ACI
THE FINANCIAL MARKETS ASSOCIATION

The Model Code

The International Code of Conduct and Practice for the Financial Markets

January 2013

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"Strong focus on governance - ethical and moral standards"

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The Model Code

The Model Code is designed to have global application to over-the-counter (OTC) professional financial product markets. The scope is wide-ranging, and the diversity of markets and products now traded and arbitraged by bank dealers dictates that there will inevitably be some areas of overlap where separate individual or local market codes already exist. Therefore, the contents of *The Model Code* are, to a certain extent, generic. Readers should consult their local compliance department and/or counsel (internal or external) for the requirements and conditions specifically applicable to the transaction or business conduct concerned. *The Model Code* should therefore be taken as a globally accepted minimum standard. The details and intricate legal and regulatory requirements of one jurisdiction may only apply where there is a personal and/or subject matter with a connection or association with that jurisdiction. Where such laws, rules and regulations do not apply, or where the association necessary for the application is not free from doubt, *The Model Code* will provide a good starting point. No matter how detailed and specific the rules and regulations may be, the underlying principles of those rules and regulations can be found in *The Model Code*. This is probably why *The Model Code* is accepted and/or endorsed by many regulators who, in their own jurisdiction, apply and implement more detailed rules and regulations.

The Model Code remains consistent with the high standards of integrity and professionalism that have existed in the financial core markets. The first ACI – The Financial Markets Association (ACI) Code of Conduct was published in 1975.

When compiling *The Model Code* in subsequent years, the recommendations contained in the following recognised codes were considered:

- FX Best Practices in Operations: European Central Bank (ECB) Operations Management Group (OMG), reviewing the Bank of England Non-Investment Products (NIPS) Code, the Federal Reserve Bank's 60 Best Practices, and the ECB's own OMG documents, March 2012;
- The London Code of Conduct: revised June 1999 by the Financial Services Authority (FSA);
- The French Code of Conduct: March 1999;
- The Singapore Guide to Conduct and Market Practices for Treasury Activity: revised February 1998;
- The Code of Conduct of The Tokyo Foreign Exchange Market Committee ('The Orange Book'): December 1998;
- The ACI Code of Conduct: revised 1998; and
- The Guidelines for Foreign Exchange Trading Activities of the New York Foreign Exchange Committee: August 1995.

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Foreword

Our ambition was to update and build upon *The Model Code*, which was originally presented in May 2000 in Paris and started a process of drafting a new chapter on FX Best Practices in Operations for inclusion into the Code, which was announced at the ACI World Congress in Dubai 12 years later. I owe a debt of gratitude to Andreas Gaus and his team, drawn from Central Banks and market practitioners. FX, the foreign exchange market, is the world's largest financial market and it is thus essential to have 'self-regulating' guidelines in place, building on ACI's experience.

The success of *The Model Code* is a credit to the individuals who were involved with its original production, such as the late Denis Nolan, and to those who played an integral part in its adaptation and eventual redrafting. We attribute these achievements not only to the talent of the great minds involved in producing it, but also to the fact that it was such a diverse group of professionals with various backgrounds, representing a wide array of institutions. This helped to produce a Code which has been widely accepted; it is now utilised by numerous countries worldwide and is now steadily progressing towards becoming a globally accepted minimum standard, one of the main goals for ACI.

The need for *The Model Code* is becoming ever more pronounced; recent events have shown the need for all practitioners to keep in mind the foundations on which the over-the-counter markets are built. A universal code of conduct, with comprehensive guidelines and best practices which span the whole system, from the detailed processes of the back office right through to the up-to-date functions of the electronic platforms utilised by the front office, will help in providing a moral compass and guidance to which all professionals can adhere.

I would like to thank the past chairs of the ACI Committee for Professionalism (CFP), Werner Pauw, Eddie Tan and Terry Tanaka, as they developed an incredible foundation upon which I, and the rest of our dedicated CFP committee members, could build. The CFP also owes a debt of gratitude to Maninder Lidhar, our summer intern, whose tireless work, dedication and attention to detail made the rapid completion of this undertaking possible.

David Woolcock
Chair (2012-present)
Committee for Professionalism
ACI - The Financial Markets Association
August, 2012

Disclaimer

The contents of *The Model Code* (including updates, supplements and amendments) do not necessarily reflect the views of any particular member of the Committee for Professionalism (CFP), or of the entity, organisation or group each member works for, belongs to or is otherwise associated with, or of ACI - The Financial Markets Association (ACI). Nothing in *The Model Code* shall be construed as an assurance that any transaction could be entered into with the institution associated with the members of CFP or any other party, even if the terms and conditions of such transactions are in strict adherence to *The Model Code*.

Any person utilising *The Model Code* for any purpose should satisfy himself or herself of the appropriateness for its intended use or purpose, and ensure that all the applicable laws, regulations, rules and other requirements (the 'Applicable Laws, etc.'), which generally have more detailed requirements, are complied with. For the avoidance of doubt, *The Model Code*, despite the term 'code', does not have a force of law; therefore, in the event of conflict or inconsistency between such Applicable Laws, etc. and *The Model Code,* the Applicable Laws, etc. must be given priority over *The Model Code*.

The Model Code is not intended to provide legal, regulatory, tax, accounting or other general or specific advice. Each person must seek advice of the appropriate professional as he/she deems necessary.

None of the members of CFP, ACI or any associated organisation warrants, whether expressly or by implication, or shall be responsible for the accuracy, completeness, or fitness or appropriateness for any particular purpose of *The Model Code* or any of the contents thereof. ACI, CFP and its members expressly disclaim any liability as to the consequences, direct or indirect, of any action or inaction taken pursuant to *The Model Code*.

The Model Code: Introduction

Background

A common aim of all codes of conduct is to promote efficient market practices by encouraging high standards of conduct and professionalism. Yet the largely unregulated global foreign exchange market thrived and expanded for decades in the major international centres without any written code or guidelines on market practice or conduct.

This situation lasted until the early 1970s, when the Bank of England issued the 'O'Brien Letter' to authorised banks in London. This short, but timely and useful, first circular covered a number of dealing issues and provided much needed clarification and recommendations on some market practices and conventions, which were expanded upon in later editions.

The breakdown of the main fixed exchange rate structure in 1973 heralded a new era in exchange and later interest rate volatility, and the repercussions thereof highlighted the need for a more formal international approach to market practice conduct and ethics.

From 1980, the emergence of new markets and instruments such as financial futures, interest rate swaps, options and other derivatives employed by treasury and capital markets dealers further underlined the urgency of the situation.

In 1975, the first ACI Code of Conduct covering foreign exchange and euro-currency dealing was published. There followed similar publications by the markets in New York (1980), London (1990), Singapore (1991) and Tokyo in 1995.

The need for one Model Code

The Model Code has been compiled in response to the urgent international need among dealers and brokers operating in the over-the-counter (OTC) foreign exchange, money and derivatives markets. The Committee for Professionalism (CFP) of ACI - The Financial Markets Association (ACI) has become increasingly aware of this need through regular contact with its membership of over 24,000 dealers, brokers, middle and back office staff in over 80 countries.

Until recently, the syllabus for the Code of Conduct examination in the ACI Dealing Certificate recognised the Codes of Conduct of the four main centres: London, New York, Singapore and Tokyo, in addition to the ACI's own Code. Candidates preparing for the examination were therefore obliged to undertake a long and arduous study of the provisions of all five publications.

Following a comprehensive review of the situation, the CFP concluded that, despite the existence of some difficult issues and of differences in structure, there was an urgent need for one global code that could cover the essential provisions of all five recognised publications.

The conduct and best practice recommended in the five codes has general conformity and, with a few notable exceptions, the differences that do exist are mostly those of emphasis and scope. It was therefore felt that a 'Model Code', which embraced the main provisions of the recognised codes, could serve as a valuable guide for the international dealing membership. It would also serve as practical study material for junior dealers and, with an amended syllabus recognising the new structure, for examination candidates.

The need for a Model Code is more pronounced in many of the emerging markets where a professional code is lacking.

Scope and importance

The scope of *The Model Code* is wide-ranging, encompassing the OTC markets and instruments traded by international bank dealing departments, as listed in Appendix Four. The diversity of markets and products now traded and arbitraged by bank dealers dictates that there will inevitably be some areas of overlap where separate individual or local market codes already exist.

Mindful of this, great care has been exercised in the drafting of the text, in order to ensure that the provisions and market practice recommended herein are not substantially at variance with the recognised codes already in place. At the same time, *The Model Code* remains consistent with the high standards of integrity and professionalism that have existed in our core markets since the first ACI Code of Conduct was published in 1975.

Preparation

In compiling the original Model Code, the recommendations contained in the following recognised codes were considered:

- The ACI Code of Conduct (revised 1998);
- The Guidelines for Foreign Exchange Trading Activities of The New York Foreign Exchange Committee (August 1995);
- Non-Investment Products (NIPS) Code (revised June 1999 by the Financial Services Authority);
- The French Code of Conduct (March 1999);
- The Singapore Guide to Conduct and Market Practices for Treasury Activity (revised February 1998); and
- The Code of Conduct of the Tokyo Foreign Exchange Market Committee ('The Orange Book' December 1998).

In addition, market practitioners from every established international financial centre were consulted on several of the issues covered in the Code, particularly those areas where there are differences in interpretation and emphasis. The resulting advice and opinions expressed were fully debated at the ACI Committee for Professionalism before the final text was agreed. Subsequent editions incorporated best practice from Codes from financial centres as they were published.

Dealing terminology

In *The Model Code,* strong emphasis has been placed on the conduct and practice that must prevail in the critical area of quotation of dealing rates and the agreement of trades. This priority is further underlined by the inclusion of market terminology in the Supplementary Material Section, which forms an integral part of *The Model Code.* All dealers and candidates for examinations should be fully conversant with this chapter. Whether the rate quoted is for a full delivery foreign exchange trade or a non-deliverable, cash settled derivative such as a Forward Rate Agreement, the same high standard of dealing practice and integrity must prevail.

Compliance

In order to maintain orderly and efficient markets, it is essential that dealers and brokers comply with both the letter and the spirit of *The Model Code.* The General Principles of Risk Management stated in Appendix One are particularly relevant in this regard. Beginning with the fundamental dealer's maxim 'My word is my bond', the conduct, practice and ethics prescribed in *The Model Code* are the culmination of long experience in OTC exchange, money, and derivatives markets dealing.

The importance therefore of adherence to the provisions contained herein is self-evident and the consequences of breaches of this code are clearly stipulated in Section 49: Compliance and Complaints.

Structure

As many of the issues dealt with are of a technical nature, requiring specific guidance, the entire *Model Code*, unlike similar publications in other fields, has been structured with a clear division of categories. This style has been adopted in order to provide quick and easy reference to the dealer or student regarding the profession's recommendations on whichever topic information or guidance is sought.

Updates and revisions

The changes over recent years in markets, structures, administrative systems, products and even currencies underline the need for continuous monitoring and updating of recommended best practice. To this end, the Committee for Professionalism of ACI maintains a regular and comprehensive review procedure in order to ensure that *The Model Code* keeps pace with any technological or other changes that may affect market conduct, ethics or practice.

Expert Determination Service

Where the counterparties of a transaction are unable to resolve a dispute which has arisen between them, the ACI Committee for Professionalism provides an Expert Determination Service in order to facilitate its resolution. Market participants are encouraged to avail themselves of this service in

accordance with ACI Rules for OTC Financial Instruments Disputes Resolution. The terms and conditions of this service are set out in Appendix Two.

Translation/language

The official language of *The Model Code* is English.

PART I: BUSINESS HOURS

The Model Code insists that strict, clear market practices and procedures are in place in order to ensure the smooth and efficient functioning of the market on a daily basis, and especially in unforeseen circumstances.

1. Market Opening and Closing Hours

- The official recognised opening and closing hours of currency markets will be set from 5.00 AM Sydney time on Monday morning to 5.00 PM New York time on Friday all year round, except when special arrangements are made around certain holidays, such as the New Year, etc.
- Trades, whether direct or via a broker, transacted outside this window are done so in conditions that are not considered to be normal market conditions or market hours.

2. Holidays

- On Unscheduled Holidays, unless the bilateral agreements between the parties concerned specifically provides for such situations, it is market practice to extend contracts maturing on a non-business day to the next business day.
- Value dates in foreign exchange transactions will not be split, other than in cases where both parties agree or where special local practice allows for split delivery, such as in certain Islamic countries, and the affected parties should agree to adjust the exchange rate according to the prevailing relevant forward mid swap points at the time the bank holiday is announced.
- For interest bearing transactions, one or more further days' interest will be paid by the deposit taking party at the original transaction dealing rate up to the next available business day in the currency centre concerned.

3. Market Disruption

The Model Code recommends that local market participants, including the owners and other parties responsible for the operation, administration and/or management of electronic trading/broking/trade support initiatives ('e-trading owners'), should strictly adhere to the rules issued by local regulators, supervisors or central banks in instances of market disruption in order to maintain efficiency and avoid disputes.

- In case such rules or procedures conflict with any provision of an existing written agreement, the parties should consult their local counsel as to the effect of such procedures.
- If the rule or procedure is not mandatory in nature, the parties should consult with each other whether they wish to adhere to the terms of the agreement or to amend the terms of the transaction to follow the relevant procedure.
- If no written agreements or local provisions are in place, it is recommended that *The Model Code* best practice in Section 2: Holidays, should be used where practicable.
- Where strict adherence to the market standard provisions is impracticable, industry groups may convene a meeting to form a market consensus in certain cases. Market participants should attend these meetings where possible, and be aware of, and honour, the consensus reached at the meetings.
- Market participants should incorporate appropriate provisions in their agreements. For transactions in emerging market currencies, the definitions relating to market disruptions in the local market are also provided (mainly for use in connection with non-deliverable forwards). E-trading owners and members of such schemes should have in place a written agreement on the procedures and fair allocation of the risks, costs and burdens arising in connection with such disruptions in quoting, matching, straight through processing, settlement, etc., within the operational mechanism.

PART II: COMPANY-WIDE ISSUES

Chapter One - Personal Conduct

The Model Code advocates clear written management and policy controls with regard to the personal conduct of employees and management, and insists on strong management involvement if these kinds of problems arise. Management should ensure all employees are fully aware of all rules and laws within the industry and the consequences of ignoring them.

4. General Personal Conduct

- Employees should be made aware of the consequences of their professional, ethical and social behaviour. It is expected that employees will comply with the highest code of conduct standards in all that they do for the organisation, the market and in their personal lives. They may be held accountable for any actions or discussions which break fair market practices, and damage the reputation of their company and their profession.
- In addition, employees should be committed to maintaining a work environment that is free from discrimination or harassment.
- Management should ensure that policies are in place in order that business is conducted within the framework of applicable professional and ethical standards, laws, regulations and internal policies which, additionally, should have procedures to deal with individuals who have acted inappropriately.

5. Drugs, Alcohol and Substance Abuse

- Management should take all reasonable steps to educate themselves and their staff about possible signs and effects of the abuse of drugs, including alcohol and other substances.
- Policies should be developed and clearly announced, including penalties for individuals who are found to be substance abusers.

6. Gambling/Betting between Market Participants

- Gambling or betting amongst market participants has obvious dangers and should be strongly discouraged.
- Where the practice is not forbidden, it is strongly recommended that management has a clearly defined written policy on the control of this activity.

7. Entertainment and Gifts

- Although gifts and entertainment may be offered in the normal course of business, employees must never offer inappropriate inducements to conduct business, nor solicit them from the personnel of other institutions.
- Management should monitor the form, frequency and cost of entertainment/gifts that the dealers receive, and have a clearly articulated policy towards the giving/receipt thereof, ensuring it is properly observed.
- Management should establish procedures for dealing with gifts judged to be excessive but which cannot be declined without causing offence, and ensure the transparency of all offers of entertainment, whether received or provided.
- Entertainment should neither be offered nor accepted where it is underwritten but not attended by the host.

8. Dealing for Personal Account

- Where dealing for personal account is allowed, management should ensure that adequate safeguards are established to prevent abuse or insider dealing in any form. These safeguards should also reflect the need to maintain confidentiality with respect to non-public price sensitive information, the instruments/products dealers can trade for their own account, and ensure that no action is taken by employees that might adversely affect the interests of the firm's clients or counterparties.

