth," ACI adds. "Under no circumstances should orders with last look be placed for the purpose of price discovery and with no intention to trade." Instead, it believes the practice should only be used in order to mitigate technological anomalies and latencies when showing firm prices to clients.

In addition, ACI FMA calls for last look pricing from a platform's liquidity providers to be made transparent to the clients and to ensure that its application is fair. "Use of electronic algorithms solely to accept trades that are favourable to the bank and reject non-favourable deals, when the criteria for assessing are equal, should be avoided," it states.

Electronic Trading and Stop Losses

In its response to FEMR, ACI FMA also warns against the "over-reliance" on electronic trading, and suggests that the imbalance between voice and e-trading has diminished the integrity and performance of the FX market.

ACI points to events surrounding the removal of the 1.20 EUR/CHF floor by the Swiss National Bank on 15 January as a demonstration of the domination of e-trading. It says that that the current FX market microstructure, in an unexpected market environment, can "facilitate a liquidity squeeze/abyss as there may be no willingness for market liquidity provision as would have previously existed in a voice only environment".

"Therefore, in this situation, the predominance of 'one' market structure (e-trading) and the demise of traditional bi-lateral voice trading has diminished the fairness and effectiveness of the FX (spot) market," it says.

While the Association notes that e-platforms have built efficiency in FX markets through the provision of STP technology, it also argues that this development has reduced price discovery and trading costs, thus enabling traditional users of the FX market to become liquidity providers.

ACI FMA also comments on stop loss orders, with specific reference to execution following the Swiss 'black swan' event. These orders are automatically generated on e-trading platforms, matched and confirmed by settlement systems without the institutions concerned necessarily having the opportunity to cover their risk.

"We have observed that, due to the unprecedented circumstances, customers have experienced some very different treatment at the hands of their banks/brokers. This has varied from the banks/brokers honouring the generated trade rates and absorbing the losses versus institutions revisiting and proposing to reset the trade rates at the customer's cost," it says.

ACI FMA points to the ACI Model Code's clause regarding stop losses on e-platforms, which states: "Additional attention should be paid where e-trading platforms automatically execute stop-loss orders. In accepting these orders, whilst an institution assumes an obligation to make every reasonable effort to execute the order promptly, there is no guarantee of fixed price execution to the counterparty unless otherwise agreed by both parties in writing."

Traditionally, the Model Code proposes that dealers should regard themselves as bound to a deal once the price and any other key commercial terms have been agreed, a rule which could be applied to the electronic market. However, the Code also states that holding voice brokers "unreasonably" to a price is viewed as unprofessional and should be discouraged by management.

Consequently, ACI FMA has requested that the regulators provide clarity relating to market behaviour in such instances where the interpretation of clauses in legal contracts may contradict what would be regarded as best market and customer centric practice.

Global Code of Conduct

In the section surveying market practice standards, FEMR's consultation document comments on the fact that there are

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already numerous codes in FICC markets, reflecting the evolution of financial instruments and markets in different legal jurisdictions. It remarks, "The existence of multiple codes arguably limits their collective effectiveness, but reflects the desire of individual jurisdictions and markets to retain control over their own domain.

"The ACI Model Code, for example, has global coverage, but is not universally adopted. And there are many national codes covering FX markets – although global FX committees are currently working to introduce a common global preamble to those codes. In principle, market participants see merit in developing a single, global approach across a number of FICC markets, commanding broad-based industry support."

ACI FMA agrees that the ultimate aim should be for one global code of conduct to address ethical and behavioural issues. It consistently argues in its consultation response that The Model Code should be adopted formally by the industry on both the buy side and sell side, and applied across the world.

"We see the provision of a global code of conduct, such as the ACI Model Code, as essential going forward," it says. "Single-platform (company) and national/regional codes may sit alongside a global code, but there should be few (if any) differences in the application of these codes on market practice.

"Any differences increase the risk of ethical arbitrage amongst market participants, and give rise to the issues about which the consultation document was written."

Moreover, ACI supports professional qualifications for individuals operating in FICC markets, and already provides a comprehensive suite of examinations including a standalone exam on The Model Code.

"Education is key to the effectiveness of any code of conduct, and this must be approachable and delivered in a user-friendly manner (Web-based for example), and must be global in nature," it adds. "It is essential this is backed up by self-certification and auditable completion of the attendant education required for participants to be current."

The Association recently launched its e-Learning Annual Certification (ELAC) Portal (see story, page 2), which is interactive and lets industry participants submit scenarios, which may fall into "grey areas" of the Code, to the Committee for Professionalism for further guidance.

In this way, The Model Code will remain current through continual reassessment and periodic updates.

If official endorsement was forthcoming, ACI FMA says it will be happy for a global regulatory body to function as a supervisory board in the production of The Model Code. "A single code endorsed by both the industry and the supervisors would make The Model Code sustainable and with 'teeth'," it adds.

In addition to these three "hot topics", ACI also provides in-depth responses to questions relating to benchmarks, conflicts of interest and use of confidential information, surveillance and penalties, and self-regulation.

FEMR plans to make its final recommendations in June 2015.

The full text can be downloaded from the ACI FMA website – http://acifma.com/news/fair-effective-markets-review-consultation-paper-aci.

Overcoming Industry Challenges Through International Collaboration

Addressing the ACI World Congress, the head of Italy's central bank argued that in order to strengthen the EU's monetary union further steps must be taken towards political union, and warned that such a path would be neither short nor smooth.

In his keynote speech at the joint 54th ACI World Congress and 21th Congress of the Assiom Forex (ASFX), Ignazio Visco, Governor of the Bank of Italy, pointed out, "The banking union can be, as originally intended, an important factor of stability for the euro area so long as we succeed in striking the right balance between the need to safeguard the stability of banks and that of enabling them to support the economy."

His message struck a cord with the majority in the audience who are grappling with the "new normal" of financial regulations and the very low – or negative – interest rates.

