

March 6th, 2024

Dear GFXC colleagues,

I hope all of you are doing well. As you know, this year the GFXC will be conducting the triennial review of the FX Global Code (“the Code”). Over the past months, we have received valuable input that will guide our efforts. This input includes the letter from the BIS Markets Committee, the survey to market participants on Code effectiveness, and the survey to local FX committees (LFXCs) on the Code Review. With this in mind, the purpose of this letter is to set the course of action for the Code Review, and to briefly elaborate on other GFXC’s priorities during 2024.

I. Next Steps for the Code Review.

The Code Review will focus on three key aspects and there will be a Working Group focusing on each:

1. Adoption of the FX Global Code.

Responsible: Motivation for Adherence Working Group.

Chair: Stefanie Holtze-Jen, Deutsche Bank – Private Bank.

Objectives:

- To further promote the adherence to the FX Global Code, particularly amongst buy-side participants. Highlighting how the Code helps to strengthen governance practices within institutions will remain a focal point. For this purpose, the Working Group (WG) will continue to reach out to rating agencies and, more recently, to auditors.
- Increase awareness, accessibility, and use of the Disclosure Cover Sheets (DCS), and analyse if any of them requires light adjustments.
- Monitor the appropriate functionality of the Proportionality Self-Assessment Tool, promote its use and support its continued enhancement.
- Propose alternatives to raise awareness and improve accessibility of other GFXC resources, including the website, social media, guidance papers, and templates, among others.
- Examine whether the GFXC should request firms to re-sign a Statement of Commitment if significant changes are made to the Code.

Timeline: The WG will continue its efforts throughout the calendar year.

2. Further mitigating settlement risk in FX transactions.

Responsible: Settlement Risk Working Group (new).

Private Sector Chair: Simon Manwaring – NatWest Markets. Vice-Chair GFXC.

Objective: to improve the assessment of settlement risk in FX transactions, promote the adoption of risk mitigation mechanisms, and assess the impact of accelerated securities settlement processes in the FX market.

Phase 1. Focus on Code Review (through December, 2024):

- Review the principles of the Code that could warrant modifications, including whether a light-touch review of principles 35, 50, and 55 is needed. The WG is expected to submit a

first proposal for modifications, as applicable, before the July GFXC meeting,¹ and a final proposal by September.

Phase 2 (extending into 2025):

- Analyse the impact of accelerated securities settlement on FX transactions and consider a guidance paper during 2024.
- Better understand the drivers and potential mitigants of FX settlement risk, building on the results of the LFXCs semi-annual FX volumes survey and the BIS triennial survey with the new FX settlement data collection template and produce a discussion paper by the end of 2025.
- Further promote the adoption of PvP mechanisms or alternatives.

3. Enhancing transparency of FX transactions and providing guidance on the use of FX data.

Responsible: FX Data Working Group (new).

Chair(s): to be determined.

Objective: To analyse how FX data could be made more accessible to market participants in order to improve market transparency and create a level playing field, being mindful that the cost aspect of data is outside of the GFXC's remit.

Phase 1. Focus on Code Review (through December, 2024):

- Analyse the principles of the Code that could merit modification and, where appropriate, submit a proposal of modifications to account for:
 - Improving clients' access to data under delegated execution, including when algorithms are used and when trades are internalised.
 - The possibility of clients' data being shared/sold/transferred without their knowledge and/or consent.
- Assess whether transparency could be further enhanced for FX transactions executed by prime brokers and custodians.
- Examine the consistency of disclosures regarding the use of FX data and, where appropriate, provide recommendations for best practices.

The WG is expected to submit a proposal of modifications to the Code, as applicable, before the July GFXC meeting, and a final proposal by September.

Phase 2 (extending into 2025):

- Discuss how to improve the availability of reference data for derivatives transactions, with a focus on swaps. An update on this issue could be provided at the GFXC end-of-year meeting.

With regard to Pre-Hedging and Last Look, the GFXC will examine the implications of including links to the guidance papers on these issues within the Code. It is important to note that slightly more than two-thirds of market participants and LFXCs believe that specific content of the guidance papers should not be incorporated in the Code. Nonetheless, there is merit in re-examining the benefits and drawbacks during the next GFXC meeting. Any other pending issues could also be discussed during the GFXC meeting in early July.

¹ The next GFXC meeting will be held on 1-2 July on the ECB premises in Frankfurt.

GLOBAL FOREIGN EXCHANGE COMMITTEE

Working Groups: The LFXCs have nominated candidates to participate in the WGs. As such, the Motivation for Adherence Working Group may include new members, preferably from under-represented jurisdictions, to support its expanded mandate. The Settlement Risk and FX Data Working Groups will be formed in the coming weeks. Given the intense agenda for 2024, and in order to share the workload, the new WGs could be co-chaired by a private sector representative and a central bank representative, as was the case for the last Code Review. In this regard, I encourage LFXCs to submit additional volunteers for those interested in taking on a leadership role. The detailed work plan for each WG will be defined in consultation with the Chair(s) and shared with the GFXC in due course.

Timeline for the Code Review: Based on the WGs' input and GFXC members' feedback, the Chair will lead the discussion on an initial proposal for changes to the Code at the next GFXC meeting on July 1st and 2nd, 2024. The WGs and the GFXC Chair will consider all comments and feedback through September. A final version will then be circulated for approval by the LFXCs and GFXC. The objective is to publish the new version of the Code by December, 2024.

The concept of re-signing the Statement of Commitment will be considered at the July meeting, bearing in mind the breadth of potential modifications to the Code and the burden that re-signing places on the signatories.

II. Other GFXC topics and priorities.

In addition to the Code Review, the GFXC will focus on the following issues:

- Selection process for the new GFXC Co-Vice Chair. I will ask that the final candidate be endorsed by GFXC members through a written procedure once the person is selected.
- Further collaborating with ISDA on the review of its 1998 FX Definitions, including the approach to trade term adjustments in the event of unexpected holidays.
- Further strengthening relationships with other associations and committees that share the GFXC's goals (e.g., IOSCO, CPMI, and private FX associations, among others).

I trust this work plan will form the basis for our mutual collaboration, and the continued achievement of the GFXC's goals of promoting a robust, fair, liquid, open, and transparent FX market.

Please do not hesitate to contact me if you have any comments or questions.

Kind regards,

Gerardo García
Chair of the Global Foreign Exchange Committee