- Written procedures should be put in place by management to cover personal transactions of staff as well as those on behalf of the dealer's family and other members of personnel, management included.
- There should be a full disclosure and transparency requirement, ensuring that the traders give their full attention to their institution's business without being distracted by personal financial concerns.
- Written procedures should clearly stipulate the institution's control policy in relation to 'front running' or 'parallel running'; where traders knowingly execute trades in front of a customer order. These trades would not have been executed without that prior information obtained; hence this is a form of insider trading and should be banned accordingly.

9. Misinformation and Rumours

- Dealers and brokers should not relay any information that they know to be false, and should take great care when discussing unsubstantiated information that they suspect could be inaccurate and which could be damaging to a third party.

10. Confidentiality

The Distribution of Confidential Information

Confidentiality is essential for the preservation of a reputable and honest market place. The Model Code insists that firms must have clearly documented policies and procedures in place, and strong systems and controls to manage confidential information within the dealing environment and other areas of the firm which may obtain such information. Any breaches of this should be investigated immediately according to a properly documented procedure. The process of investigation should also be comprehensively documented. Brokers will include voice brokers and electronic broking platforms.

- Principals and brokers share responsibility for maintaining confidentiality and, without explicit permission from the parties involved, they should not disclose or discuss any information relating to deals transacted, in the process of being transacted, or in the process of being arranged, except to or with the counterparties involved. It is their responsibility to ensure no breaches occur via loudspeakers, other telecommunication systems and discussions in public domains.
- Individual principals or brokers should not visit each other's dealing rooms except with the express permission of the management of both parties.
- Principals should not deal from within a broker's office, nor should brokers arrange deals from outside their own office.
- A principal should not place an order with a broker to find out the name of counterparty in order to make direct contact to conclude the deal.
- A principal should neither ask nor in any way pressure a broker for information which would be improper for the broker to divulge nor should the broker volunteer such information. Principals in financial institutions should also resist any similar pressure from corporate clients to divulge confidential information, nor should the corporate dealer exert such pressure.
- Management is responsible for ensuring that their staff have been trained to identify and treat appropriately information that is sensitive, and to deal appropriately with situations that require anonymity and discretion.

The Use of Confidential Information

- Dealers and sales staff should not, with intent or through negligence, profit or seek to profit from confidential information, nor assist anyone with such information to make a profit for their firm or clients. Hence, employees have a duty to familiarise themselves with the requirements of the relevant legislation and regulations governing insider dealing and market abuse in their jurisdiction.
- Dealers should refrain from trading against confidential information, and they should never reveal such information outside their firms, even after they have changed employment.
- In those jurisdictions where insider trading and market abuse are not covered by legislation or regulations, management should take reasonable steps to protect the confidentiality and integrity of proprietary and materially price-sensitive information, and provide clear guidelines to staff on how to handle such information.
- In the event of a breach of controls, management should act promptly to investigate the breach and should take appropriate steps to rectify the weaknesses that allowed the breach to occur. Appropriate sanctions should be available to, and used by, management against staff who do not comply with policy.

11. Customer Relationship, Advice and Liability

- When dealing with customers, financial market professionals are advised to clarify the foregoing nature by explicitly agreeing in writing the following:
    - The customer understands the terms, conditions and risks of that transaction.
    - The customer made his or her own assessment and independent decision to enter into such a transaction and is entering into the transaction at his or her own risk and account.
    - The customer understands that any information, explanation or other communication by the other party shall not be construed as investment advice or recommendation to enter into that transaction except in a jurisdiction where laws, rules and regulations (such as the Markets in Financial Instruments Directive, or MiFID, within the European Union, or EU) would qualify the given information as investment advice.
    - No advisory or fiduciary relationship exists between the parties except where laws, rules and regulations would qualify the service provided by the financial market professional to the customer as an advisory or fiduciary relationship.

- If the financial institution thinks it is appropriate to do so, it should set out clearly any assumption and/or forecast on which such advice or explanation is based and that such advice or explanation should be understood and judged by the customer before it makes any decision as to any possible action/inaction.
- If the financial institution does provide advisory services, it should do so in good faith and in a commercially reasonable manner.
- The financial institution should be familiar with applicable laws, rules and regulations in the jurisdictions in which it conducts business. It should seek advice of its legal counsel in each jurisdiction wherever appropriate or prudent to do so. It may wish to consider incorporating such legal advice into its own internal policies and/or procedures.

Chapter Two - Setup

12. Segregation of Duties

Segregation of Duties and Reporting Lines

- Operations management should ensure that clear segregation of duties exists within operations.
- If a separate middle office exists, then their duties, as opposed to processing/operations staff, should be clearly defined.
- Dealers should take no part in the processing or settlement of transactions, nor have any managerial responsibility or influence over operations personnel.
- The distinct duties should be reflected in separate reporting lines.

Independent Risk Controls

- Market participants should have highly developed, adequately staffed and fully independent audit/compliance/control/risk management departments covering all areas of their institution. In the majority of institutions this area is known as the middle office and may be a discrete part of the treasury department or a separate business unit within the organisation of a principal.
- Rigorous and transparent self-assessments should be performed by internal audit departments at least annually with exceptions recorded and corrective action tracked.
- Banks should offer employees the opportunity to raise issues and concerns anonymously and without fear of retribution.

13. Terms and Documentation

- Legal documentation covering instruments and transactions should be completed and exchanged, and the use, wherever possible, of standard terms and conditions to facilitate this process is recommended. Standard terms and conditions have been issued by various authorities for many instruments. Many of these are listed in Appendix Five.
- Such documentation should be bilaterally signed by senior management of both principals

intending to transact business, in many cases before any applicable markets transactions are entered into. All such legal documentation and Master Agreements should be retained in an independent area following standard security and segregation of duties policies.

- Dealers should be advised when such documentation and Master Agreements are in place and the contents of any specific clauses in the description of the dealing relationship between the contracting parties must be followed in any ensuing transactions.
- When using such agreements, any proposed modifications or choices offered in the agreement must be clearly stated before trading.
- When trading any of the products mentioned in *The Model Code*, dealers and voice brokers should make it clear whether or not they propose to use standard terms and, where changes are proposed, these should also be made clear. If these changes are substantial (e.g., change of ownership of the counterparty or to an underlying guarantee), it is recommended that these amendments are negotiated and agreed before the consummation of the deal.
- For instruments where standard terms do not exist, particular care and attention should be paid to negotiation of terms and documentation.
- Every effort should be made to finalise documentation as quickly as possible.

PART III: THE FRONT OFFICE

Chapter Three - Dealers and Dealing Room

14. Role of Broker/Dealer

- The role of brokers (voice brokers and electronic broking platforms) is to act only as intermediaries or arrangers of deals. In this capacity they should agree mutually acceptable terms between principals to facilitate the consummation of transactions.
- Senior management of both trading institutions and brokerage firms should assume an active role in overseeing the trader/broker relationship and use of electronic broking platforms.
- Management should establish the terms under which a brokerage service is to be rendered, agree that either party can review any aspect of the relationship at any time, and be available to intercede in disputes as they arise.
- Management of both trading institutions and brokerage firms should ensure that their staff are aware of and in compliance with their respective in-house policies governing the trader/broker relationship.
- Ultimately, the senior management at a trading institution is responsible for the choice of brokers and electronic broking platforms. They should ensure that any brokers or electronic trading platforms used are either authorised by the local central bank or financial regulator or that due diligence has been undertaken to ensure that the firm is fit and proper to carry out any business on the institution's behalf.
- Senior management should periodically monitor the patterns of broker and electronic trading platform usage and be alert to possible undue concentration of business.
- Management of brokers should impress upon their employees the need to respect the interests of all of the institutions served by their firm.
- Brokers are forbidden to act in any discretionary fund management capacity.

15. Differences between Principals

- If the general controls and procedures recommended in this Code are adhered to, the incidence and size of differences should be reduced and those mistakes that do occur should be identified and corrected promptly. Nevertheless, mistakes and disputes will arise from time to time, both between two banks when dealing directly with each other, or between a bank and a broker.
- Disputes should be routinely referred to senior management for resolution, thereby transforming the dispute from an individual trader to trader, or trader to broker, issue to an inter-institutional issue.
- Where a dispute involves the amount, currency, value date(s) or any other factor which means that one of the two parties concerned has an open or unmatched position, it is strongly recommended that action should immediately be taken by one of the parties concerned (preferably with the agreement of the other) to square off or neutralise the position. Such action shall be seen as an act of prudence to eliminate the risk of further loss resulting from the dispute, and shall not be construed as an admission of liability by that party.
- Where difference payments arise because of errors in the payment of funds, neither principals nor other market participants should benefit from undue enrichment due to the erroneous free use of the funds. All parties involved directly or indirectly, erroneously or otherwise, in the settlement of the transaction should make every effort to achieve an equitable resolution to the problem.

16. After-Hours and Off-Premises Dealing

With global dealing occurring around the clock there are occasions when institutions cover their risk positions outside the normal trading hours or when the dealers are away from their usual office location.

- Management should list the dealers authorised to deal in off-premises or after-hours transactions and stipulate a procedure for the prompt reporting and recording thereof.
- Reporting should be submitted in written format, in case of verbal reporting, voicemail equipment should be installed and located in such a way that reported transactions cannot be subsequently erased without senior management approval.

- Management should issue clear written guidelines to employees regarding the limit and type of deals that are permitted after normal hours or off-premises.
- It would also be prudent to have an unofficial in-house agreed close of business for each trading day against which end-of-day positions can be monitored or evaluated (middle office function).

17. Dealing Room Security

- Management should be aware of the vulnerability of the trading areas to disruptive action or even acts of terrorism and sabotage.
- Management of institutions should have strict security measures in place covering dealing personnel, dealing room equipment and access to the treasury department and dealing room in particular. Specific and stringent access controls should also cover dealing information technology (IT) systems equipment and all accesses to confidential information.
- Access to the dealing room by both non-dealing personnel and visitors should be limited in terms of frequency and duration. Clearly enforceable procedures specifying time constraints should be set out in writing, strict security checks on any outside equipment introduced, and essential management approvals enforced.
- All staff should be vigilant and immediately report to senior management any suspicious activities or unusual requests for access to or information on the dealing business or systems.
- Profiles for functions are encouraged, and should be reviewed by an individual's manager at least semi-annually.
- Users should not have access to change system functionalities. All systems should have a clear business ownership assigned and all changes to a system must be approved by the business owner.
- Developers should have restricted and controlled access to production systems. A complete audit trail of all actions by users and developers should be saved by the system and be readily available for review.

18. Retaining Phone Conversations and Electronic Messages

- The use of recording equipment in banks and brokers is strongly recommended. All conversations undertaken by dealers and brokers should be recorded, together with back office telephone lines used by those responsible for confirming deals or passing payments to other instructions.
- When initially installing tape or other recording equipment, or taking on new clients or counterparties, firms should take steps to inform their counterparties and clients that conversations and messages will be recorded. Firms should ensure that they comply with local privacy laws.
- Clear guidelines regarding recording and retention of phone conversations and electronic messages should be defined and implemented. These guidelines should be based on legal and regulatory requirements. Compliance with the guidelines should be reviewed as part of regular self-assessment processes.
- The periods for which tapes and other records should be retained should reflect the way in which the terms and conditions of transactions have been agreed, and the duration of transactions.
- Normal practice is that tapes and other records should be kept for at least two months. However, firms engaged in dealing in longer-term interest rate swaps, forward rate agreements or similar instruments where errors may only be found at a later date (e.g., the first movement of funds) may consider it prudent to retain tapes relevant to these transactions for longer periods.
- Management should ensure that the installation and control of recording equipment complies with local legislation, including laws on data protection, privacy and human rights.
- There should be a clear written policy on whether, and to what extent, telephone conversations are taped and electronic text messages are recorded, and how long tapes and other records are retained, explicitly taking into account legal and regulatory requirements. This policy should be reviewed regularly by management.
- The policy on recording telephone conversations and recording electronic text messages should impose controls to ensure recording and other recording is not deliberately or inadvertently interrupted. There should also be controls on access to tapes and electronic text message records, whether in use or in store, in order to prevent tampering.
- These safeguards are necessary in order to ensure that such records are accepted as credible evidence in resolving disputes or, in jurisdictions in which this is allowed, accepted as evidence in a court of law.
- As a minimum requirement, the policy should clearly state who has access to tapes and electronic text message records, and who can listen to or read them and under what conditions.

19. Dealing With Unidentified/Unnamed Principals

While The Model Code acknowledges the desire for anonymity in some cases, it recommends that, ***at the very least****, it is good practice for the Compliance, Legal and Credit functions within a firm to have full knowledge of the end principal's identity, prior to the execution of a transaction, in*

order that credit, 'Know Your Customer', anti-money laundering and potential fraud issues can be addressed.

- *The Model Code*, in line with the recommendations of London's Foreign Exchange Joint Standing Committee and the New York Foreign Exchange Committee, supports the view that market participants should not trade without full disclosure of the identity of the principal, at least to the Credit, Legal or Compliance areas of the counterparty.
- This information should only be used for risk management and other legitimate purposes. A clearly written management policy and procedures should be in place to ensure that the information obtained from the intermediary, including the identity of its customers, will not be used in a manner prohibited or deemed inadvisable by the applicable laws, regulations and best practice guidelines, such as the use of non-public information for the firm's own benefit.
- Management at financial institutions should have appropriate written policies in place to safeguard confidentiality internally. In addition, the dealer firms should be aware that any disclosure of customer information to third parties is generally prohibited by law in most jurisdictions.
- Where prior identification of the ultimate counterparty is practically difficult, such as in the case of a bulk transaction for later allocation to the principals of that agent, parties should agree in writing that the result of such allocation be confirmed as soon as practicable after the trade is entered into.
- Unless the identity and the details of the transaction are communicated in a manner that would enable the firm to have a legal recourse to the principal, the firm may not net its exposure for legal as well as capital adequacy purposes. This procedure will allow the counterparty to be identified by the firm, in order that any suspicion of trading on non-public information or other allegation of bad or illegal trading practice may be avoided while, by trading in code names or similar identifier systems, remaining anonymous to the trading staff.
- In the context of trading relationships where a prime-broker or a central counterparty (CCP) is involved and one or more of its members are in a similar position as the fund managers above, the prime-broker or the CCP should ensure that this practice is adhered to by that user and co-operate with the bona fide request from other users to confirm the identity of the principal.

20. Authorisation and Responsibility for Dealing Activity

This official recognition of individual dealers' roles and authority must be set out in writing by management so that there is no ambiguity as to the transactions, instruments, markets or trading platform in which the dealer is empowered to trade.

- Control of the activities of all personnel engaged in dealing (both dealers and support staff) in both principals and brokers is the responsibility of the management of such institutions.
- It is the responsibility of management to ensure that all employees are adequately trained and aware of their own and their institution's responsibilities.
- Management should clearly set out, in writing, a mandate detailing authorisations and responsibilities within which dealing and support staff should operate.
- These descriptions, which should also govern relationships with customers and clients, should ensure that any individual who commits the firm to a transaction has the necessary authority to do so, and might include:

  (a) General dealing policy including reporting procedures;
  (b) Persons authorised to deal;
  (c) Instruments to be dealt in;
  (d) Limits on open positions, mismatch positions, counterparties, stop-loss limits, etc.;
  (e) Relationships with brokers and broking platforms/banks;
  (f) Information/communication duties; and
  (g) Other relevant guidance as considered appropriate.

- Only dealers so authorised may negotiate deals and complete deal tickets (the source document for all ensuing procedures) or effect trade capture to the principal's front office systems for onwards transmission to the operations department for processing and settlement, preferably via Straight Through Processing (STP) techniques.
- It is the dealers' responsibility to control and manage any positions resulting from deals transacted with market counterparties. If manual trade capture methods are used, all deals emanating from dealing requests made by or sought from the dealers should be recorded promptly in any systems used for this purpose.
- Records maintained by the dealers or their front office assistants to ensure these responsibilities can be carried out include:

  (a) Open exchange position controls (immediate foreign exchange dealing position);

(b) Local and foreign currency cash position controls (Nostro balance management);
(c) Forward exchange time position controls;
(d) Money market maturity records;
(e) Financial markets trading portfolio controls (cash and derivatives); and
(f) Dynamic credit limit record update.