Each year the Governor of the Bank of Italy delivers his official speech at the ASFX Congress, addressing the Italian community of financial market operators on new market developments, as well as economic and monetary policies at national, European and international level.

Visco began his annual address by welcoming the ACI World Congress delegates and stressed the importance of an international forum for exchanging ideas, enriching perspectives, building trust across borders and setting benchmarks for the industry as a whole.

"This is especially important in financial and currency markets, which are fundamental infrastructures in our economies," he said.

"We live in a difficult period when financial transactions are often considered with scepticism if not suspicion. Transparency and trust, the respect of ethical codes and efficiency and best practice are essential conditions and must be pursued with courage and determination."

Giuseppe Attanà, ASFX President, also highlighted the importance of collaborating on an international level to progress in a challenging market environment. "The world has changed considerably and is continuing to change, but it isn't difficult to manage such complex change and adapt to new situations," he told delegates. "This is true for our associations in the banking industry, which need to react to ongoing rationalisation processes, new regulations and also the changing needs and desires of customers.

"Financial market associations are numerous in the international arena; each has its history and specific characteristics that add value to what they do. It is also true that continuing to undertake our activities as we did in the past without factoring in changes and innovation would not be to the benefit of our members. There is a strong need to look for new synergies among existing associations at the international level. This could enhance efficiency on the organisational side and also add value to

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ACI World Congress. Continued from p.7

the strengths and specificities of each association. We believe that this is a move that should be undertaken in order to ensure the future of associations, which much continue to create value for their members and the market."

Rebuilding Trust

More than 1700 attendees and 50 exhibitors attended the event from 3-7 February in Milan, Italy.

Following three days of internal Council, Committee and Board meetings, delegates participated in a full day of workshops and panel discussions at the Congress.

Claudia Segre, General Secretary of ASFX, began the day by underscoring the need for rebuilding trust in the financial industry, which she called "the biggest casualty" of the global financial crisis.

"There are specific trust and ethical issues in the industry's culture that we need to confront," she said. "First, finance is becoming more de-personalised and long-term, sustainable relationships with customers are not given proper importance. Second, compensation structures tend to emphasise profits as performance measures, with a disproportionate focus on sales targets, which are often associated with too much risk taking or scant regard for client interest. Third, and more fundamentally,

Currency War Panel

departures from ethical conduct are too easy accepted as the norm.

"The reform of the financial industry will not be complete until this issue of trust and ethics is addressed. This involves getting the culture right," she added.

To do this the industry needs to build an ecosystem, she argued, in which the associations have an important role to play. "We need to work closely with the international community to ensure that financial institutions foster some risk culture, but also conduct themselves in a prudent and socially responsible manner."

Manfred Wiebogen, Honorary President of ACI International, added, "Although we have seen some misbehaviour in the marketplace, our members have stuck to the ACI Model Code. And during the worst of the crisis, our well-educated people have helped the industry survive this crisis. We should be proud of that."

LorenzoFrontini

Manfred Wiebogen

Who Will Win the Currency Wars?

In the first panel discussion entitled "Currency Wars, No More!", chaired by Lorenzo Frontini, Head of Corporate Finance and Markets Italy, Deutsche Bank, two currency experts debated the state of the global economy, including competitive devaluation, the carry trade and deflationary issues.

Gregorio De Felice, Head of Research and Chief Economist at Intesa Sanpaolo, started off by challenging the panel's title, saying that "no more" was wishful

Ian Jenkins

Claudia Segre

Gregorio De Felice

thinking as currency devaluation is an easy way to defend competitiveness. He pointed to the waves of quantitative easing in the US, Japan and now Europe, albeit with key difference between the programmes.

"[The] most important effect [of European Central Bank's QE programme] is euro depreciation," said De Felice. "We have already seen a 20% depreciation of the euro against the dollar."

However with a strong dollar and the Federal Reserve likely hiking rates in the summer or fall this year, he believed that there isn't much room for further depreciation of the euro, and forecasted the exchange rate to stay around 1.10 for the coming months. Frontini agreed with the 1.10 target.

Ian Jenkins, CFA, Senior Portfolio Manager Global Fixed Income and Currencies at UBI Pramerica, said that the reason for currency wars is the need for growth; countries try to steal growth from

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ILAN JAFFE

LIQUIDITY MANAGEMENT ALM PANEL

ACI World Congress. Continued from p.8

each other through competitive devaluation.

"Although currency devaluation seems to be an easy way to generate growth, there are downside effects such as an increase in volatility," he explained. "This tends to offset the positive effects of countries trying to gain competitive advantage via devaluation because an increase in volatility is a drag on global trade, it raises the cost of hedging and limits capital flows to countries in greater need."


OLGAY BUYUKKAYALI


MATTEO BOSCO

Central banks across the world have lowered interest rates – some into negative territory – as their balance sheets have ballooned. "The tail risk that comes out of such dynamics is dramatic and unprecedented in historical terms. What is going to happen to the losers of this latest round of currency wars against the dollar, which has been appreciating against the euro and other currencies?"

He also mentioned the Chinese yuan (CNY), which is pegged to the dollar and has appreciated as well.

"It seems that disinflation/inflation is what it is all about," he said. "Despite the amazing expansion of QE from central banks, the inflation problem is still alive and kicking. On a broader macro prospective, we are still not out of what some call a balance sheet recession, whereby the private sector is deleveraging. As previously said, currency devaluation risks becoming a lose-lose situation."


PIOTR CHWIEJCZAK


GIOVANNI SABATINI

De Felice shared the view that negative yields are not a positive feature in Eurozone. "Negative yields in Germany is quite unpleasant especially for the Bundesbank, which has to buy bonds with negative yields so will have losses.

"What can a central bank do in order to fight a deflation risk? I think that a huge liquidity injection into the system can be one move but agree that if this is the only move to fight deflation risk then we are running many risks. Monetary policy alone can't lift economic growth."

Not far from anyone's mind following the recent election of Syriza in Greece is the possibility of a "Grexit". According to Jenkins, the economics and sustainability of the Greek debt has been exposed as being unsustainable. "However, my guess is that they will achieve a way of extending the duration of Greece's debt

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EM vs DM PANEL


RICHARD MIRATSKY

ACI World Congress. Continued from p.9

without really calling it a restructure," he predicted.
"Under the theme of currency wars, we have to talk about the drachma," said De Felice. "Currently, it is a poker game between [Alexis] Tsipras and his counterparts. If they go for a Grexit, then the Greek government needs to block capital outflows and nationalise the banks. Overall, Greece has more to lose than gain in leaving the Eurozone."
Both agreed that the euro will survive this crisis, with De Felice saying that it would survive even better without Greece.

Grappling With the 'New Normal'

Many of the hot topics covered in the first panel were revisited in the following debates, including: low to negative interest rates, slow economic growth, unintended consequences of QE and new regulations, inflation/deflation issues and EM risk.
The next workshop focused on liquidity management and asset liability management (ALM) in a low interest rate environment. The regulatory framework is key in shaping the banking business model and market dynamics as well.
Ilan Jaffè, Co-Chair of the ALM ASFX Committee, moderated the panel and was joined by Giovanni Sabatini, Director General, ABI, and Pierfrancesco Zeppieri, Head of Treasury Department Italy at Deutsche Bank.
The workshop discussed how the new

FIXED INCOME VS EQUITIES PANEL

FELIPPO CASAGRANDE

GABRIELE SACERDOTE

environment is affecting funds transfer pricing, new volatility, reduced carry trade, credit dispersement, net interest margin and repo markets.
Jaffè thought that liquidity coverage ratio (LCR) was a key aspect, but questioned whether there are enough assets in the Eurozone to meet LCR, which could put Europe at a disadvantage with regards to the US.
Part of the problem lies with the uncertainty around the rules for LCR, said Sabatini, adding that liquidity isn't flowing to the real economy because of this uncertainty. "We need clear, stable rules, transparently applied and possibly not with procyclical effect. But we need to assess today whether all these conditions are met. I am afraid not. This will impact on the future strategy of banks."
The third session of the day had two concurrent panels. One was entitled "Emerging Markets Versus Developed Markets: A New World Equilibrium". The panel included Richard Miratsky, Head of the Corporates Analytical Team at Dagong Europe; Matteo Bosco, Head of Business Development for Switzerland and Italy at Aberdeen Asset Management; Olgay Buyukkayali, Head of EEMEA Research Nomura International; and Piotr Chwiejczak, CEEMEA Strategist BNP Paribas.
The panel looked at China's increasing influence on the global macroeconomic stage and how it continues to be seen as the growth engine of the world, despite the fact its growth is slowing down. Bosco, for

PHILIPPE RAKOTOVAO

ARMANDO CARCATERRA

BRUNO ROVELLI

one, didn't believe the Chinese economy was heading towards a "hard landing", but also pointed to India's potential to take big steps in the next decade.
It also looked at how the sharp drop in commodity prices has had far-reaching implications for growth, inflation, monetary and fiscal policy across the EM world. Buyukkayali was bullish on the PLN and ZAR, while Chwiejczak voiced his concerns over the TRY and RUB.
The second panel in that session explored the developing global regulatory framework, covering new directives such as European Market Infrastructure Regulation (EMIR); Dodd Frank; Bank Recovery and Resolution Directive (BRRD); Markets in Financial Instruments Directive II (MiFID II); and Committee on Payments and Market Infrastructures (CPMI), to name but a few.
The panel was moderated by Godfried De Vidts, Director of European Affairs at ICAP, and included Stefano Bellani,

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Managing Director, Head of the EMEA, APAC & Emerging Markets Financing Desks at JP Morgan Securities; Marco Castagna, Money Market ASFX Committee; Eduard Cia, Head of Treasury UniCredit Bank; and Piergiorgio Valente, Chairman Fiscal Committee of Confederation Fiscale Europeenne.

The final panel of the day, entitled "Fixed Income Versus Equity: Scenarios and Impact on Portfolio Allocations 2015-2016", looked at how different rounds of central bank QE has offered some comfort first to bonds and then equities, but noted the risk factors that still exist will challenge the growth and stability of the financial markets.

Panel participants included Armando Calcaterra, Head of Investments at Anima; Filippo Casagrande, Head of Investments at Generali Investments; Philippe Rakotovao, Global Head of Sales at CA-CIB; and Bruno Rovelli, Head of Investments, BlackRock. Gabriele Sacerdote, Co-Chair of the Capital Market ASFX Committee, chaired the session.

Boldly, Casagrande said that the "juice in the bond market has been squeezed".

He believed that the market is pricing in low inflation "forever". Calcaterra, on the other hand, said that QE is working but inflation is a worry. While the huge amount of US debt held outside the US may cause the dollar to fall, he noted there is still space for dollar to appreciate.

Rovelli argued there could be positive surprises from the Eurozone in the next 12 to 18 months, including higher growth than the US. However, the cyclical story in EMs is much less convincing.

The following day Roberto Napoletano, Editor-in-Chief, *Il Sole 24 Ore*, Radiocor and Radio 24, hosted a roundtable called "The Banking System and the Corporate Sector" to take stock of the situation in Italy since the crisis and posed the question of where and how they could turn things around. The roundtable included Guido Grassi Damiani, President and CEO of jewellery company Damiani, and Andrea Pontremoli, CEO and General Manager of Dallara Automobili from the corporate side, as well as Federico Ghizzoni, CEO Unicredit, and Flavio Valeri, Chief Country Officer at Deutsche Bank, from the banking side.