- Dealers should refer to credit limit records and comply with limits allocated independently of dealing management. Where limits are broken, dealing management may be required to complete excess reporting procedures.
- Dealers should be fully aware of their employing institution's in-house treasury regulations, *The Model Code* and any local regulatory authority requirements, together with all international market dealing conventions. They must ensure full compliance at all times.
- Management should ensure that dealers comply with in-house requirements and bank insurance policy conditions regarding the taking a minimum of two consecutive weeks holiday each year. Recording and monitoring of this requirement may be a centralised HR/Personnel department function and will be subject to annual internal audit.
- Where there has been a change in the individual authorised to enter into a transaction on behalf of the firm, it is recognised as good practice to ensure that such change is communicated to the counterparties in an unequivocal manner and in writing as soon as practicable after such change becomes effective.

21. Dealing at Non-Current Rates and Rollovers

- Deals at non-market rates should be avoided as such practices may result in concealment of a profit or loss, in the perpetration of a fraud, tax evasion, or the giving of an unauthorised extension of credit.
- Where the use of non-current market rates may be necessary (as in the swaps market or in certain transactions with corporate clients), they should only be entered into with the prior and explicit permission of senior management of both counterparties.
- Management should ensure that proper controls are in place with clear audit trails for the monitoring and reporting of such transactions in order to avoid the above mentioned problems.
- Cashflow implications should be taken into account in establishing whether a price is current.
- When setting the rates for an FX swap to extend the maturity, the spot rate should be fixed immediately within the current spread, to reflect current rates at the time the transaction was done.
- In order to avoid misunderstandings it is recommended that the 'big figure' be included in all outright and spot FX quotations. However, it is common practice in both OTC and centralised markets for market makers to omit the 'big figure' in their original quote for the sake of brevity and efficiency. This can be done with confidence, secure in the knowledge that the true or correct 'big figure' is understood by both parties and, if necessary, verifiable from official market data.
- 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.
- Wherever possible in voice communication, once the deal is done one party should take responsibility to repeat back all material facts/rates of the deal (including the 'big figure') to ensure both parties have the correct details and that these are accurately recorded on any installed recording devices.

22. Dealing Quotations, Firmness, Qualification and Reference

- All market participants, whether acting as principal, agent or broker (including an e-trading platform), have a duty to make absolutely clear whether the prices they are quoting are firm or merely indicative. Prices quoted by brokers should be taken to be firm in marketable amounts unless otherwise qualified.
- A dealer quoting a firm price (or rate), either through a voice broker, on an e-trading system or directly to a potential counterparty, is committed to deal at that price (or rate) in a marketable amount provided the counterparty name is acceptable.
- For their part, voice brokers should make every effort to assist dealers by checking with them from time to time whether their interest at a particular price or rate is still current. What constitutes a marketable amount varies from market to market, but will generally be familiar to those operating in that market.
- Where dealers are proposing to deal in unfamiliar markets through a broker, it is recommended that they first ask brokers what amounts are sufficient to validate normal quotations. If their interest is in a smaller amount, this should be specified by the dealer when initially requesting or

offering a price to the broker.

- In the interest rate swap market, considerable use is made of indicative interest quotations. When arranging a swap an unconditional firm rate will only be given where a principal deals directly with another principal or when such a principal has received the name of a potential counterparty principal from a voice broker.
- A principal who quotes a rate or spread as firm subject to credit is bound to deal at the quoted rate or spread if the name is consistent with a category of counterparty previously identified for this purpose. The only exception is where the particular name cannot be done, for example, if the principal has reached its credit limit for that name, in which case the principal will correctly reject the transaction.
- It is not an acceptable practice for a principal to revise a rate, which was firm subject to credit once the name of the counterparty has been disclosed. Voice brokers and principals should work together to establish a range of institutions for whom the principal's rate is firm subject to credit.

23. Dealing Reciprocity in the Relevant Markets

- The development of sound reciprocal dealing relationships between institutions, in markets where this is common practice is encouraged.
- It should be clearly noted that these bilateral arrangements to quote two-way dealing prices, unless otherwise agreed in writing such as for 'market makers' in specific paper issues, are not in any way enforceable or binding commitments.
- The mutual understanding to quote reciprocal prices at certain times or at all times is a matter for the dealers of the two institutions to decide.
- The extent to which these arrangements imply willingness to quote, for whatever amount and at how competitive a spread during times of high volatility or crisis, is purely a matter for the two institutions concerned to understand and interpret in the light of their evolving relationship.

24. Stop-Loss Orders

- The various types of stop-loss orders can have different conditions for triggering the order and varying ramifications for any slippage likely to be incurred or what discretion is implied. A clear understanding of these conditions and ramifications should be reached between both parties before a stop-loss order is placed and accepted.
- These conditions should be explicitly identified, specifying any time validity or any other constraints agreed between the parties concerned and are within management criteria for such orders.
- There should be no room for misunderstanding between the parties as to the terms under which the order has been given and accepted. Where the terms 'one touch stop', 'all taken/given stop' or 'bid/offer stop', 'discretion', or any other terminology are mentioned, the agreement should clearly stipulate exactly what is understood by their use.
- 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.
- There should be adequate lines of communication between the parties to enable the recipient of the order to reach the party transmitting the order in case of an unusual situation or extreme price/rate movement.
- Where an e-trading platform is used, the user of such system needs to make sure he is aware of the implications for the market.
- Where a dispute arises as to whether the market reached the level required to trigger the execution of the order, it should be borne in mind that, whichever source is used to verify the market range, a totally accurate definitive record may be difficult to obtain. Any one source such as an individual broker company or electronic broking platform that may be asked to indicate market highs and lows may not always have the full trading range for the day and can only indicate the highs and lows of trades or indications of price within their trading system. All recognised significant market sources should therefore be canvassed. The resulting information should be treated with discretion and professional caution.
- Banks that regularly provide a stop-loss execution service for clients and other financial institutions should respect the trust and confidentiality placed in them by their customers through this business and should at all times uphold the high standard of honesty and integrity as outlined in the General Risk Management Principles in Appendix One in the execution of these orders.

25. Position Parking

- The 'parking' of deals or positions with any counterparty should be forbidden.

26. Rate Setting

- Financial institutions required to publish rates should do so in a timely and honest manner.
- They must also make the necessary organisational arrangements to ensure that delivery of the rates is possible on a permanent basis without interruption due to human or technical failure.
- Any information they decide to pass on should be completely transparent and safeguards should be in place to ensure that there is no manipulation of the rates.
- Management should ensure that employees are fully aware of the relevant laws and consequences involved with rate setting.

Chapter Four - Dealing Through Brokers (Voice Brokers and Electronic Broking Platforms)

27. Differences between Brokers and Principals

- Voice brokers should ensure that any prices they quote are substantiated with a valid order.
- If the broker fails to conclude the transaction at the quoted price and has to accept a lesser quote to neutralise the risk, senior management should be informed and a dialogue between the parties should ensue, such that they reach a viable solution.
- All compensation should take the form of a bank transfer payment in the name of the institution or adjustment to brokerage bills.
- All such transactions should be fully documented by both the principal and the voice broker. It is considered bad practice to refuse a broker's compensation for the amount concerned and to insist on a name at the original price.

28. Differences between Prime-Brokers and Clients

- Institutions acting as prime-brokers, where applicable, must be responsible for the swift resolution of disputes, mis-hits and broken trades on behalf of their clients.
- It is not best practice to delegate this resolution downstream to their client or to rely on the execution venue to resolve disputes (unless the execution venue has explicitly specified that it undertakes that process and responsibility).
- Market participants providing access for others to liquidity venues, for example prime-brokers, are responsible for the activities of their end users, for their adherence to the rules of individual execution venues and for adherence to market best practices.

29. Qualifying and Preliminary Dealing Procedure

- Both dealers and brokers should state clearly at the outset, prior to a transaction being executed, any qualifying conditions to which it will be subject.
- If a dealer's ability to conclude a transaction is constrained by other factors (e.g., opening hours in other centres), this should be made known to brokers and potential counterparties at an early stage and before names are exchanged.

30. Consummation of a Deal

- Dealers should regard themselves as bound to a deal once the price and any other key commercial terms have been agreed. However, holding voice brokers unreasonably to a price is viewed as unprofessional and should be discouraged by management.
- Where prices quoted are qualified as being subject to negotiation of commercial terms, dealers should normally treat themselves as bound to deal at the point where the terms have been agreed without qualification.
- Verbal agreements are considered binding and the subsequent confirmation is regarded as evidence of the deal, but should not override terms agreed verbally. The practice of making a transaction subject to documentation is not regarded as good practice.
- In order to minimise the likelihood of disputes arising once documentation is prepared, principals should make every effort to agree all material points quickly during the verbal negotiation of terms and should agree any remaining details as soon as possible thereafter. The use of point of deal electronic confirmation and documentation platforms and systems (so-called hybrid systems) is strongly encouraged.
- Where voice brokers are involved, it is their responsibility to ensure the principal providing the price or rate is made aware immediately it has been dealt upon.
- As a general rule, a deal should only be regarded as having been done where the voice broker's contact is positively acknowledged by the dealer.
- A broker should never assume a deal is done without some form of acknowledgement from the

dealer.

- Where a broker puts a specific proposition to a dealer for a price (e.g., specifying an amount and a name for which the quote is required), the dealer can reasonably expect to be told almost immediately by the broker whether the price has been 'hit' or not.
- Where a voice broker 'hits' a dealer's price as '*done*' (or similar) at the very instant the dealer calls '*off*', the transaction should be concluded and the broker should inform both counterparties accordingly.
- Conversely where the broker calls '*off*' at the very instant a dealer 'hits' the broker's price as '*mine*' or '*yours*' (or similar), the deal should not be concluded and the broker should inform both counterparties accordingly.
- Under no circumstances should brokerage firms inform a dealer that a deal has been concluded when in fact it has not.
- In cases where a price quoted by a broker is 'hit' simultaneously ('*yours*', '*mine*', etc.) by several dealers for a total amount greater than that for which the price concerned is valid, the broker should apportion the amount for which the price is valid pro rata amongst the principals concerned in accordance with the amount proposed by each. In such cases, the broker is not obliged to deal in a normal trading amount. However, the brokerage firm should immediately inform all the relevant dealers that apportionment will be carried out.
- A voice broker, if quoting on the basis of small amounts or particular names, should qualify the quotation accordingly.
- When dealing in fast-moving markets (like spot foreign exchange or currency options) a dealer has to assume that a price given to a voice broker is good only for a short length of time, typically a matter of seconds. However, this practice would offer room for misunderstandings about how quickly a price is deemed to lapse if adopted when dealing in generally less hectic markets, for example, forward foreign exchange or deposit markets or when market conditions are relatively quiet.
- Dealers have the primary responsibility for prices put to a voice broker; the onus is on dealers in such circumstances to satisfy themselves that their prices have been taken off unless a time limit is placed by the dealer on his interest at the outset (e.g., firm for one minute only). Otherwise, the dealer should feel bound to deal with an acceptable name at the quoted rate in a marketable amount.
- Dealers are expected to be committed to the bids and offers they propose through voice brokers for generally accepted market amounts unless otherwise specified and until the bid or offer is:

    - dealt on;
    - cancelled;

  and especially through voice brokers:

    - superseded by a better bid or offer; or
    - the broker closes another transaction in that currency with a different counterparty at a price other than that originally proposed.

- In cases of the third and fourth items, the broker should consider the original bid or offer no longer valid unless reinstated by the dealer.

31. Commission in Broking (including electronic broking platforms)

- Where brokers' and electronic brokers' charges are freely negotiable, including discounts for bulk business, such charges should be agreed only by directors or senior management on each side and should be recorded in writing.
- Any deviation from previously agreed brokerage arrangements should be expressly approved by both parties and clearly recorded in writing.
- Failure to pay brokerage bills promptly is not considered good practice, as in some jurisdictions overdue payments are treated as a deduction from capital base for regulatory purposes, thus putting the broker at a disadvantage.

32. Passing of Names

- Brokers should not divulge the names of principals prematurely, and certainly not until satisfied that both sides display a serious intention to transact.
- Principals and brokers should, at all times, treat the details of transactions as absolutely confidential to the parties involved.
- Bank dealers should, wherever possible, give brokers prior indication of counterparties with whom, for whatever reason, they would be unwilling to do business (referring as necessary to particular markets or instruments).
- At the same time, brokers should take full account of the best interests and any precise instructions of the client.
- In some instruments, dealers may also wish to give brokers guidance on the extent of their price

differentiation across broad categories of counterparties.

- In all transactions, brokers should aim to achieve a mutual and immediate exchange of names.
- At certain times a principal's name may prove unacceptable to another and the broker will quite properly decline to divulge by whom it was refused. This may sometimes result in the principal, whose name has been rejected, feeling that the broker may have actually quoted a price or rate which it could not in fact substantiate. In certain centres, in such cases, either the central bank or some other neutral body, may be prepared to establish with the reluctant counterparty that it did have business to do at the quoted price and the reasons why the name was turned down, so that the aggrieved party can be assured the original quote was valid without, of course, revealing the proposed counterparty's name.
- In the deposit markets, it is accepted that lenders dealing through a broker have the right to turn down a name wishing to take deposits: this could therefore require pre-disclosure of the name before closing the deal.
- Once a lender (or buyer) has asked the key question '*Who pays*?' or '*Whose paper is it*?', it is considered committed to do business at the price quoted with that name or with an alternative acceptable name if offered immediately.
- The name of a lender (or buyer in respect of CDs, Treasury Bills, BAs or repos) shall be disclosed only after the borrower's (or issuer's) name has been accepted by the lender (or buyer).
- The proposed borrower may decline the lender's name when:
  (a) In the case of short date deposits, the borrower is not prepared to repay the deposit prior to advice of receipt of the funds from the correspondent bank;
  (b) They have no lending line for the placer of the funds and do not wish to be embarrassed by being unable to reciprocate;
  (c) The borrower is prohibited by management from entering into any transactions with the lending institutions; and
  (d) The borrower would be in breach of internal or regulatory depositor concentration limitations.
- In the case of instruments such as CDs, BAs and other money market instruments, where the seller may not be the same entity as the issuer/acceptor, the broker shall first disclose the issuer's/acceptor's name to the potential buyer. Once a buyer has asked, '*Whose paper is it*?', the buyer is considered committed to deal at the price quoted. Once the buyer asks, '*Who sells*?', it is considered committed to deal with that particular seller in question (or an alternative acceptable name so long as this name is immediately shown to the buyer by the broker). The name of the buyer shall be disclosed only after the seller's name has been accepted by the buyer.

33. Name Substitution

- The practice of name switching/substitution is accepted and desirable if they are monitored and controlled.
- If requested by a broker to clear a transaction through name switching, a dealer must ensure that such activities have the prior approval of senior management, that he or she has the authority to switch names and that any such transactions are executed as promptly as possible within credit limits and policy guidelines.
- A dealer must not seek or accept favours from the broker for switching names.

Chapter Five - Dealing Practice for Specific Transactions

34. Deals using a 'Connected Broker'

- Brokers are legally obliged to advise their clients via formal written notification of an updated list of the names of any principals and the extent of any material connections that exist (e.g., where there are shared management responsibilities or where an investment or shareholding exists).
- Brokers may not disclose the principals in cases where clients decline the right to this information.
- Mutually agreed rates that would otherwise prevail if there were no material connection should be utilised in deals by brokers involving connected principals.

35. Assignments and Transfers

- Brokers and principals assigning, novating or transferring a swap to a third party must ensure that:
  (a) Principals are aware that they are ultimately responsible for assessing the creditworthiness of a counterparty.

(b) Their staff are well trained in the practices of the marketplace and aware of the firm's business responsibilities.

- Principals who enter into any wholesale market transaction with the intention of shortly afterwards assigning or transferring the deal to a third party should make clear their intention to do so when initially negotiating the deal.
- It is recommended that the confirmation sent by the principal should specify any intention to assign and give details of any procedure that will be used. When a principal is intending to execute such a transfer, it should obtain the consent of the transferee before releasing its name. The transferee has an obligation to give the principal intending to transfer sufficient information to enable the transaction to be conducted in accordance with the principles of best practice.