Ex-IBM executive Pontremoli's answer was to invest in smaller and innovative Italian companies. Every year the racing car manufacturer invests 20% of its revenues into an innovator. He called on the banks to come up with tools to help grow his business – not just tools they are already selling.

Damiani also called on the banks to support smaller firms, as they could only grow and thrive with support from the banking industry. "The banks did support us when we were small, and we paid back every penny of the loans," he said, adding, "The companies that have survived the crisis have a competitive edge – they are stronger for it."

AC World Congress 2016

The next ACI World Congress is to be held in Jakarta, Indonesia from 26-30 April, 2016.

In conversation with: Eddie Tan and Marshall Bailey

***ACI Briefing* caught up with Eddie Tan, Chairman, and Marshall Bailey, President, on the sidelines of the ACI 54th World Congress General Assembly in Milan, Italy. Reflecting on the year just gone, they touch on the challenges and opportunities for ACI – The Financial Markets Association and then speculate on what the next 12 months might hold.**

EDDIE TAN

MARSHALL BAILEY

No one can deny it has been a tough year for global markets in general, ranging from the impact of political uncertainties, such as the Hong Kong street protests and the Ukraine conflict, to economic worries, such as the low interest rate environment and 'Grexit', which continues to doggedly hang over the Eurozone.

In addition, regulatory pressures have continued to intensify and, as a result, regulatory costs have risen. Banks are now taking a long hard look at their balance sheets and taking steps to rationalise them. This has begun to impact the trading community, which has been used to larger balance sheets. This contraction will likely continue into 2015, as the banks get closer to implementing capital requirements under Basel III.

But despite a challenging year grappling with a number of unprecedented events, none more so than the Swiss National Bank's removal of the EURCHF floor that created pronounced volatility in mid-January, ACI FMA Global Chairman Eddie Tan is full of optimism regarding the role that the industry association has played and will continue to play in the future.

"We have put together a solid roadmap outlining where we believe ACI should be heading," he says. "We want to ensure that ACI FMA continues to be seen as a leading professional body that is encouraging market participants to adhere to standards of conduct and best practice. I am very encouraged by what we have accomplished this past year."

Tan, who was appointed Global Chairman in 2013 and also serves as ACI's Asia-Pacific President, believes that a narrow window of opportunity has opened up within which regulators are reaching out to market participants and industry associations in order to understand how to have greater oversight over an industry that has always been relatively self-regulated – but without over-regulating and stifling it.

He points to the recent Bank of England's Fair and Effective Markets Review, in which the ACI FMA actively engaged, including the submission of a reponse (see page 5).

"Regulators are searching for balance," he explains. "They do like some form of self-regulation, but they also want to have

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In conversation with. Continued from p.11

enough oversight to ensure what has happened in the past won't happen again."

Beacon of Best Practice

ACI President Marshall Bailey, who was appointed as the Association's first full-time President 10 months previously at the World Congress in Berlin, Germany, agrees with Tan's assessment of the role that ACI FMA can play in the current turbulent market environment. "For a long time we have been a beacon for best practice and ethical conduct. We have been able to take advantage of our 65-year history and deliver back to the industry what is effectively the industry's own answers to best practices," he says. Importantly, ACI FMA now provides its members with an online, annually renewable, self-certification tool. "That is exactly what many of the industry bodies are calling for," says Bailey. "The regulators are discussing how to implement best practice, and many institutions are now looking to ensure that their staff have access to the ACI Model Code."
The fact that the 54th Congress voted overwhelmingly in support of the new strategy for ACI FMA is of particular significance for Bailey. He praises the enthusiasm and commitment of the organisation as a whole. "We have had tremendous internal open and robust debate around what we will deliver and how we will deliver it," he explains. "With a robust and unified approach not only will our membership benefit and grow, but the industry overall will benefit."
The engagement the Association has on every level is having a knock-on effect across the industry, and global regulators are now paying greater attention to ACI's opinion and feedback.
Fundamentally, Bailey believes that his success as President will be measured by the "prominence, relevance and inclusion of ACI's voice within the global financial industry".
He stresses that the main task in the coming year is to grow the organisation, building on the advances already made to date – ACI FMA has 13,000 members in 60 countries, with the launch of ACI America late last year adding 80 new members. "As our membership increases, we will be able to offer our membership more, which will result in a virtuous upward cycle," he says.

Challenges on the Horizon

Looking out into 2015 and 2016, the biggest challenge for financial markets is how to risk manage a world that doesn't have precedents, according to Tan.
"There seems to be a convergence of a number of risks: political risk is on the up, economic risk is growing, etc. In addition social risk is increasing, such as high unemployment among highly educated youth, which isn't being discussed but could potentially have a significant knock-on effect in the financial markets. Unfortunately, we do not see political will on a global scale to address this emerging risk," he says.
Bailey, while agreeing with Tan's appraisal of prominent risks, believes that financial markets' biggest challenge – and opportunity – is the restoration of trust.
"Within the restoration of trust is the ability for people in financial markets to get on with assisting the economy," he says. "The markets work, but sometimes they get it wrong. Individual actions are normally entirely worthy and commercially motivated, but sometimes individuals get it wrong. Within that setting there is a cry for trust and transparency, ethical conduct and culture change.
"Our opportunity at ACI FMA is to facilitate that culture change and restoration of trust," he adds. "I believe that we are going about that with urgency and in the best way we know how, which is to provide education as an alternative to regulation. And we are working in tandem with regulators to allow them to fulfil their mandate in a way that is appropriate and helpful."
Both Tan and Bailey are looking forward to the 55th Congress, to be held in Jakarta, Indonesia from 26-30 April, 2016.
Bailey concludes, "By then we will have had a year to execute on what we have articulated today and can showcase what we have accomplished. Plus it is a great opportunity to interact with our Asian members and to turn towards what is clearly a growth engine for the world economy, not just China but the many countries where there are active ACI members."