36. Repos and Stock Lending

- Repo transactions should be subject to a legal agreement between the two parties concerned and should:
  (a) Enable the parties to comply with any capital adequacy requirements;
  (b) Provide for the absolute transfer of title to securities;
  (c) Provide for the mark-to-market process;
  (d) Detail the course of action in the case of defaults, for example, the rights and obligations of the counterparties and the full set-off of claims between the parties;
  (e) Detail the rights of counterparties regarding the substitution of collateral and how coupon and interest payments within securities are to be treated; and
  (f) Include a full written agreement on underlying documentation before any deals are executed or finalised.

- Where sale and repurchase agreements or stock borrowing or lending transactions are entered into, proper documentation, including written agreement of key terms and conditions, should be in place prior to the consummation of any trades.
- All market participants should specify prior to execution the exact maturity (end) dates for transactions.
- All market participants should use the Modified Following Business Day Convention (see Supplementary Material for terminology).
- For periods of less than one month, the maturity date will be the first date that is a business day that is within one, seven, or 14 days from the value date, regardless of whether it is in the next calendar month.
- Inter-dealer brokers or the automated trading system should be notified when participants attempt to utilise odd settlement dates.
- It is also recommended that legal opinion should be obtained on the enforceability of the contract.

PART IV: THE MIDDLE OFFICE

Chapter Six - Middle Office Practice

37. Trade Surveillance

37.1 Prevention of Missed, Failed or Erroneous Entries

- Firms should ensure that they implement a trade surveillance policy and a system that is able to:
    - Evaluate all trades;
    - Identify missing, failed or erroneous entries; and
    - Identify people to be notified in the event of an error or potential violations of trading rules.

37.2 Detection of Market Manipulation

Firms should strive to maintain timely and accurate trade and account information by reconciling their own electronic trading logs with records provided by their brokers, clearing firms, or other business partners as soon as practicable. The segregation of the responsibilities of front and back office roles is again essential, such that an individual cannot conceal unauthorised trading activity.

- The staff working within trade surveillance must be adequately trained in detecting the patterns of trading that suggests any unfair practices, both at the design and monitoring stage, and conduct appropriate analysis to investigate the circumstances and intention surrounding such trading; such that they can determine whether the trading activity in question risks infringing upon applicable market manipulation laws and/or the rules of trading venues.
- Automation is a tool that can be used by firms in addition to manual monitoring procedures.
- Firms may benefit from using certain statistics or metrics to flag behaviour warranting further review such as message counts, repetitive orders, and unusually small or large orders.
- Thresholds for automated alerts should be determined by staff with sufficient experience and adequate knowledge.
- Any behaviour, pre- or post-trade, not compliant with the rules or firm's policies should be directed to the relevant staff responsible for such compliance and management should be informed. An investigation should then ensue to determine whether the trading activity was a legitimate strategy or could be considered as market manipulation.
- Reports that are generated by alert systems should be available for review by responsible staff and management on the following trading day (at the latest) or according to the schedule set out in their internal review procedures.
- Procedures should be in place such that the relevant authorities are promptly informed in the event of any trading activity being determined as market manipulation.
- Unless algorithms are specifically designed to prevent market abuse, firms should implement automated alert systems to flag behaviour likely to trigger suspicion of market manipulation.
- These systems should be in place for all transmitted orders, including those being modified.
- Any alert system will necessarily be over-inclusive, flagging some number of entirely valid orders or trades.

38. Internal Review

- In order to test the risk management, compliance practices and controls, trading firms should adopt an internal review function.
- They should take into account the different rules, regulations and risk management requirements in different jurisdictions.
- Some firms may outsource this role or some firms, particularly larger firms, may have an external and/or internal review function embedded in the structure of the firm.

- This should be a regular process determined by the institution.

39. Preparation and Communication in Crisis Situations

39.1. Preparation for Crisis Situations

- Banks should anticipate crises and prepare internally.
- Operations employees should understand:
  - The procedures for crisis situations affecting settlement;
  - Alternative settlement procedures and how they are executed; and
  - Who to inform and how to inform Nostro banks of changes or cancellations in payment instructions.

- Current Nostro bank staff contact lists containing emergency contact numbers and contact information for each Nostro bank should be maintained and distributed.
- Institutions should test crisis situations systematically to ensure that employees are familiar with alternative procedures and can manage them effectively.

39.2. Communication in Crisis Situations

- FX and other market operations participants should be aware of the existing crisis communication platforms such as Fed 14 calls and Operations Managers Groups crisis calls. Connection to those platforms should be checked at least annually.
- Internal communication procedures with clearly defined roles and responsibilities should be designed to ensure fast reactions to crisis situations.

39.3. Existence of Business Continuity Planning

- Each firm should define a Business Continuity Planning (BCP) strategy and a detailed BCP plan as required by their regulator.
- Ensure senior management involvement.
- The BCP procedures should be updated and tested at least yearly.
- Participation in national or global Business Continuity tests organised by Central Banks or market infrastructure providers (e.g., Continuous Linked Settlement, or CLS) is recommended.

40. Reconciliations

40.1. Importance of Account Reconciliations

- Account reconciliations are necessary to detect missing, failed or erroneous entries at an early stage and to provide counterparties/clients with prompt notification of issues. Reconciliations reduce financial risk related to interest claims, incorrectly funded accounts and mis-booked/un-booked trades.
- Reconciliations related to transactions and balances should be conducted for all cash and custody accounts.

40.2. Regular Reconciliations

- Cash accounts should be reconciled as soon as an updated account statement is available, usually at the close of the previous day.
- For accounts with high value and/or high volume of transactions intraday reconciliations should be considered.
- Custody accounts should be reconciled after each account movement, or at least once per month.

40.3. Timely Investigation and Clarification

- In the event of any discrepancies identified through the reconciliation process an investigation should be initiated with the front office, clients, correspondent banks or custodians as appropriate as soon as possible. The operations department should have clear procedures that allow them to react to unexpected situations, as well having clear escalation procedures to minimise potential disruption or delays in the investigations process (see also Section 40.5: Discrepancies/Investigations).

40.4. Segregation of Duties

- Appropriate segregation of duties should exist between pre- and post-settlement operations units.
- Reconciliations should be carried out by staff members who are not involved in processing of transactions that would affect the balances of accounts held with correspondent banks.

40.5 Discrepancies and Investigations

40.5.1 Non-receipt of Funds

- Individual organisations should determine how they monitor, report and notify internal parties of the non-receipt of payments.
- Reporting relating to non-receipts should be reviewed by operations management daily and appropriate follow-up action taken to ensure swift resolution. Management information concerning failed trades including a trended ageing analysis should be presented to senior operations management monthly.
- The resolution of issues should be expedited within a reasonable time frame that should not exceed five working days from the value date of the expected settlement and, ideally, far sooner.

40.5.2 Settlement Discrepancy

- The following settlement/payment discrepancies can be considered:
  - Late payment;
  - Payment to an incorrect correspondent or counterparty;
  - Payment of incorrect amount; and
  - Duplicate payment.

- In order to obtain a quick resolution the counterparty or correspondent should be informed at the earliest opportunity. This also applies for unknown receipts. It is recommended that updated contact lists are available.
- Investigation cases received before noon should be handled within the same day and those received after midday within 24 hours.

40.5.3 Communication

- In order to ensure the quick resolution of a discrepancy, first contact with the counterparty should be made by phone, preferably on a recorded line. In the event that time zone differences make phone contact impractical then authenticated fax, email or authenticated SWIFT message is the recommended and preferred method of communication. Where legally necessary and applicable, a letter on company headed paper can be attached.

41. Mark-to-Market Best Practices

- Quoted market prices are the best guide to a fair valuation for principals who regularly mark-to-market the value of their trading positions.
- Procedures should be in place to have independent checking of the mark-to-market positions by the market risk function within the firm; this area should be completely separate from the front office.
- When principals look to obtain external data for valuation purposes:
  - They should ensure a section of the principal completely separate to the front office checks the relevant price levels, volatilities and other criteria used in these calculations.
  - Screen services, brokers and other third party providers can all be useful sources of data.
  - When independent prices are not available, a series of checks should be in place to ensure all prices are measured accurately and regularly.
  - The bid-offer spread on screen will often be the most appropriate source of data. Principals should ensure they understand how they have been constructed and what they represent.
  - They should consider for example:

    (a) What size was this trade?
    (b) Is this two way spread on an illiquid market?
    (c) Is this the price on the last actual trade?
    (d) If these prices are not actual trades, how were they calculated?

- Principals should detail what external data they require for specific transactions/instruments. They should state the appropriate characteristics on which they want the estimate to be based, such as close-out prices, mid-market, indicative or firm prices.

- If principals rely on a voice broker to provide data, they should satisfy themselves that, when supplying data, the voice brokers:
  - Ensure that the data are correctly calculated and state the conditions under which estimates were constructed; through putting in place appropriate settlement office controls.
  - Ensure that an appropriate disclaimer of liability is indicated where appropriate, in addition to the general presumption of the code outlined above.
  - Ensure that they provide data to principals consistently and reliably.
  - Should, where possible, try to provide the data from their settlement office function, which is independent to the broker.
  - Ensure the required procedures are followed when exchanging data electronically.

Chapter Seven – Prime-Brokers

42. Confidentiality with Regard to Prime-Brokers

Clients expect that prime-brokers maintain a high level of confidentiality; any exploitation of confidential information about the client can lead to detrimental consequences for the broker.

- Senior management of prime-brokers should determine and ensure that staff understand the confidentiality requirements of each client, if this is not provided to the broker, they should still keep information about a client's give-up trading activity confidential.
- Prime-broker front and back office staff should understand what is not appropriate for information exchange between them regarding their clients.
- In general, information regarding a client's identity, orders and strategy should be handled confidentially, except in cases of default.
- Management should ensure that only authorised staff have access to information about a client's give-up trades and positions.

43. Disputes with Prime-Brokers

Disputes involving prime-brokers can occur due to events within the pre-trade, trading or post-trade process. The Model Code insists that any disputes are governed by any agreements between the parties involved.

- The prime-broker is obligated to take on a trade only when the material terms of the trade have been agreed upon by the executing dealer and the client.
- If such details do not match, the prime-broker should reject the trade in the manner provided in the appropriate agreements.
- Should any disputes arise about the trade details, this must be resolved between the executing dealer and the client promptly.
- If a prime-broker rejects a trade because the material terms of the trade submitted by the executing dealer and client do not match, or the limits are being breached, the prime-broker should notify the client and the execution bank and, if specified in the applicable give-up agreement, the executing dealer as soon as practicable so that the client can promptly contact the executing dealer and attempt to resolve the discrepancy.
- If a trade is executed that breaks the prime-broker's trading limit, the execution bank and prime-broker should reach an agreement to see if the trade can be accepted.
- Executing dealers, clients, and prime-brokers should have authorised personnel available throughout the business day that are available to resolve any disputes and discrepancies.

44. Reputational Risks for Prime-Brokers

- Prime-brokers should perform due diligence with respect to clients and take all precautionary measures, to protect themselves, their clients and their reputation.
- Should a complaint about a client (e.g., engaging in illegal or unethical trading practices) be sent to a prime-broker, they should investigate the issue promptly.

- Prime-brokers should evaluate the risks posed to their reputation from all their clients and decide on the correct response (e.g., whether there is no action to take, some part of the contract to change or even to cease the relationship altogether).
- Prime-brokers should ascertain whether the client's trading activity gives rise to any legal or regulatory obligation on the part of the prime-broker.

45. Operational Risks with Prime-Brokers

- The give-up agreement (between the prime-broker and executing dealer) and the prime-broker agreement (between the prime-broker and the client) should specify the permitted transaction types, tenors and credit limits and should define how these limits should be calculated. The Master FX Give-Up Agreement (FMLG – New York FED FXC) published by the Foreign Exchange Committee can be used for this purpose.
- Prime-brokers, executing dealers and clients should all have internal controls that monitor the permitted transaction types, tenors and credit limits.
- These controls allow the dealers and clients only to execute trades that the prime-brokers have authorised. They allow the prime-broker to determine whether they are obligated to accept a trade when it is given up to them.
- Prime-brokers, executing dealers and clients should have procedures in place to deal with notices of give-ups.
- They should present the identities and contact details of the relevant individuals to the other parties in a give-up relationship.
- The executing dealer and client should both inform the prime-broker promptly or within the time frame specified within a legal agreement, of any trades that they execute for give-up.
- Executing dealers and clients should use the electronic trade message systems linked to the prime-broker's electronic matching system. This will increase the efficiency and effectiveness of the process of distributing notifications of matched and unmatched trades.
- The executing dealer and the client are required to inform the prime-broker of the material terms of the transaction once a trade has been executed.
- The material terms of a foreign exchange transaction typically include: transaction date; settlement date; amounts of each currency to be delivered by each party; execution rate, and buying and selling parties.
- The material terms of an option transaction typically include: amounts of each currency; type of currency option transaction (for example American or European); strike price; premium; expiration date, and any other terms considered material in the market.
- It is essential that prime-brokers inform the executing dealer and client of any trades they reject as soon as possible. This minimises the potential loss from liquidation of a non-accepted trade to an executing dealer. Compensation agreements between executing dealers and clients should be in place, as risk of loss to an executing dealer is normally significantly larger.
- A prime-broker may reject a trade given up if:
    - the trade is not a permitted transaction type as specified in the give-up agreement with the executing dealer;
    - the trade is not within the specified tenor limits;
    - the trade is not within the specified credit limits; and/or
    - the trade details provided by the executing dealer and the client do not match.

- A prime-broker should confirm trades if:
    - the type of trade is authorised under the give-up agreement;
    - the trade complies with the applicable trade type, tenor and is within the applicable limits; and/or
    - they have received matching trade notifications from the client and the executing dealer.

- Prime-brokers should not confirm trades prior to receiving matched notices.
- Once a prime-broker has matched and accepted a trade, separate confirmations must be exchanged between 1) the prime-broker and the executing dealer, and 2) the prime-broker and the client, as legal evidence of the terms of the transaction.
- To avoid basis risk with mismatched trade terms and for structured, more complicated transactions that affect the valuation of the trade, the matching should contain all the relevant terms.
- All parties involved in a transaction should exchange confirmations as promptly as they can. In the wholesale FX market, confirmations should be sent within two hours after execution or no later than the end of the day, or as mandated by regulatory changes.
- Escalation procedures should be in place to resolve any discrepancies that occur.

46. Credit Risks with Prime-Brokers

An executing dealer should execute and a prime-broker should accept a transaction only if credit lines have been approved and are available for a client.

- Unless sufficient availability under the give-up line has been confirmed, no trade can be completed.
- The give-up line usage information should be accessible to prime brokerage service personnel, risk managers and executing dealers.
- As soon as a deal is accepted by a prime-broker, the give-up line usage information should be updated.
- Real-time credit systems should be in place to monitor positions against limits and pending give-up trades.
- The sales area of a prime-broker should:
    - Be able to quickly assess the prime-broker's credit exposure to any of their clients.
    - Have systems in place that can automatically update a client's credit status when a trade is accepted by the prime-broker.
- The circumstances in which limit exceptions are approved and the procedures to tackle any credit-limit breaches should be documented.
- Reports detailing any credit line excesses should be produced and reviewed regularly.
- Reports detailing any credit line exceptions should identify the client and executing dealer involved in the transactions. Should the exceptions for a particular client be persistent, the prime-broker should consider whether it is appropriate to extend the client's credit limit.
- Executing dealers should also have in place systems to monitor open positions and limits against pending trades. These tools should be utilised with STP features for the acceptance and processing of trades and with real-time give-up line management, which enhances the value realised in this process.

47. Post-Trade Events with Prime-Brokers

Certain post-trade events can lead to market or basis risk for the prime-broker and such leads to decisions as to who is responsible in determining the outcome of these events and who will assume the risk.

- The party responsible for the determination and notification of post-trade events should be specified in the give-up agreement (between the prime-broker and the executing dealer) and prime-broker agreement (between the prime-broker and the client).
- The prime-broker agreement should detail whether the prime-broker will assume or pass through any basis risk, which is a consequence of any post-trade events affecting the parties.
- Post-trade issues should be raised immediately so that the situation can be resolved quickly.
- Staff and management should be adequately trained in dealing with post-trade issues and events.

Chapter Eight - Disputes, Complaints and Claims

48. Disputes and Mediation

The ACI Committee for Professionalism is willing to give advice on professional disagreements subject to certain conditions.