CFP: Spearheading the New Model Code for 2015

The ACI Committee for Professionalism's (CFP) major project over the past year has been to update the ACI Model Code for 2015, which it launched at this year's ACI World Congress in Milan, Italy.

Although the Code was last revamped in 2013, recent events spurred on the CFP to revisit it again. The Committee has developed new content addressing prime brokerage, with recommended procedures when there are disputes in a PB trade. In addition, the CFP included new content on the controversial aspect of "last look".
"We consulted widely with the industry to ascertain current views on last look, as well as taking into account the regulators' views, and then added our recommendations for last look into the Model Code," explains David Woolcock, Chair of the CFP.
The CFP also added sections on high frequency and algorithmic trading, in light of the changing regulatory picture.
The Model Code is now available as a Web-enabled downloadable document from the ACI FMA website. "We are slightly changing how the Model Code is accessed because, with the speed of events happening at the moment, we will probably have to deliver more updates to the Model Code than in our regular schedule," says Woolcock.
Members will have to enter their email details in order to download the Code,

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DAVID WOOLCOCK

CFP. Continued from p.12

and they will be contacted as and when the Code is updated.

Joint Committee Meeting

At the 54th World Congress, the CFP and the ACI Foreign Exchange Committee (ACIFXC) held a joint meeting which discussed, among other things, what The Model Code should be saying about stop losses and off-market trades, which were impacted when the Swiss National Bank removed the EURCHF peg in mid-January.

Woolcock says, "The conclusion was that our content is still very relevant and a good guide to the market, particularly around what can be done with trades, etc. We wanted to reaffirm our stance regarding trades transacted in very volatile times, where there can be disputes as to what the big figure is."

The Model Code's position is that if the two parties can't agree what the rate should be, then they should take the rate that was agreed at the time – as long as the rate was within the known market at the time. "It is our belief that, unless the two parties bilaterally agree in a fair and orderly manner to adjust rates, any deals that are struck should stand," he explains.

Indeed The Model Code clearly states: "If high volatility at the time of the trade was such that there was reasonable doubt as to the correct big figure documented by authentic market records, then the rate agreed at the time of the trade should prevail as long as it was within the authenticated wider market spread at the time of the deal."

Woolcock continues: "One area of concern, and where the CFP is considering adding more detail to The Model Code, is that if there is a dispute over a trade in a highly volatile market, then it is beholden on the liquidity providers to behave in a responsible manner and not bully smaller banks into accepting rates by threatening withdrawal of liquidity from that entity. We, at ACI FMA, must condemn this behaviour."

Towards a Dynamic and Interactive Code

Looking ahead, with the launch of the new interactive e-Learning Annual Certification (ELAC) Portal (see page 2), Woolcock believes the CFP is going to be quite busy responding to the new scenarios submitted by members.

"When scenarios are submitted, we determine where our expertise lies for that particular subject, identify the part of The Model Code that it refers to and then we prepare a response."

In addition, the CFP offers an arbitration service, as an alternative to resolving disputes in the law courts, as well as providing advice on professional disagreements that may arise in trading.

Together with ACI's Board of Education's programme of exams and certification, the CFP plans to keep The Model Code up to date and make it a more dynamic code of conduct.

The results of the Bank of England's Fair and Effective Markets Review (FEMR) may trigger the first amendments for the Code going forward, according to Woolcock, who adds, "But we still believe that The Model Code has stood the test of time. It has a great history and is the only global code. We encourage the industry to settle on one code of conduct, so that jurisdictional arbitrage doesn't happen in foreign exchange."

Continuing the theme, Woolcock believes the biggest challenge facing the industry is getting participants to settle on one standard and, to that end, encourages central banks, other FX committees and regulators to have greater input into the Code.

Addressing the Whole Market

Over the course of 2015, the CFP will also be adding more detailed guidance for other asset classes, particularly fixed income and asset liability management (ALM). As an ongoing project, the CFP is looking at creating a Code that is suitable for non-bank financial institutions, particularly wealth and asset management firms, as well as for corporates.

"We want to develop a Code specifically for the buy side that addresses more of their detailed situation because, for example, what we say about rate fixing is mainly geared to bank behaviour," explains Woolcock. "As we have always maintained since the allegations first came out, it appears that there may have been areas where the buy side could have done better. Plus, if there is to be more thorough oversight of the fixing process, then it has to involve all regulated and non-regulated participants who are trading around the Fix."

To help progress its work, the CFP has added two new members: Roland Studer, Head of Money Markets at Credit Suisse, and Jørn (Luffe) Sodborg, Head of e-FX Sales and Price Distribution at Jyske Bank.

In his speech at the ACI World Congress General Assembly, ACI President Marshall Bailey commended the CFP's hard work. "David Woolcock and his team on the CFP have held the light high, and have shown that we, as a diverse association of volunteers, can teach the financial community about best ethical practices, and that many bankers are focused on ethical conduct. While so many large players seem to have forgotten that ethical conduct and trust are the most important aspects of trading, the 'our word is our bond' mantra that underpins the markets, our ACI CFP has held the answers. And now, as the world seeks answers to these challenges, we as ACI can provide them."

ACI Model Code 2015 – Dealing at Non-Current Rates and Rollovers (p36)

- Where disputes arise in foreign exchange quotations, it is highly unethical for one party to hold another to an erroneously agreed rate where the quotation is demonstrably and verifiably incorrect and away from the prevailing market rate.
- If high volatility at the time of the trade was such that there was reasonable doubt as to the correct big figure documented by authentic market records, then the rate agreed at the time of the trade should prevail as long as it was within the authenticated wider market spread at the time of the deal.
- If high volatility in an automated environment takes place momentarily, and is clearly a technical arbitrage and not a genuine indication of where the market might be, the trade should be cancelled.
- Where, during prolonged high volatility, the price continues within the same range, this would not be considered off market but indicative of a new market level.

BoE Update: New Online Portal for Self-Certification and Continuous Learning

The Board of Education (BoE), a cornerstone of the ACI – The Financial Markets Association, has spearheaded a number of improvements during the past 12 months, especially the launch of an interactive e-learning portal.

Its main goal is to ensure that market participants are fairly represented and put in a stronger position from an ethical standpoint, and it does that through the ACI Model Code – "the bible of ethical behaviour".

Currently, the Association offers a suite of courses and exams, including the ACI Dealing Certificate, ACI Operations Certificate, ACI Model Code Certificate and ACI Diploma. This year, the Board focused on developing the ACI Diploma, which will become the ultimate qualification, by separating it into various modules that can be implemented at any bank. In addition, the Board decided to include other product sets, particularly in the fixed income space.

Marshall Bailey, President of ACI FMA, praised the work the Board has achieved in his speech at the ACI Congress General Assembly. "Just look at the growth of the educational offering of ACI – we now not only have the ACI Dealing Certificate, so coveted around the world, and the Operations Managers Certificate, but a whole series of modules leading to the ACI Diploma.

"While we believe in further education, not further regulation, we stand ready and able to provide exactly the training so demanded across the FICC markets," he added.

Importantly, the education programme incorporates Bailey's vision of self-certification and continuous learning for participants in the wholesale financial markets. "We at ACI can bring all of our strengths together in one simple package by providing self-certification for the industry. We can assemble our minds, we can teach our collective skills, and we can certify through our education that we are transferring the best possible practices to our members," he said.

CLAUDIA SEGRE

To that end, ACI FMA has launched an online learning portal, Annual Certification (ELAC) Portal, which facilitates easier teaching and testing of The Model Code. This allows individuals and their employers to learn, test and monitor their understanding – effectively demonstrating constant compliance on an annual basis.

The portal is also interactive, incorporating a scenario builder as well as the ability to ask the Committee for Professionalism (CFP) specific questions not found in the Code.

Expanding ACI's Global Reach Through Education

Importantly for Brigid Taylor, ACI Africa President, the Board of Education has been actively reaching out to new regions beyond the Association's historical European base and increasing membership numbers. "Some of the biggest numbers in terms of education have come out of Africa, and that speaks to the fact there are a lot more younger people coming into the market and more development in the African banking sector," she says.

According to Taylor, The Model Code's strength is its objectivity – it isn't representative of a specific institution or a national sovereign, but a global market view.

"Whether the traders are based in Zambia or Germany, they are speaking the same language," she explains. "They understand how to play the game, the parameters of the field and the rules, so what they can and can't do. It is so much easier when you have a rulebook, which also helps you to be consistent."

Changing of the Guard

After six years at the helm, Claudia Segre has stepped down as Chair of the Board of


BRIGID TAYLOR

Education. During her tenure, she managed to reshape the Board to the new demands of today, expanding into new areas such as asset liability management (ALM), Islamic banking and other market matters.

Segre, who is also the Italian chapter's General Secretary, stressed the role the Association's education programme plays in the industry during her opening remarks at the Assiom Forex 2015. "We are here to promote a culture of ethics in financial education," she said. "The industry must take collective responsibility to promote higher ethical standards. I believe that it is better that the industry develops a code of conduct and hold firms accountable to their peers."

Speaking at the World Congress General Assembly, Bailey and Eddie Tan, Chairman of ACI FMA, thanked Segre for her contribution.

Bailey said, "I especially want to thank Claudia Segre for her role as Chair of the Board of Education. While she is stepping down as Chair, a new leader will replace her and carry on this extremely important role as we build it out even further. There is so much potential for this area to grow, and we must capture it with urgency. To all of you who make it possible to spread our ACI education globally, I salute you."

Tan added: "I see education as a big opportunity for us and the Board of Education has done a lot of quality work. Now we need to make it productive and fruitful for our members, as well as leverage the intellectual property that we have."

The Swissie, FEMR and NDF Clearing: It's All Go for the ACIFXC

The past year has been an incredibly busy one for the ACI Foreign Exchange Committee, as it responded to regulatory consultations and market events.

Top of mind for Stéphane Malrait, who has been Chair of the ACIFXC since its inception in 2010, were the events of 15 January when the Swiss National Bank pulled the plug on the 1.20 EURCHF floor.

The ACIFXC noticed that the spread widened significantly after the event; and although it has slowly come back to normal, it remains slightly wider than before. In addition, some client types found it more difficult to access liquidity, due to a variety of reasons, not least their profile and risk appetite.

During a joint meeting with the ACI Committee for Professionalism (CFP) at the ACI World Congress in Milan, Italy, ACIFXC committee members shared their observations of different market participants' behaviour and discussed whether their actions were in line with The Model Code.

"There were strong opinions that we should use The Model Code to make sure that people are aware of best practices, which can be very helpful in those extreme conditions," says Malrait.

He points to ACI's arbitration mechanism, which members can use in situations that require mediation. Although the facility comes under the CFP's remit, if it is an FX issue then the CFP will turn to the ACIFXC for expert help.

Market Consultations

The two committees also discussed ACI's engagement with recent regulatory consultations. ACI FMA regards the Bank of England's Fair and Effective Markets Review (see page 5) as extremely important to respond to, even though it wasn't FX specific, because it surveyed market participants on codes of conduct.

STEPHANE MALRAIT

In addition, it is widely believed that the outcomes from FEMR will have a wider scope of influence than just the UK. "That is why it was so important for us to spend the time and effort to reply, and our reply is publicly available on the Board of Education website," explains Malrait.

In addition to FEMR, ACI FMA responded to the European Securities and Markets Authority's October consultation paper on the definition of non-deliverable forward (NDF clearing) under European Markets Infrastructure Regulation (EMIR). On the day the two committees met together at the World Congress (4 February), ESMA announced it was dropping mandatory clearing of NDFs.