- Where disputes arise, it is essential that the management of the parties involved take prompt action to resolve or settle the issue quickly and fairly with a high degree of integrity and mutual respect.
- In situations where the dispute cannot be resolved between the parties and where all normal channels have been exhausted, the Chair and members of the Committee for Professionalism are ready to assist in resolving such disputes through the ACI Expert Determination Service, the rules of which are quoted in full in Appendix Two.
- In resolving such disputes, the Committee for Professionalism will be guided by *The Model Code*.
- Where there are local restrictions in force or where differences exist between *The Model Code* and a Code of Conduct (or similar document) issued by the regulatory authority governing the conduct of those transacting business in the financial markets in the centre(s) for which it is responsible, the terms of the local Code of Conduct shall apply for transactions between institutions in that centre.
- Where differences exist involving transactions between two institutions in separately regulated centres, the terms of *The Model Code* should apply.

49. Compliance and Complaints

- Management should ensure that all complaints involving transactions are fairly and independently investigated, by employees or representatives of the institution who were not directly involved in the disputed transaction.
- If any principal or broking firm believes that an institution has breached the letter or spirit of *The Model Code* in respect of any transaction in which it is involved, it should seek to settle this amicably with the other party.
- If this is not possible, the institution which is subject to the complaint should make the complainant aware that it can bring the matter to the attention of ACI's Committee for Professionalism who can examine the complaint, consult the local ACI national association and bring the matter to the attention of the appropriate regulatory body.

50. Settlement Claims

Claims can occur due to settlement discrepancies and it is important to establish guidelines in order to obtain quick resolution.

50.1. Undue Enrichment

- The basic principle behind claims for compensation is that no market participant should be unjustly enriched or injured by the action/error of another market participant. All parties involved should make every effort to achieve an equitable resolution to the problem, therefore claims should be made for only the costs incurred by the injured party and should not include add-ons for administration costs, except when agreed as general practice or local compensation guidelines have to be applied.

50.2. Minimum Threshold

- Claims of less than USD 1000, or equivalent, are regarded as de minimis and are not expected to be submitted.

50.3. Time Frame for Claims and Processing

- For every late receipt a claim should be sent to the counterparty as soon as possible but within 30 days. The maximum time limit should be 60 days. Claims after 60 days of the actual settlement date are not expected to be submitted.
- Acknowledgement of receipt of a claim should be confirmed within 15 days of receipt via email or SWIFT.
- Acceptance or rejection of a claim should be advised within 15 days of receipt via email or SWIFT. The claimant will have a window of 15 days to refute any rejected claims. The 15 day cycle will continue until claim is mutually agreed or rejected.

50.4. Calculation Methodology for Claims

- Compensation claims:
  - Claims are calculated on the full principal amount of the failed transaction with the interest rates imposed by the Agent Banks (€: EONIA rate, CHF: SIC rate[1], USD: Fed. Funds rate), unless a higher negotiated interest rate is to be applied. On a global basis, no additional charges should be added. However, in accordance with local market practices this may happen.

- Back-valuation/Netting:
  - Back-valuation should be allowed in all applicable cases.
  - Note: special rules are applied for € transactions (see Appendix Two).
  - Netting of claims is permissible upon bilateral agreement.

- Use of funds:
  - Use of funds should be paid by Party A that due to a payment error by Party B, had use of funds. Credit interest earned during the time of use should be reimbursed by Party A to Party B. Use of funds payments should be settled within 35 days. Note: special rules are applied for € (see Appendix Four).

[1] SIC rate fixed daily 12:00 CET. Reuters page: SARON.S (FIX1). Details under: http://www.six-swiss-exchange.com/indices/swiss_reference_rates/reference_rates_en.html

50.5 Communication of Claims

- Claims should be communicated in writing via email or as is preferable, via authenticated SWIFT. The information included in the claim should take into account the details of the transaction involved, number of days of the payment was delayed and the cost, together with calculation methodology being claimed.

PART V: THE BACK OFFICE

Chapter Nine - General Setup

51. Core Competencies

- Senior management of market participants should ensure all areas are adequately staffed. They should ensure that every staff member is competent and trained systematically and continuously for the role(s) they perform.
- A thorough understanding of the complete process flow of all products including initiation, capture, external validation, settlement, reconciliation and associated controls, is essential for each individual and team involved.
- Training programs should be implemented accordingly.
- Business and IT Processes as well as operation user manuals should be precisely documented and reviewed by management on at least an annual basis.

52. Operational Risk Awareness

- Market participants should fully understand operational risks.
- Whenever possible, action plans should be put in place that mitigate identified operational risks.
- Regular reports describing any operational risks that have arisen, the most significant incidents and corrective action plans/follow-up, should be created and provided to senior management.
- It is good practice to collect and analyse incidents or near-misses so as to set up preventative action plans for the future.

53. Globally Consistent Processing Standards

- Banks with several operation centres should define bank-wide standards and make sure these standards are adhered to.
- Autonomous branches should be closely supervised to ensure adherence to standards.

54. Participation in the Professional Community

- Senior management should participate in the professional community and in industry forums in order to remain up to date with the latest developments (e.g., market practice, regulatory issues, standards, systems and technology).

55. Contact Lists

- Contact lists of all counterparties should be kept and updated regularly.
- Storage should be in a secure environment with access limited to those with an appropriate level of responsibility.

56. Escalation Procedures

- Escalation procedures should be in place to ensure timely solution of critical issues.
- Issues should also be tracked and, once closed, retained and referred to, so corrective action can be monitored to conclusion.

57. Regular Business Partner Meetings

- Regular internal business partner meetings should be held with senior participants from the whole process chain (front to end including control areas) in order to share information, ensure quality, identify risks and agree on measures to be taken.
- Core Management Information Systems should include a framework for dealer discipline and any contributing factors to potential constraints such as system outages. Key Risk Indicators should be discussed as part of a regular agenda. Front office should chair and invite all relevant contributors to the meeting.

58. New Business

- Before a new product or business strategy is launched, all relevant areas should be involved so the new offering can be introduced in a controlled manner. Relevant areas include front office, Credit Risk Management, Financial Accounting, Human Resources, Information Technology, Legal and Compliance, Operations, Product Control, Risk Measurement and Management, Tax and Treasury.

Chapter Ten – Control

59. General Controls

59.1. Counterparty Identification

- No trading should be carried out without first identifying and setting up the counterparty. This includes 'Know Your Customer' procedures, as required by the regulators, the set up of Settlement Instructions, and Confirmation Method.
- Amendments to key date fields (e.g., customer standing data) should be subject to 'four eyes control' over input, and only changed on the basis of appropriately authorised documentation being provided.
- Identification and setup should be completed in less than two working days.

59.2. Retaining Transaction Records

- Operations are in charge of maintaining complete records of all transactions and any additional documentation as per internal guidelines and regulatory requirements. Local regulations will define a time for which these records should be maintained and remain accessible to authorities, for example, five years.

59.3. Amendments to Transaction Details

- Amendments and outright cancellations should be captured and reported to the front office management on a daily basis.

59.4. Operational Performance Indicators

- Operational efficiency, STP rates, quality and control effectiveness should be the main performance indicators used for target setting and performance reporting.
- Exceptions should be recorded and corrective actions tracked.
- Reviews of the indicators should take place with senior management at least monthly. Reviews within operations should take place on a more frequent and regular basis.

59.5.System Access

- Access to production systems should be rigorously controlled. Profiles for functions are encouraged. Profiles should be reviewed by an individual's manager at least semi-annually.
- Users should not have access to change system functionalities. All systems should have a clear business ownership assigned and all changes to a system must be approved by the business owner.
- Developers should have restricted and controlled access to production systems. A complete audit trail of all actions by users and developers should be saved by the system and be readily available for review.

60. Standard Settlement Instructions

60.1. Having a Separate/Independent SSI Team

- In order to have clear segregation between the duties within operations, each institution should have a separate Standard Settlement Instructions (SSI) team to prevent fraud, or minimise the potential risk of fraud.
- SSI are to be stored and maintained in a dedicated static data system.
- SSI set up shall go through a 'four eyes principle' to ensure its correctness, its validity and the prevention of fraud.
- Third party SSI are only to be set up following internal bank and compliance procedures.

60.2. SSI Usage

- The institution should be in a position to set up SSI for its clients per product and currency.
- SSI shall be set up with a start date.
- An end date should be applied upon receipt of instructions to change SSI accordingly and replaced with the 'new' SSI with the appropriate start date. Where a change to SSI is to take place, previous SSI should be 'deactivated' to mitigate risk around use of incorrect SSI.
- SSI which are stored and maintained in a dedicated static database shall be provided to all settlement systems in order to ensure STP.
- If an SSI is provided by front office, sales or trading, full authentication and authorisation of that SSI should be independently performed by operations.

60.3. Exchange of SSI

- SSI changes and notifications by an institution shall be communicated to its clients ideally at least one month, but at the latest ten working days, before implementation regardless of the chosen channel or platform.
- SSI changes and notifications should be submitted by an institution to its clients via an authenticated SWIFT message, preferably MT670/671. Email, fax and letter is not an authenticated message type and requires a Sarbanes-Oxley call back procedure to validate the sender of the message in order to minimise the potential risk of fraud.
- SSI included in a SWIFT trade confirmation should have a matching criterion in order to mitigate any settlement risk.

60.4. Controls and Archiving Logic around SSI

- The SSI static data tool requires an audit trail functionality.
- SSI notifications by an institution's clients are to be stored according to local laws.
- Electronic SSI service providers should ensure that secure online user access is available, user access is controlled and regular re-certification is performed.

60.5. Changing SSI for the Period of Notice and for Outstanding Trades

- All outstanding deals should be settled in accordance with the SSI in force on the value date (unless otherwise explicitly agreed at the time at which any change to an existing SSI is agreed).
- SSI changes provided within the spot window shall only be applied to outstanding transactions outside of the spot window. This is due to the fact that, for certain currencies, a payment message will have already been generated in order to pay with good value date. All trades within the spot window shall be changed, based on a bilateral agreement between the parties.
- This applies when a counterparty becomes a CLS Settlement Member (SM) or CLS Third Party (TP) Member and moves trades from outside CLS into CLS, as well as for changes from TP to SM or when a TP changes their SM.

60.6. Single Changes to Default SSI

- Any alterations to original payment instructions or SSI are to be notified immediately and directly to the counterparty.
- Alterations are to be agreed by the relevant parties involved either via a written legally binding document or an authenticated confirmation message such as MT300 SWIFT.
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Chapter Eleven - Post-Trade Standards and Practices

61. Confirmation of Trades

Every trade of any financial product has specific stages during its lifecycle that need to be validated and confirmed and require attention to detail to ensure the trade is processed correctly. From the moment the trade is agreed until the moment it has been confirmed and finally settled, the different stages in the lifecycle will be governed by the terms included in the confirmation.

61.1 Responsibility

- Operations senior management are responsible for ensuring the correct processes are in place for confirming trades during their lifecycle. They should ensure the appropriate resources and procedures are in place to achieve this.
- These procedures should be closely monitored, available to all staff, and shared with senior management.
- Staff managing the confirmation process should clearly understand their roles and responsibilities.
- The operations department should have clear procedures that allow them to react to unexpected situations, as well having clear escalation procedures to minimise potential disruption or delays in the confirmation process.

61.2 Segregation of Duty

- The process of confirming trades should only be done by back office/operations staff.
- Staff performing this function (back office/operations) should be independent and separate from those that agreed and executed the trades (front office).
- Front office should not have the ability to modify any confirmations.

61.3 Buy-Side

- If a buy-side customer does not have the capability to send confirmations, or access to automated or electronic means, the buy-side customer should sign and return the sell-side confirmation. Signatures should be validated against the authorised signatory list.
- A critical step in reducing confirmation risk within the industry is to further engage the buy-side community and encourage new improved processes, particularly in terms of electronic confirmation methods.
- Encouraging the buy-side to leverage their confirmation solutions by increasing standardisation and automation and reducing manual confirmations that may cause unnecessary delays. Automated confirmations can be facilitated through many means, such as vendor confirmation platforms as well as dealer portals.

61.4 All Trades Should be Confirmed

- Both parties of a trade should send confirmations for every trade executed, as unconfirmed trades can lead to operational and financial risk as well as to legal discrepancies.
- Any exception to this rule should be clearly documented between the counterparties and approved by the responsible relationship manager, operations management and compliance staff.
- In some situations, exchanging confirmations may appear superfluous, such as trades that are net settled, deals traded on electronic platforms or internal trades. Nevertheless, it is good practice to exchange confirmations, even in those situations, in order to reduce risk.
- When a trade is to settle in a CCP or CLS, the parties may agree not to exchange confirmations. If so, this agreement should always be made in writing between the counterparties. However no counterparty should unilaterally eliminate confirmations from these trades.
- The same confirmation standards should be applied to trades between entities of the same group.

61.5 Sending

- Both counterparties should send confirmations, or positively affirm trades within two hours of the trade being booked and as soon as technologically possible.
- If the prior is not possible, the confirmation should be sent on trade date at the latest.
- All confirmations should be issued/sent to 'non' front office personnel at the counterparty.
- The confirmation of a trade should only be sent once, as multiple confirmations for the same trade may create confusion, delays and or potential errors for the counterparty.

- Copies of confirmations to counterparties should be marked as 'Duplicate' or 'Copy' and should have always the same content even if the same or another distribution channel is requested by the counterparty.

61.6 Receiving and Matching of Trades

- Matching should be performed as soon as possible by both counterparties upon receipt of the confirmation and on no account later than the close of the trading day. Doing so will minimise the potential risks associated with the matching process.
- Both counterparty processes should have the highest level of automation. The matching process should highlight any discrepancies between counterparties which should be investigated and corrected in the shortest time possible.
- Special attention should be paid to processing and sending confirmations, and to processing received confirmations as any delays may lead to operational and/or market losses.
- Confirmation matching should be a pre-settlement workflow activity.

61.7 Technical Means

- The confirmation of a trade should be sent, received and processed in the most automated and 37tandardized way possible.
- Counterparties should select the most secure and most rapid mechanism to execute and confirm trades with a counterparty.
- An electronic format is the most effective means of sending information. The information should be structured using standard message types and sent through a secure communication method. This type of confirmation allows both counterparties to reduce operational risk through the automation of the validation of a trade's event lifecycle.
- Voice affirmation is a type of confirmation that should be avoided and only used where no other method is available. Additional measures, such as recorded lines, should be adopted in the event of verbal confirmations. In all cases, all verbal confirmations should be followed by an electronic or written confirmation.
- Voice affirmation by non-front office staff may be useful for trades done through a broker; in this situation, formal confirmations should also be exchanged between counterparties and considered as overriding the voice affirmation.
- Physical confirmation should be used when no electronic format is feasible, and may be facilitated through fax or mail. However, this poses operational risk due to the time it may take and the manual activity required for processing. For example a mail confirmation may not be received by the counterparty until after settlement date.

61.8 Unconfirmed Trades

- Both parties should as a general rule and on a best efforts basis confirm trades.
- Trades that remain unconfirmed on trade date should be reported as soon as possible to operations and front office management.
- Participants should have escalation procedures in place which are known by all operations staff. This should detail how to resolve unconfirmed trades or those with counterparty discrepancies and reflect trade and confirmation age. The procedures should clearly determine the escalation points for issues, the person responsible for escalating and the procedures for reporting items to operations, front office and or Credit management. It should also include the actions to be taken in order to protect the institution in the case of unconfirmed trades.

61.9 Broker Trades

- Brokers should confirm all transactions to both counterparties immediately by an efficient, electronic and secure means of communication. As a best practice, confirmations should be received within two hours of the trade being booked at the outset. It is important to note that broker confirmations are not bilateral confirmations between the principals of the trade and therefore do not carry the weight of a bilateral confirmation.
- Trades arranged via a broker should also be confirmed directly between the counterparties to the transaction using their usual system generated confirmations.
- The broker should always obtain acknowledgement from a trader that all deals have been agreed and if not should ensure that any identified discrepancies are resolved as a matter of urgency. Lack of response from a trader should not be construed as an agreement to a trade(s).

- In the case of tri-party trades, the notification give-up between the executing broker and the prime-broker will be sent within the same timeframes and parameters as broker confirmation trades mentioned above.