"We are extremely pleased with this announcement because that recommendation was in our consultation paper response," says Malrait. "In our opinion, the industry isn't ready for clearing of NDFs in Europe because there is a risk of regulatory arbitrage between Asia, Europe and the US."

He highlights the mismatch between regions, for example, if a firm starts clearing in the US, then it could make available to trade (MAT) execution quickly after that. "However, because MiFID II won't be implemented until January 2017, if a clearing requirement is put in now in Europe, then electronic execution won't happen before 2017," he explains.

Another topic that garnered a lot of discussion was the imminent change of WM/Reuters methodology for establishing its benchmark FX fixes, which widened the execution window from one to five minutes on 15 February. "This is an important change in the industry," says Malrait.

"We discussed how the market would adapt to the change and the behaviour of trading activity in those five minutes. If all fixings arrive within those five minutes, then we may see a large increase in volume during those five minutes – something we didn't see in the past. We decided to be vigilant and careful going forward about what happens during those five minutes."

> *"Having experts from the buy and sell side in a room behind closed doors who are able to discuss sensitive subjects and express their own individual opinion is very valuable for the industry"*

Buy and Sell Side Working Together

With the ACIFXC is now entering fifth year, Malrait is pleased with its progress in creating a group of trusted individuals from the buy and sell side, as well as FX technology platforms, to represent the industry as a whole. Recently, the committee added a specialist in algorithmic trading to bring in expertise from that area.

The ACIFXC also provided its expert insight into reviewing the official definition of last look and what should be included in the updated ACI Model Code.

"What we didn't realise when we started the ACIFXC is the amount of change in the FX industry that was going to take place due to regulation and the global investigation into market manipulation. I think it proves the importance of such a committee for ACI FMA.

"Having experts from the buy and sell side in a room behind closed doors who are able to discuss sensitive subjects and express their own individual opinion is very valuable for the industry because it is how we can drive improvements going forward and recommend best practices," he explains.

Global FX Committees Unveil Top Level Guidance

The global FX market committees have released new top level guidance following a meeting in Tokyo which agreed the additional guidance around key topics such as sharing market colour and use of trading jargon. The guidelines are intended to sit on top of the existing global codes, including ACI's Model Code.

"ACI – The Financial Markets Association welcomes the announcement from eight international FX Committees that they have adopted the same set of rules and principles for their respective regions," says ACI President Marshall Bailey. "Harmonised reform and strengthening oversight of the FX industry is crucial if we are to restore the reputation of the market, and ACI has long argued for the need for a set of rules that apply globally in order to achieve this. The revised Global Preamble is a major step towards achieving this goal.

"Importantly for market participants and members of ACI FMA, the harmonised principles and rules will ensure there is no scope for ethical arbitrage," he adds. "Different regions applying their own codes of conduct could have unintended consequences and drive trading to less-stringent regulatory jurisdictions, and we are pleased that this scenario has been avoided in the major financial centres. Harmonisation is also beneficial for regulators, as they can measure the behaviour, ethics and conduct of all participants by the same criteria – regardless of geographical location – and any misdemeanours can be immediately identified and addressed."

The FX committees' document supersedes the Codes of Best Market Practice and Shared Global Principles published by the various Foreign Exchange Committees in 2013.

The eight-page document says that FX market participants are expected to review and incorporate the updated guidelines into their individual firm's policies and procedures. "These policies should provide sufficient guidance, including examples where appropriate, for staff to be able to distinguish between acceptable and unacceptable conduct in a variety of situations they may encounter," the document states. "In order to raise awareness and compliance by relevant personnel with the FX policies, a programme should be established for the training of such personnel on the FX policies.

"FX market participants should also consider, as appropriate, adopting a process by which relevant managers periodically attest to the supervision of their staff with respect to compliance with the FX policies," it adds.

The FX committees involved in the work are the Australian Foreign Exchange Committee, Canadian Foreign Exchange Committee, the European Central Bank's Foreign Exchange Contact Group, the Hong Kong Treasury Markets Association, the UK Foreign Exchange Joint Standing Committee, the New York Foreign Exchange Committee, the Singapore Foreign Exchange Market Committee, and the Tokyo Foreign Exchange Market Committee.

These bodies work closely with each other to share information on various local projects and initiatives and to exchange views on events in the foreign exchange industry. The new document states, "In order to promote more robust risk management practices among global FX market participants, there is shared support for certain high-level principles which are set out in this document and underpin the existing codes (and the guidance therein) promulgated by the various committees."

The new guidelines include the demand to develop and promote a strong culture of ethical behaviour and standards of conduct; promote awareness and use of general dealing practices, procedures and conventions; ensure accurate and timely pre-trade preparation and trade capture; support robust and efficient back office operations including confirmation, netting, payment and settlement; and mitigate risk in FX transactions from the point of initial discussion regarding a potential transaction to settlement.

The document lays out recommendations for personal conduct amongst all participants, and stresses that any market participant and their institution "may be held accountable for any breach of FX policies that violate fair market practices, damage the reputation of the FX market participant and profession or undermine the integrity of the FX market".

It also states that participants must have effective policies and controls in place to deal with individuals who have behaved inappropriately, including reporting requirements to local authorities.

Escalation procedures should be in place to allow individuals to report suspicious behaviour, and "Individuals working for FX market participants should feel confident that any information reported under these procedures will be dealt with seriously and effectively, and that the reporting will not be to their detriment. FX market participants should be accountable for the integrity of these policies and for ensuring the protection of staff that make such reports," the document states.

On the crucial subject of confidentiality, the document says that market participants must have well documented policies and procedures in place, as well as sufficient systems and controls to protect FX trading information within the dealing environment and other areas of the market participant which may obtain such information. They should also ensure that personnel have been trained with respect to such policies. These policies should also prohibit counterparty and customer anonymity from being circumvented through the use of slang or pseudonyms, both externally and internally.

It also says their personnel should be trained to identify designated confidential information appropriately in accordance with internal policies and procedures including the manner in which such information must be handled, and to deal appropriately with situations that require anonymity and discretion.

The participants should also ensure the communication technologies used to transmit trading information and designated confidential information are reasonably designed to be secure, monitored and protected against unauthorised access. "Appropriate steps should be taken to prevent the leakage of such information through various kinds of communication technologies," it states, adding that any misuse of trading information or designated confidential information should be investigated promptly according to a properly documented internal procedure.

"FX market participants should not share information with each other about their trading positions or individual trades with clients or other FX market participants beyond that necessary for the execution of a transaction and subsequent transaction lifecycle events, ensuring that no

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FX Committees. Continued from p.12

confidential information is disclosed," the document states. "Furthermore, FX market participants should not pass on FX trading information to other FX market participants that might enable those entities to anticipate the flows of a specific client or counterparty, including around a fix.

"It is acceptable to share with customers a view on the general state of and trends in the market (often referred to as providing market colour)," the document continues. "However, any market colour given regarding market activity should be sufficiently aggregated and anonymised so as to not disclose FX trading information or designated confidential information.

"It is not acceptable to disclose information on individual trades, specific counterparty names and other non-public information, except in accordance with the standards set out above regarding FX trading information or designated confidential information," it adds.

"Finally, FX market participants should exercise careful judgment in assessing whether any information they receive (including, but not exclusive to, counterparty information) is true and accurate."

The committees state that institutions should impose policies that require their personnel to refrain from passing on information that they know or suspect to be misleading. These policies should also include the circumstances in which it may be acceptable to inform customers about a rumour prevalent in the market, and the requirements as to how that communication should be handled.

On execution policies, the document stresses that participants should not engage in any practices "which could be held to constitute market manipulation, abuse, fraud or anti-competitive behaviour". It adds that all firms should identify potential or actual conflicts of interest and take measures to eliminate or control these conflicts.

The document concludes, "In accordance with the FSB's *Foreign Exchange Benchmarks Report*'s recommendations, FX market participants should establish and enforce their internal guidelines and procedures for collecting and executing fixing orders. If a firm engages in fixing transactions, those transactions should be priced in a manner that is transparent and is consistent with the risk borne in accepting such transactions. Finally, FX customers (including asset managers passively tracking an index) should conduct appropriate due diligence around their foreign exchange execution, including assessing the suitability of FX reference rates used, and be able to demonstrate that to their own clients if requested."

"The Global Preamble touches on many of the issues addressed by ACI FMA in its updated Model Code for 2015," says Bailey. "A central component of the agreed rules and ACI's Model Code is ensuring that individuals are educated about the appropriate ethical standards and behaviour expected of them by their employers and the market, and the consequences for them as individuals if they choose to engage in illegal or unethical behaviour.

"A universal code of conduct, with comprehensive guidelines and best practices will help in providing a moral compass and guidance to which all professionals can adhere," he continues. "The Model Code has been the market gold standard for ethical behaviour for decades, but testing and measuring knowledge of the Code is also critical.

"ACI's new e-learning and certification (ELAC) Portal has already embedded the wording from the Global Preamble, making it as up-to-date as possible, and will allow members to test their knowledge of The Model Code and benefit from interactive scenarios to demonstrate how the conduct rules can be applied in a variety of situations," he adds. "Measuring and monitoring progress is central to behavioural change and the ELAC Portal is designed to ensure any knowledge or conduct gaps are swiftly addressed by supervisors."

FX Volume Higher

Foreign exchange trading activity in the UK and US rose to record levels in October, reports from the nations' FX committees show, on the back of increased volatility that was largely triggered by a divergence in monetary policies.

Average daily currency turnover in the UK rose to a record $2.67 trillion, up 11% from $2.4 trillion in April 2014 and 19% higher than $2.2 trillion in October 2013, according to the Bank of England's Foreign Exchange Joint Standing Committee (JSC) in its 21st semi-annual turnover survey.

"This is the highest level of turnover recorded since survey inception," the JSC says.

Average daily volume in North America was $1.1 trillion, the highest since the survey began in 2004, according to the Federal Reserve-sponsored Foreign Exchange Committee. This is a rise of 35% from $811.1 billion in April and 34% higher than $816.3 billion recorded in October 2013.

In the UK, turnover in most products rose to new survey highs. FX spot turnover climbed 40% to $1.1 billion per day, up 44% year-on-year, with turnover in EUR/USD rising 18% from April to a record $805 billion per day. FX swap turnover was the only product to fall compared to April and was down by 14%.

Average daily spot volume in the US increased 62% to $570.7 billion compared to April. Similarly, FX options volume increased by 66% to $64.8 billion and forwards volume rose by 20% to $220.4 billion. Swap volume remained flat at $239.3 billion.

Implied volatility rose in October, a month after the European Central Bank cut interest rates to record levels to support economic growth and revive inflation.

In the US, the Federal Reserve said it would end a bond-buying programme just days before the Bank of Japan unexpectedly increased bond purchases under its quantitative easing stimulus strategy on 31 October.

The diverging policies, combined with widespread political risk, have helped boost a recovery in trading over the past few months

In Japan, turnover in average daily trading was $373.2 billion in October, up 3% from $362.9 billion in April and flat year-on-year, the Tokyo Foreign Exchange Market Committee reports, while in Singapore, daily turnover was $319.5 billion, a rise of 10% from April's $290.5 billion a day and 13% higher than $282.2 billion recorded in October 2013.

In Canada, turnover on an average daily basis rose 3.8% to $60.4 billion in October from $58.2 billion in April.

The Australian FX Committee was the only to reveal a drop in volume, both month-on-month and year-on-year. Average daily volume was $150.3 billion, a decline of 14% from April, and 15% lower over the year.