61.10 Legal Aspects

- Once a trade is agreed by the front office it is a binding agreement for the counterparties.
- From that moment until the transaction has settled, both parties should use their best efforts to resolve any discrepancy, according to market practices and within the legal framework of the product traded.
- Once the confirmation is accepted by both parties to a trade, it will determine the rights and liabilities of each party.
- For bilateral legal clarity, both counterparties should sign a Master Agreement. This agreement should contain the broadest range of products, conventions, market practices and provisions in order to facilitate and document the activity between both parties.
- Whenever a Master Agreement exists between two parties, the confirmation should conform to the standards, provisions and content of the market or product. If there is no standard, the confirmation should make reference to the Master Agreement.
- The use of a Master Agreement allows the trading parties to establish legal comfort and certainty for any executed trades, minimising the legal risk of those transactions. It will govern all the trades that explicitly refer to the Master Agreement. Bilateral trading should be executed within a legal framework known to both sides.
- All terms and exceptional provisions will be according to the Master Agreement which ensures both counterparties acknowledge the trade and any and all exceptional situations that may occur during the life of the trade.
- Any new or changed standard form 'template' documents which are used to document contractual commitments should be reviewed and approved by the legal department, as should all bespoke contracts.

61.11 Market Conventions

- The content of a confirmation includes the economic and non-economic details, which identify both sides of a trade in a clear manner.
- The necessary type of data in a confirmation, depending on the product, are:
  Economic, such as initial and final amounts, rates;
  - Dates including trade day, initial day, final day, settlement day and any relevant day during the life of the trade;
  - Identification of product, counterparty, currency, index;
  - Legal provisions that are not included on the Master Agreement that govern the trade or the legal aspects when there is no Master Agreement signed between the parties. When there is a Master Agreement signed by parties it has to be referred to in the confirmation;
  - Market conventions that will be used during the whole life of the trade and which affect dates, calculation of the amounts, and events of the trade; and
  - Instructions to be used for settlement actions during the life of a trade (even if these instructions are the SSI), should be sent to the counterparty.

- All of the aforementioned information should be expressed in the clearest manner in order that both parties are able to acknowledge their responsibilities. When a confirmation is governed by a Master Agreement, the confirmation should conform to the formats specified for the market/instrument.

61.12 Review of Amendments

- If a discrepancy creates any risk this should be closed out in the market without inference that either party is wrong, pending the final resolution of the dispute. Any difference should be reconfirmed. A new confirmation should be provided by the counterparty whose original confirmation was incorrect.
- In the event that a trade is amended by one or both parties, then a new confirmation should be generated, and the confirmation cycle should restart and continue until the trade is completely matched by both parties.
- All amendments with change in financial trade details should be sent to the counterparty via a cancellation and a new confirmation or a cancellation, and an amend confirmation. Changes to settlement instructions should also be reconfirmed via an amend confirmation.

- Advice of cancelled deals should be issued within two hours of a trade being cancelled. Failure to issue a cancellation can result in confusion between parties and increases the risk of settlement issues.
- Amendments to transaction details should be conducted in a controlled manner that includes sales, trading and operations in the process. If operations staff is responsible for amending/cancelling a deal, they should obtain prior written authorisation from sales and trading before processing the amendments/cancellations.
- Particular care should be taken for amendments to FX swaps transactions after the settlement of the near leg.
- Exception reporting on amendments and cancellations should be made available to sales, trading and operations management on a daily basis.

62. Netting

62.1 Establish Netting Agreement

- The operational process should be supported by establishing a legally binding agreement, if not mentioned in the Master Agreement between counterparties.
- Any netting should have an agreed confirmation procedure.
- Any netting should have an agreed procedure for confirming bilateral net amounts (use of voice logging is recommended).
- Any netting should have agreed alternative procedures in case netting cannot be performed.
- Ad hoc netting can be performed using phone with voice logging.

62.2 Automated Netting

- The usage of an automated (online) settlement netting system is encouraged.
- Counterparties should employ automated/online netting systems as part of their standard procedures.
- It is recommended to use the Netting Position Advice message form (MT370). The MT370 is used to advise the netting position of a currency resulting from foreign exchange, Non-Deliverable Forwards (NDF), options and other trades. It also specifies the settlement information for the currency.
- Cut-off times for netting should be included in the systems.
- SSI should be in place.

63. Settlements

63.1 Industry Best Practice for Prompt and Accurate Settlement

63.1.1. New Client Relationship – Account Workflow

- All necessary client static data such as SSI, confirmation methods, and global settlement limits together with client contacts for the front office and operations should be collected within an institution's on-boarding procedure.
- The Account Workflow (AW) initiation turnaround time should not exceed two working days in order to be ready for trading.

63.1.2. Straight Through Processing

- Straight Through Processing (STP) is recommended to minimise settlement risk.
- Static data such as confirmation method and SSI need to be set up in all relevant systems before trading to ensure high STP and low operational risk.

63.2 Industry Best Practice for Settlement Procedures and Controls around Cut-off Times

63.2.1 Know your Trade

- Know all individual currency funding and payment cut-off times and add them to all relevant systems.
- Know the status of your trade.
- A trade booked in the front office should be available real time within the cash management department for Nostro account management.
- Prioritise trade settlement considering payment cut-off times, including currency sensitivity and size of amount.
- Ensure payment instructions are in place for all outstanding trades to avoid exception handling caused by missing payment instructions at payment cut-off times.

- Every transaction should always be processed in advance of the payment cut-off time.
- Ensure trades are matched with the counterparty on all financial details and settlement instructions before payment release.

63.2.2 Know your Clients and your Stakeholders

- There should be clear and structured escalation procedures for the management of incorrect funding balances between front office, cash management department and operations. This should also include any other impacted area that may be required. This is particularly important during crisis situations.
- Comprehensive counterparty contact lists should be implemented and maintained, together with any preferred communication medium in the event of missing information related to trades payments and settlement.

63.2.3 Fast Turnaround Time/Responsiveness to Changes

- SSI and payment cut-off changes should immediately be updated in the static data system. Ensure the information is updated real time in connected downstream settlement systems to adjust/change new and existing trades.
- Payment cut-off changes caused by the institution's correspondent banks, by exceptional national bank holidays or by a crisis in a specific country, should be communicated immediately.

63.3 Industry Best Practice for Settlement with Regards to Communication with Nostro Banks

63.3.1 Send Electronic Messages for Expected Receipts

- A bank should send its Nostro banks an electronic message that communicates its expected receipts of funds. This enables Nostro banks to identify payments that are directed to an incorrect account early in the process, to correct payment errors on a timely basis and to ensure that the bank receives the exact funds.

63.3.2 Use Real-time Links to Process Cancellation and Amendment of Payment Instructions

- A bank should establish a real-time communication mechanism with its Nostro bank to process the cancellation and amendment of payment instructions. 'Heads up' phone calls to support smooth handling, especially in emergencies, are encouraged.

63.4 Industry Best Practice for Settlement with Regard to Controls if Beneficiary is a Third Party

63.4.1 Know your Actual Beneficiary and your Third Party

- Third party payments are not preferable due to the potential risk which they create, i.e., money laundering.
- SSI changes due to a third party payment request need to be confirmed by a written documentation that has been authenticated by the actual contractual beneficiary.
- Clear understanding of the underlying reasons is needed in order to determine its potential risk with regards to the Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) laws.
- Never release a third party payment without following your internal bank and compliance procedures.
- Market participants should have clear procedures in place regarding the screening of SSI against official CFT Lists, and regarding control reports related to AML.

63.4.2 Know your Contractual Beneficiary's Subsidiaries

- Collect and maintain all subsidiaries of your contractual beneficiary.
- Pre-confirm the collected list with the internal compliance department in order to proceed with such type of third party payments in future without gathering compliance approval individually.

63.5 Industry Best Practice for Settlement with Regards to CLS Usage, CLS Deal Input, CLS Rescinds

63.5.1 Expansion of CLS Usage

- Institutions active in FX trading should be CLS participants where possible.

63.5.2 Market Makers as CLS Members or Third Parties

- CLS participation is encouraged for major market making banks, including retail FX market makers but also other banks, large corporations, investment and hedge funds, as a means of mitigating settlement risk.

63.5.3 CLS Deal Input and Matching

- Non-prime brokerage trades should be matched within two hours at the latest after a trade has been agreed with the counterparty.
- Prime brokerage trades require a longer matching time due to the affirmation by the underlying client. However, matching needs to be affirmed by the end of the trade date at the latest.

63.5.4 CLS Rescinds

- Advice of a cancellation should be made within two hours of the trade being cancelled.
- In the event of a crisis situation with a specific client of a particular CLS member, there should be tested and documented procedures within the member institution in order to facilitate a bulk rescind.
- The type of crisis situation and the consequences of the bulk rescind, should be considered very carefully before performing any bulk rescinds. CLS settlement members may rescind instructions unilaterally, provided that the rescind messages reach CLS Bank before the 00:00 Central European Time (CET) deadline. If the deadline has passed, only bilateral rescinds are accepted until the 06:30 CET bilateral rescind deadline.
- Amendments to an FX trade's financial and other details (e.g., trade date) should be sent to the counterparty via a cancellation as well as a new confirmation.
- Amendments to an FX trade's settlement instruction 'CLS to outside CLS' should be submitted via a cancellation and a new confirmation.
- If an instruction remains unmatched and/or unsettled through CLS Bank, and there is more than one FX trade with a single counterparty to settle in the same currencies, then both sides should bilaterally agree to settle the trades outside of CLS Bank on a 'net' basis.

64. Performance and Capacity Management in FX Processing

64.1 Technical and Operational Capability

Sufficient technical and operational capability should be employed to ensure that an institution's end-to-end FX processing can take place in both normal and peak market conditions without undue impact on its processing timeline.

- Projected average/peak business volumes and the time periods in which these are likely to occur and must be processed within (both outbound and inbound) should be clearly defined. Similarly, the peak duration (the length of time where peak input capability must be sustained) should also be defined.
- Sufficient scalable end-to-end technical capacity and associated operational resources should be employed to achieve the above measures at all times (with appropriate contingency headroom built in to reflect an institution's business profile). This is likely to involve not only the firm's own systems (e.g., Trade Capture, Confirmation, Operations Processing, Finance, Risk, and CLS backing architecture) but other aspects of connected external infrastructure such as networks.
- For institutions whose business profile may include high volume trading, consideration should be made with respect to the use of aggregation tools for consolidating trade volumes.
- The end-to-end FX operational capabilities of an institution should be commensurate with, or exceed, its front office capabilities.

- For firms operating from multiple locations or business lines, this capability should exist wherever trade generation may occur.
- The capability should accommodate failure or Disaster Recovery scenarios where an institution may need to 'catch up' on trade data not processed whilst either recovering from system problems or when failing over its standby facilities.
- End-to-end testing (on appropriately scaled architecture) should be employed to prove the above. Such testing should take place at least annually (both internally and through to CLS for those firms participating in the CLS service).

64.2 Clearly-defined Capacity and Performance Management Processes Should be in Place.

- Utilising both historic analysis and projections of business generation, robust modeling processes should exist whereby future volumes (three to six, 12 and 24 month periods) are predicted as accurately as possible for both standard and peak business flows on a monthly, daily and intra-day (up to hourly) basis, thereby capturing routine variations in trade flow patterns.
- Appropriate change management and technical planning processes should be present to ensure that any changes arising from the above are deployed at least six months ahead of the anticipated requirement date.
- This process should be iterative and should take place, at a minimum, on an annual basis or as per internal business and IT plans.
- A comprehensive, documented performance and capacity framework should exist which describes the processes above and which should be reviewed and endorsed on an annual basis. This framework should be 'owned' at a senior level.

64.3 Defined Mechanisms in Place to Respond to Extreme Changes in Demand

- It is possible that either in-house system failures or extreme swings of market volatility may cause volume/throughput surges, and associated backlogs that may exceed those peak capabilities that an institution may have employed. Institutions should ensure that appropriate real-time monitoring mechanisms are in place to detect such volume build-up thereby providing as much 'reaction time' as possible.
- In preparation, it is equally essential that an institution's processes (both technical and management) recognise the possibility of such eventualities and that appropriate measures are in place to safeguard both their systems and the wider ecosystem, should they occur.
- Such processes could include the ability to:
    - Prioritise the submission of trades by value date and to manage internally any build-up of spot/future dated trades so that they can be subsequently submitted in a controlled fashion over an extended period.
    - Via real time reporting and tracking to dynamically monitor volume trends to identify significant changes in volume profiles (either up or down) and, especially, to identify surges whose profile would exceed existing peak provision.
    - To have in place appropriate crisis management and invocation processes so that defined (and expeditious) actions can be taken should volume trends indicate that planned peaks may be exceeded. Examples of this might be the introduction of additional capacity and performance 'on demand', consolidation of trades into larger value, and smaller volume trades.
    - Limit the trade generation volume so that it does not threaten to exceed the technical capabilities of other systems within the institution.

(see also Section 63.5: Industry Best Practice for Settlement with regards to CLS Usage, CLS Deal Input, and CLS Rescinds)

PART VI: USE OF TECHNOLOGY AND GENERAL SECURITY

Chapter Twelve - Security

65. Fraud

- As there are several ways in which an institution can be defrauded, great vigilance is required by management and staff, particularly so when calls are received on an ordinary telephone line (usually in principal to principal transactions).
- As a precautionary measure, it is strongly recommended that the details of all telephone deals which do not include pre-agreed Standard Settlement Instructions (SSI) should be confirmed in writing by the recipient seeking confirmation to ensure the deal is genuine.
- Particular care should be taken in checking authenticity where the beneficiary is a third party or anyone other than the transaction counterparty. It is common to allow this activity only with specific management approval.
- In the event of any suspicious circumstances staff must notify management without delay.

66. Money Laundering and Terrorist Financing

Banks and their employees have a duty to prevent money laundering and terrorist financing and report any knowledge or suspicion of such acts to the appropriate authority. Both institutions and individuals face severe penalties if they fail to take reasonable steps to fulfill these obligations and thereby facilitate such transactions, even if this is done unknowingly. Banks are also exposed to serious reputational risk.

- Firms must have clearly documented policies and procedures, and strong systems and controls, to avoid being exploited for money laundering and terrorist financing.
- Firms must ensure that, where any member of staff has any knowledge or suspicion of these activities or reasonable grounds for suspicion, this knowledge or suspicion is promptly reported by the firm to the responsible public authority.
- Firms must ensure that someone should be clearly designated to whom all staff have easy, direct and confidential access and who has similar access to that of senior management and the responsible public authority in order to pass on reports of transactions where there is clear evidence of, or reason for suspecting, money laundering or terrorist financing. This person typically should be the compliance officer (note that staff should report to the compliance officer, not the responsible public authority; it is the compliance officer who should report to the responsible public authority). Further, the 'Know Your Customer' information should be available to the designated reporting officer in a firm in order to allow him or her to assess the validity of the reports made to him or her.
- Measures must include effective training for staff in the front, middle and back offices. Training should ensure that staff is aware of the serious nature of these activities and the obligations on them to report promptly any knowledge or suspicions, while not revealing their knowledge or suspicions to the suspected criminal or terrorist.
- Training should include the ability to recognise an offence, or form a suspicion where there are responsible grounds for doing so. They must also know to whom to report within their bank.
- Training should pay particular attention to staff involved in those business areas at greatest risk and should include all senior management.
- Firms need to regularly review their policies and procedures, and audit their systems and controls, in order to ensure that they keep pace with rapidly changing methods of money laundering and terrorist financing, and take into account continually evolving law, regulation and best practice on the prevention and detection of these crimes.

Chapter Thirteen - Use of Technology

The use of technology holds certain risks such as unauthorised trading by authorised or unauthorised personnel on or off premises, non-voice-logged transactions, the potential misuse of confidential

information and legal and contractual risks in the absence of an e-law framework. There should be appropriate security in place governing access, authentication and identification of personnel who are authorised to use these facilities, aligned with the wider trading controls.

67. Use of Mobile Phones

The use of wireless communication devices within the front or back offices for official business, except in an emergency or disaster recovery situation or specifically approved by senior management is not considered good practice.

- Management should have a clear written policy regarding the use of these devices by trading, sales and settlement staff as to:
  - Whether privately and/or company owned devices are allowed or can be used inside the dealing room and back office to transact, advise or confirm transactions;
  - Terms and conditions under which circumstances the use of such devices can be authorised by management; and
  - Procedures to allow an end-to-end transaction audit trail, including where appropriate, call back or answer phone facilities and controls.

68. Electronic/Online Trading and Broking

Where internet trading and electronic broking facilities are established, the conditions and controls should be comprehensively stated in the relevant rulebook. There should be appropriate security in place governing access, authentication and identification of personnel who are authorised to use the facility.

68.1 E-trading Process According to Market Standards

- Ensure that the complete e-trading process, from pricing to risk impact to settlement, conforms to recognised standards and market conventions.

68.2 Electronic Broking Process According to Market Standards

- Transactions executed through electronic broking systems should be handled in accordance with the provisions of the individual vendor's dealing rule book, and with all documents and agreements relating to a customer's utilisation of the service.
- Management should ensure that dealers have a full comprehension of the systems involved and have read and understood the relevant vendor's dealing rule book and operational manuals.
- The vendor's dealing rule book should stipulate clearly the procedure and responsibilities that apply in the event of a communications breakdown at the point of or during the consummation of trades, off-market discrepancies and software inadequacies or limitations ('bugs').

68.3 Access to Systems

- Ensure access to systems internally and at the client interface is strictly controlled by non front office risk officers and that robust encrypted security processes are in place.
- All participants should only use their own user ID and password and the sharing of IDs and passwords should be forbidden. In some jurisdictions sharing in this way may contravene local regulations.
- Access to and the ability to initiate deals via electronic trading must be subject to documented controls and appropriate approval rights. Management of banks should institute control measures to prevent unauthorised access to any electronic broking system.

68.4 Terms of Engagement

- Ensure that the terms of engagement for each e-trading platform are fully documented, understood and signed off by all counterparties, clients, intermediaries and suppliers making use of these systems.
- Electronic trading operators should maintain an up to date register of counterparty details.

68.5 Legal Status of all Potential Counterparties

- Market participants should be absolutely clear as to the legal status of all potential counterparties before allocating credit or trading status.

68.6 Pricing and Trading Behaviour

- All prices and orders made on electronic platforms must be posted with a clear intent to be tradable:
    - Market makers, in particular, must ensure that they are suitable, adequate and appropriate for their trading style.
    - Prices quoted should be firm unless clearly labeled as indicative. There needs to be a clear genuine intent to trade.
    - Credit manipulation is not acceptable market behavior.[2] (see r)
    - All participants must ensure that credit files are checked and updated as appropriate on a regular basis.

68.7 Fully Trained Risk Officers

- Ensure that risk officers are fully trained in how to monitor and control multiple e-trading systems and that appropriate tools are in place to allow this monitoring.

68.8 Liquidity Providers Should be Cognisant of Reputational Risks

- Liquidity providers should be cognisant of reputational risks when supplying liquidity for onward third party consumption e.g., how their liquidity and/or name is used when white labeling liquidity.

68.9 Contingency

- Regularly test for loss of access to external electronic liquidity platforms, including the provision for loss of service to clients.
- Systems capacity to cope with extreme volume events resulting in greater number of trades being input into systems should be regularly reviewed and be appropriate to business models/goals.
- All automated processes must have a manual contingency available that is documented in the Operating Procedures.

68.10 Archiving

- All records should be archived and appropriate audit trails must be maintained as required by the regulators and internal policies.

68.11 Time Stamps on E-trading

- Time stamps on e-trading platforms need to be internally and globally synchronised to ensure appropriate tracking of trades.

68.12 Process for the Swift Resolution of Disputes

- There should be a clearly defined and documented process for the swift resolution of disputes arising from mis-hit and broken trades.
- It is recommended that those disputes be resolved within 30 minutes to at least ascertain and agree control of any outstanding position.

68.13 Process Outlining Procedures

- There should be a clearly defined and documented process outlining procedures that follow in the event of a breach of the rules and operating procedures of the platform.

68.14 Institutions Acting as Prime–Brokers

- Institutions acting as prime-brokers, where applicable, must be responsible for the swift resolution of disputes, mis-hits or broken trades on behalf of their clients. It is not best practice to delegate this resolution downstream to their client or to rely on the execution

[2] Where a system relies on bilateral credit, it is unacceptable for participants to influence prices in a market by temporarily withdrawing credit in the system for particular, or all, counterparties on that system.

venue to resolve disputes (unless the execution venue has explicitly specified that it undertakes that process and responsibility).

68.15 Human Oversight

- Ensure that there is human oversight of automated liquidity and trade management processes, including management of order books and stops.
- Ensure that personnel overseeing operations have the necessary authority to resolve trade disputes, broken trades and mis-hits within the recognised timeframe.

68.16 Maintenance of Front and Middle Office Contacts

- E-commerce platforms and Electronic Communication Networks (ECN) should maintain an up-to-date global (with 24-hour coverage) database of front and middle office clients contacts at prime brokerages, intermediaries and institutions that have auto-execution facilities to enable the swift resolution of any mis-hits, broken trades or disputes.
- Multiple SSI set up is recommended as best practice. This allows an institution to separate various FX business areas from another.

68.17 Third Party Access to Liquidity Venues

- Market participants providing access for others to liquidity venues, for example, prime-brokers, are responsible for the activities of their end users, for their adherence to the rules of individual execution venues and for adherence to market best practice.

68.18 Trading and Broking Ethics Through the Use of Technology

- Management should ensure that the complete e-trading process, from pricing to risk impact through to settlement, conforms to recognised standards and market conventions.
- Any deliberate attempts at gaming and abuse using the flashing of orders without the intent to deal are strongly discouraged and maybe illegal in some jurisdictions.
- It is recommended that ECN have mechanisms that control price flashing, whether it is through Message to Trade ratios and/or price flashing.
- All bid-offers presented to electronic platforms should remain in the matching system for at least the minimum period of time defined within their respective Minimum Quote Life (MQL) rules.
- The practice on the part of dealers inputting bids and offers well out of range of the current market spread or seeking profitable off-market deals by exploiting 'big figure' decimal error in the confusion of sudden volatility is abuses of the system and not good practice.
- Trades which occur at off-market rates should, by agreement between the two counterparts and as soon as practically possible, either be cancelled or have their rate modified to be at an appropriate market rate.
- Algorithms require appropriate supervision performed by staff with commensurate levels of experience.
- The sudden withdrawal of a specific credit limit or limits in a tactical manipulation to mislead the market is unethical and strongly discouraged.

69. E-trading Safeguards

69.1 The Prevention of Rogue Trades

The principal will be held responsible for any technical rogue trades that occur, as the firm should invest appropriately in the necessary testing and use of safeguards.

- All software implemented should be checked for correct operation, tested for rogue trades and all staff should be adequately trained in the use of any new software introduced, particularly broker-dealers, who utilise computers to trade, trade fast or trade frequently.
- Algorithms should be utilised to monitor trading algorithms in place.
- Circuit breakers should be in place for the risk management of fast-moving markets and programmes/APIs in use.
- Redundancy of software should be standard practice where new software is introduced into real-time trading situations.

69.2 The Prevention of Other Technical Errors

69.2.1 Pre-trade Risk Limits

- Pre-trade risk limits appropriate for the firm's capital base, clearing arrangements, trading style, experience, and risk tolerance should be established.
- These risk limits can include a variety of hard limits, such as position size and order size, which may be set at several levels of aggregation, depending on the situation.

69.2.2 Price Collars

- Limits on the price of the orders that can be sent, configured by product, should be enforced in trading systems. These limits should prevent any orders for prices outside of the 'price collar' from leaving the system.

69.2.3 Fat-Finger Quantity Limits

- Upper limits on the size of orders, configurable by product, that can be sent from the trading systems should be established, which should prevent any order quantities above the fat-finger limit leaving the system.

69.2.4 Repeated Automated Execution Throttle

- Monitoring of the frequency of strategies that are filled and then re-entered into the market without human intervention through automated trading systems should be in place.
- Hence if the number of repeated executions reaches a certain limit within a certain time frame, the system should automatically be disabled until a trader re-enables it.

69.2.5 Outbound Message Rate

- Monitoring of the number of order messages that are sent to trading venues within a specific time period should be established. These limits should comply with trading venue rules and the risk tolerance of the firm.

69.2.6 Kill Button

- A manual kill button that disables the system's ability to trade and cancels all resting orders should be established in trading systems.

Supplementary Material and Key Terminology

The following section contains further background reading to some of the chapters in the Code along with additional ***information and key terminology used****. The section does not contain any further 'best practice', as these are all within the Code itself in the previous section. The following is for those who wish to gain further clarity and understanding of certain sections of the Code.*

The Importance of Terminology

Transactions in a financial market instrument may be entered into electronically, in writing, or orally. In the case of the latter, many systems of law would consider such a contract to be binding, so it is important, therefore, that when market jargon is used to agree to a transaction, the parties should be 100% sure that they are referring to the same set of terms. This will also reduce disputes when such terms are set out in writing, in a confirmation.

Generally, contracts can be entered into orally. Under many laws, this is true with respect to financial market transactions. If the parties have agreed to a trade using the same terminology, but later are proven to have been using the same terminology with different understanding, it could lead to an unnecessary dispute, or it could be held that a contract had not been formed (e.g., because there is no meeting of minds). A dispute over the terms and conditions of a transaction could cause documentation backlogs, which are often considered one of the operational risk categories (and which may have capital adequacy impact). The following section contains a non-exhaustive example list of market jargon, and their commonly accepted meanings and usages, to help avoid such problems. However, the more complex or novel the product becomes, and in faster and more volatile markets, the need for traders to communicate in precisely defined terms increases. One of the most common causes of disputes brought to the Committee for Professionalism is the construction of orally agreed terms that are not well defined in any market standard publication.

As strongly recommended in Section 13: Terms and Documentation, a Master Agreement should be in place at the onset of a trading relationship. Typically, a market standard Master Agreement, such as the ISDA Master Agreement, would have a clause stating that the Master Agreement, its schedule, supplements, and confirmations thereunder will supersede all prior oral communications. The confirmation procedures set forth in Part IV are very important, underlining that the parties to a transaction should exchange or otherwise obtain a written confirmation as soon as practicable after the terms of the transaction have been agreed to orally. Confirmations should be worded in an unequivocal manner, employing terminologies with generally accepted definitions. Appendix Five contains a list of publications which have product specific definitions for various financial instruments.

Traders, as well as middle office and back office personnel, should familiarise themselves with the terms relevant to their lines of business. These definitions are frequently updated, supplemented, revised or amended by the respective industry groups. Such an updating process is the result of input from market participants; therefore the active involvement of market practitioners is always welcomed by the publishing industry group.

PART I: BUSINESS HOURS

- **Market disruption** = an event which was not foreseeable at the time the transaction was entered into and which is beyond the parties' control. These include capital controls, illegality or impossibility of performance, Acts of God, extreme weather, illiquidity, etc.

- **Unscheduled holidays** = New bank holidays or non-business/clearing days announced by the authorities in various centres.

1.) The globalisation of the financial markets in recent years has led to the widening of treasury hours of business by banks, particularly in the main centres. Several major international financial institutions have instigated shift systems for traders in foreign exchange and some derivatives, overlapping both earlier and later time zones, whilst other banks operate a 24-hour system. Although this ensures continuous business on a 24-hour worldwide basis, legal and commercial

considerations, particularly in foreign exchange and derivatives require officially recognised weekly opening and closing times for the global market. Following detailed discussions and negotiations with the major Asia Pacific and New York OTC market participants and regulatory authorities, ACI - The Financial Markets Association has co-ordinated a global accord on official opening and closing times as stated in this chapter.

2-3.)Market standard provisions have been developed by industry groups, such as The International Swaps and Derivatives Association, Inc., and The Financial Markets Lawyers Group, dealing with the types of unforeseeable events that are beyond parties' control known as 'force majeure', 'illegality' and 'impossibility'. Market participants should incorporate appropriate provisions in their agreements. In Hong Kong, arrangements are in place in the event of rainstorms and typhoons, and comprehensive procedures are set out in detail by the Hong Kong International Clearing House. In London, according to the Non-Investment Products Code, a procedure is in place whereby the Bank of England may determine and publish interest rates which parties in deals affected by such general disruptions should use for adjustments. For transactions in emerging market currencies, the definitions relating to market disruptions in the local market are also provided (mainly for use in connection with non-deliverable forwards). These local rules and procedures generally complement the general provisions of market standard agreement, e.g., the applicable interest rates, next local business day, etc., to the extent that they do not conflict with the existing written agreement.

PART II: COMPANY-WIDE ISSUES

Chapter One - Personal Conduct

- **Front running** = Arises where an employee executes a personal trade in advance of a client's or institutional order to benefit from an anticipated movement in the market price following the execution of a large trade.
- **Insider dealing** = Dealing in financial instruments based on confidential information about the issuer of such instruments or the instruments. Insider dealing is a criminal offence in many countries.
- **Position parking** = The practice whereby two contract parties agree a deal, usually on the understanding that the contract will be reversed at a specified later date, at or near the original contract rate, irrespective of the interim market rate change.

4.) In recent years the reputation of dealers and brokers worldwide in the media has suffered considerably. Several scandals have led to the widespread scrutiny of financial firms in the media. It is essential that employees act appropriately socially and follow all laws and rules and adhere to the highest ethical standards associated with their roles.

9.) It is not surprising that gossip and misinformation emanating from various sources is often relayed through the market telephone lines and screens, as markets are generally responsive to news on related developments. These rumours can be quoted, or even originate in the financial media.

10.1.)In the normal course of business, dealers and sales staff are often entrusted with proprietary and materially price-sensitive information by their management, clients and counterparties. Disclosing such confidential information without consent is highly unethical, a breach of confidentiality and can violate local data protection laws. The pressure which could be utilised by market participants to obtain confidential information could include any statement to the effect, or which could be taken as implying, that failure to co-operate would lead to a reduction of the business given by the dealer or other dealers to the broker.

10.2.)It should be acknowledged that authorised dealers actively involved in trading for the account of their firm (proprietary trading or risk management, when permitted by legislation to undertake this activity) may enter into trades which could inadvertently adversely affect the interest of customers or the value of transactions between those customers and the firm (e.g., delta hedges). Provided that effective controls and procedures are in place to prevent confidential information from leaking to dealers or, where dealers properly have access to such information, provided such information does not influence trading decisions, this is not necessarily improper. However, the situation may differ between jurisdictions.

11.) Treasury product offerings by financial institutions to customers have become much more complex, sophisticated and advanced in their applications. The objectives of customers for entering into such products can be diverse. Financial institutions and, in particular, sales and advisory personnel should be mindful of the level of knowledge, sophistication and understanding of their customers

when giving advice on the use, application or outcome of these products. It is important to note that the relevant laws in jurisdictions may differ substantially. For example, the distinction between a professional investor and an amateur (and the terminologies used to refer to these concepts) may or may not be codified in a statute and the legal consequence of such distinction, such as the protection afforded to 'non-professionals', i.e., duty of care imposed on the professionals, is also diverse.

'Wordings in this chapter do not have the same meaning as set out in the European Community directive known as Markets in Financial Instruments Directive (MiFID), in particular regarding the definition of a professional customer and the provision of advice.'

The rules stipulated in this chapter should be clearly set out at the onset of the trading relationship in writing such as in a Master Agreement. However, depending upon the jurisdiction concerned, the validity of these representations or agreements may not be robust due to, inter alia, overriding mandatory statutes. In addition, depending on the size, tenor and/or sophistication of the relevant transaction, the financial institution may wish to consider reiterating these in the relevant document relating to that transaction, such as a confirmation.

Chapter Two - Setup

13) It is now common for OTC market deals to be subject to some form of legal documentation binding the two parties to certain standard conditions and undertakings. These can comprise either signed Master Agreements exchanged between the two parties or can take the form of standard terms.

PART III: THE FRONT OFFICE

- **Name switching/substitution** = Where brokers will attempt to substitute a third name to stand between the two original counterparties to clear the transaction.

- **Reconciliations** = An accounting process used to compare the statements received from correspondent banks (Nostro) to the account owning institution's general ledger. This ensures that all incoming and outgoing payments to and from the bank account match the institution's records.

A) TERMINOLOGY relating to quotations and transactions in the foreign exchange (FX) and money markets (MM):

*In this section * denotes terminology used only in Foreign Exchange and ** indicates the section on Forward Exchange in the introduction to this chapter.*

69.1. Basis points = One-hundredth of 1 per cent in an interest rate.
69.2.
69.3. Bid, Buy, Pay:*
- **FX (spot) or forward FX outright** = A statement of a rate at which the dealer will buy the base currency or for a bid being initiated.
- **FX (forward FX swap)** = The dealer will sell spot and buy the forward base currency.**
- **MM** = The dealer will borrow.

69.4. Checking = The availability of a credit limit is being checked before the deal can be agreed.
- ***Discount = T**he difference between the spot and forward FX rates expressed in points when the rate for the forward date is cheaper than the rate for the near date.*

69.5. Done = Deal agreed as proposed.

69.6. Either way, Choice, Your choice = Same price for both bid and offer.

69.7. Firm, Firm price = The rate quoted is valid and can be traded on.
69.8.
69.9. For indication, Indication, For information, For level = Indicative quotation only and should be validated/confirmed before trades are proposed.
- **Forward FX =** Similarly, in many markets, on a forward points (or premium/discount) quotation of say 70-60 for 3 months USD/CHF in 10, the proposition ***Mine*** would mean:

'I sell for spot delivery and <u>buy</u> 3-months forward delivery USD 10 million at a premium on forward Swiss Francs or discount on forward US Dollars of 0.60 CHF centimes'.

Again, the market understanding similar to the spot parameters applies, with the additional proviso that in all forward or exchange swap transactions, the primary reference is to (or the dealer 'talks') the forward date.

*However, the latter understanding to 'talk the forward date' may not be universal and for this reason The Model Code recommends that FX swap dealing propositions should include one other element such as the price ('at 60') in order to underline which 'side' and eliminate any possibility of misunderstanding.**

In recent years, the increase in arbitrage activity between markets such as futures (centralised) and money, FX or cash (OTC) has gradually given rise to common or cross-market terminology not always conveying identical meaning. For this reason, care should be exercised when using abbreviated terminology in diverse markets.

- **Given =** A deal has been proposed and agreed at the bid price quoted.

69.10. Join at, Support at = A commitment to putting an additional bid or offer at a current bid or offer price already quoted by the broker. In response to a broker's quote '5.1/8-5.1/4' a dealer may say 'I shall join you on the bid side at 5.1/8 for 10' meaning 'I also bid 5.1/8 for 10 million'.

69.11. Mine, I buy, I take, (proposal to deal):*

- **FX (spot) or FX forward outright =** I take/I buy the base currency at the offered rate in the quotation for the amount quoted or proposed.
- **FX (forward FX swap)** = I sell spot delivery and buy forward the base currency at the forward offered rate for the amount quoted or proposed.**
- **MM** = I borrow at the offered rate for the amount quoted or proposed.

69.12. My risk = An acknowledgement by the dealer receiving the quote that the rate may have to be re-quoted at the receiver's risk.

- **Off =** Cancellation of existing bids or offers.

69.13. Outright price = Any foreign exchange price for delivery on any date that is not part of an FX swap transaction. Although it is not usually referred to as such, a spot exchange rate quotation is a de facto outright price for delivery on the spot date. All other outright prices are calculated with a spot base, adjusted by the premium/discount swap 'points' for the appropriate period from the spot date.

69.14. Paid or Taken = A deal has been proposed and agreed at the offered price quoted.

- **Par** = The spot and forward exchange rates for a specific period are the same.

69.15. Points: pips = The smallest unit of an exchange rate, typically:*
USD/JPY 1/100th of a Yen
EUR/USD 1/100th of a US Cent
GBP/USD 1/100th of a US Cent
USD/CHF 1/100th of a Swiss Centime (Rappen)

The advent of electronic trading platforms has led to far more precision in the number of decimal places currencies are routinely quoted to. Participants should familiarise themselves with the conventions used by specific electronic platforms.

69.16. Premium = The difference between the spot and forward FX rates expressed in points when the rate for the forward date is more expensive than the rate for the near date (the term when used in options is completely different).

- **Sell*, Offer:**

- **FX (spot) or forward FX outright** = A statement of a rate at which the dealer will sell the base currency.
- **FX (forward FX swap)** = The dealer will buy spot and sell the forward base currency.**
- **MM** = The dealer will lend.

- **Spot FX =** The foreign exchange market is a good example of an OTC market where a useful professional dealing language exists enjoying widespread recognition. The basic spot dealing terminology clearly illustrates its advantages with liberal use of the complementary terms ***Mine***

and ***Yours***. The simple term ***Mine*** when used in response to a spot quotation effectively means:

'I buy from you the base currency and sell you the counter-currency for spot delivery in the amount for which the quote was made at the rate at which the base currency is offered in your quote.'

If the spot dollar/yen was quoted 121.15-20 in 10, the above spot deal proposal would be to buy USD 10 million at 121.20. The logic that underwrites this standardisation is the market understanding that, unless otherwise *specified*, the dealer always 'talks' or refers to the base currency and deals in millions. If the quote was made without reference to a specific amount, the proposition ***5 Yours*** would mean I ***sell*** 5 million of the base currency (USD) for spot delivery at 121.15.

69.17. Under reference = A qualification stating that the rate quoted (in the market) may no longer be valid and requires confirmation before any trades can be agreed.

69.18. Your risk = The quoting dealer cautions the receiver of the quote (may be through the broker) that the price may have to be requoted at the receiver's risk.

69.19. Yours, I sell, I give, (proposal to deal):*
- **FX (spot) or FX forward outright** = I give/I sell the base currency at the bid rate in the quotation for the amount quoted or proposed.
- **FX (forward FX swap)** = I buy spot delivery and *sell forward* the base currency at the forward bid rate for the amount quoted or proposed.**

In typed dealing conversations, some traders further abbreviate 'buy' and 'sell' with 'B' and 'S' respectively but this practice is not universal.

- **MM** = I lend at the bid rate for the amount quoted or proposed.

B) TERMINOLOGY relating to dealing periods, delivery dates and maturity dates in the FX, MM and derivatives markets:

- **Forward-forward, Fwd/fwd** = Value any forward date against any other forward date. Can apply to both money market and FX instruments.

- **IMM dates** = The four dates for which financial futures contracts are traded at the International Monetary Market (IMM) division of the Chicago Mercantile Exchange. These are the third Wednesdays of March, June, September and December.

- **Odd/broken/cock dates** = Dates other than the regular dates outlined above.

- **One week** = Value spot against one week from the spot date in foreign exchange. Value today against one week from today in domestic money markets.

- **Overnight O/N** = Value today against tomorrow (or next business day).

- **Regular dates/periods, Fixed dates** = One week, one month, two months, three months, six months, nine months and one year usually from spot or occasionally from today in domestic money markets.

- **Short dates** = Maturity dates of less than one month.

- **Spot** = Generally, two banking days from 'today'. Exceptions can include the Canadian Dollar (CAD) and the Hong Kong Dollar (HKD). Current initiatives for broad based agreements, especially between electronic platforms of the correct definition for currency pairs, such as EUR/RUB are strongly encouraged.

- **Spot against end month, End of the month** = Value spot against the last business day of the month.

- **Spot-next S/N** = Value spot against the following business day.

- **Tom-next T/N** = Value tomorrow (next business day) against the following business day (spot).

- **Tom-week, One week over tomorrow** = Value tomorrow (or next business day) against one week from that date.

- **Turn of the month** = Value last business day of the month against first business day of the next month.

- **Turn of the year** = Value last business day of the year against the first business day of the next year.

C) TERMINOLOGY relating to currency options transactions:

- **American (style) option** = An option which can be exercised on any business day up to and including the expiration day.

- **ARO (Average Rate Option)** = These are options which refer to the average rate of the underlying exchange rate that existed during the life of the option. This average will be used to determine the intrinsic value of the option by comparison with the predetermined fixed strike. If the option is a call option and the average rate exceeds the strike, the buyer will receive a cashflow (i.e., the difference between the average rate and the strike). For a put option, the average must be below the strike.

- **At-the-money** = An option is at-the-money when the forward price of the underlying instrument is very close to or equal to the option's strike price.

- **Buyer (holder)** = The party which purchases an option by the payment of a premium and who has the right but not the obligation to buy (call) or sell (put) the currency.

- **Call option** = The right to purchase a specified amount of a specified currency against another currency by a certain date at a certain price.

- **Compound** = A compound option is an option on an option: the buyer has the right to buy a plain vanilla call or put option at a predetermined date and at a predetermined rate. The strike of the plain vanilla option is also predetermined.

- **Cut-off time, Expiration time** = The time at which the right to exercise expires on the expiration date. In general, for interbank transactions in the European and American markets it is 10.00 am New York time or 3.00 pm Tokyo time for Asian markets.

- **Delivery date** = The date on which delivery of the two currencies involved is conducted based on the exercise of an option. Normally, it is two business days after the expiration date.

- **Delta** = Also known as the hedge ratio, delta is the ratio of change in the option price compared with change in the price of the underlying instrument, when all other conditions are fixed.

- **Delta hedge** = A foreign exchange transaction which squares up the potential foreign exchange position created when an option transaction is concluded. The amount to be hedged is calculated by multiplying the notional amount of the option by the delta.

- **Digital** = A digital option is a transaction where a specified amount will be paid if the spot rate is above the strike at expiry for calls (or below the strike for puts). The intervening path of spot between the trade date and expiry is irrelevant: the determining factor is whether or not the spot is above or below the strike at the time of expiry.

- **Double knock-in** = A double knock-in option is a standard type of option that automatically appears if one of the formerly specified exchange rates (or an exceeding level) is dealt in the spot market before expiration. The double knock-in then becomes a standard (= plain vanilla) option.

- **Double knock-out** = A double knock-out option is a standard type of option that automatically disappears if one of the formerly specified exchange rates (or an exceeding level) is dealt in the spot market before expiration.

- **Double one touch** = A double one touch is a transaction where a specified amount will be paid on the delivery date only if spot has dealt (exceeding) one of the two exchange rates previously specified before expiration.

- **European (style) option** = An option which can only be exercised on the option's expiration date.

- **Exercise** = To make use of the right which is possessed by a party to an option contract, e.g., the right to buy. Upon receipt of notification of intention to exercise the right, the seller of the option is obligated to deal with the option buyer in accordance with the terms agreed.

- **Expiration date** = The date on which the right of the buyer of an option to exercise the option shall lapse.

- **Historical volatility** = Contrarily to implied volatility that represents the actual volatility, historical volatility is based on the past.

- **Implied volatility** = A quantification of the standard deviation of the exchange rate or of the interest rate used to calculate the price of their derivatives for an over-the-counter option market. Volatility rates are quoted at levels, which take into account dealer's expectation of future market movements.

- **In-the-money** = An option is in-the-money when the forward price of the underlying instrument is lower than the strike price of the put option or the price of the underlying instrument is higher than the strike price of the call option.

- **Intrinsic value** = The amount by which an option is in-the-money (on a mark-to-market basis).

- **Knock-in** = A knock-in option is a standard type of option, which automatically appears if a formally specified exchange rate or an exceeding level is dealt in the spot market before expiration. Knock-in option reaches the in strike point when the spot rate moves towards 'out-of-the-money'. Reverse knock-in option (or 'kick-in-option') reaches the in strike point when the spot rate moves towards 'in-the-money'.

- **Knock-out** = A knock-out option is a standard type of option, which automatically disappears if a formerly specified exchange rate or an exceeding level is dealt in the spot market before expiration. In the knock-out option, the spot rate moves towards 'out-of-the-money' in order to reach the outstroke. Reverse knock-out option (or 'kick-out-option') reaches the outstroke point when the spot rate moves towards 'in-the-money'.

- **No touch** = No touch is a transaction where a specified amount will be paid on the delivery date only if the spot rate is not dealt at the touch strike, or at an exceeding exchange rate level previously specified before expiration. No touch is also called 'lock out'.

- **One touch** = One touch is a transaction where a specified amount will be paid only if the spot rate is dealt at the touch strike or an exceeding exchange rate previously specified before expiration. One touch is also called 'lock in' or 'touch digital'. There are also types where the specified amount will be paid two days after the deal has matured.

- **Out-of-the-money** = An option is out-of-the-money when the forward price of the underlying instrument is higher than the strike price of the put option or the price of the underlying instrument is lower than the strike price of the call option.

- **Premium, Option cost** = The price of an option paid by the option buyer and received by the option seller. Payment and receipt of a premium normally takes place two business days after the transaction date.

- **Put option** = The right to sell a specified amount of a specified currency against another currency by a certain date at a certain price.

- **Range binary/Double no touch in everyday speech** = Range binary (also called a double no touch) is a transaction where a specific amount will be paid only if spot is not dealt at, or at levels

exceeding the predefined two exchange rates before expiration.

- **Risk reversal** = This term refers to a combination of a long (short) call option and a short (long) put option with, as a rule, same style, notional value, same expiration date and same absolute value of the delta.

- **Seller (writer)** = The party which sells an option and receives a premium and is obliged to perform if and when the holder exercises the option.

- **Straddle** = A combination of the purchase of both a call and a put or the sale of both a call and a put with identical characteristics, i.e., style, expiration dates, and same notional amounts and same strike price.

- **Strangle** = A combination of the purchase of both a call and a put or the sale of both a call and a put with different strike prices but with identical other characteristics such as style, expiry dates and notional amounts.

- **Strike price, Exercise price** = The contracted rate which will apply should the option be exercised.

- **Synthetic forward** = This term refers to a combination of a long (short) call option and short (long) put option with same face value, same expiration date, same style, and where the strike price is equal to the forward price.

- **Time value** = The portion of an option's value that equals the option current premium minus the intrinsic value.

- **Volatility** = A quantification of the standard deviation of the exchange rate for an over-the-counter option market. Volatility rates are quoted at levels, which take into account dealer's expectation of future market movements.

D) TERMINOLOGY relating to interest rate derivative products:

i) Forward rate agreement (FRA) = An FRA is an over-the-counter contract, usually between two financial institutions to settle the difference in interest for a notional amount in a given currency between the contracted rate and the eventual settlement rate for a fixed period commencing in the future.

In money market financial terminology, an FRA is, essentially, a fixed rate forward/forward non-deliverable deposit/loan (placement) transaction, cash settled with an agreed market reference rate calculation process at commencement of the forward/forward period.

- **FRA buyer** = The FRA counterparty who will be compensated by the seller if the eventual settlement rate exceeds the contracted rate or who will pay the seller the corresponding difference if the settlement rate is less than the contracted rate.

- **FRA seller** = The FRA counterparty who will be compensated by the buyer if the settlement rate is less than the contracted rate or who will pay the buyer the corresponding difference if the settlement rate exceeds the contracted rate.

ii) Interest rate swap (IRS) = An interest rate swap is a contract between two participants or counterparties in which interest payments are made based on the notional principal amount, which itself is never paid or received. The fixed-rate payment in the swap (often called the fixed-rate coupon) is made by the fixed-rate payer to the floating-rate payer. Similarly, the floating-rate payment in the swap is made by the floating-rate payer (or variable-rate payer) to the fixed-rate payer. Both fixed and floating interest is calculated from the swaps effective date. The trade date is the date on which the counterparties commit to the swap.

The much younger interest rate swap market uses a similarly evolved convention when stipulating exchanges of interest between counterparties. 'Plain vanilla' fixed versus floating interest rate swap deals are quoted and agreed using the fixed rate of interest as the primary variable of negotiation of the trade. The multi-dimensional and flexible nature of the product however means that there are a

number of different permutations in terms of fixed and floating rate payment frequencies, day counts and rate references possible for any one swap. For most currencies, a standard structure has emerged under which the majority of business is transacted. IRS market convention effectively uses redundancy to 'default' to the 'norm' meaning that at the time of quotation/consummation, it is not necessary to stipulate the exact structure of each potential transaction.

Unless otherwise specified, where the norm is understood, ***a payer of five year Euro at 4.12*** will, for the five-year duration of the deal, pay annually a fixed rate of interest of 4.12% on a 30/360 day count and, against that, receive a floating rate of six month Euribor on an actual/360 day count, reset semi-annually, and paid in arrears. Where potential ambiguities arise, as in the cross-currency basis swap market, the exact terms of the transaction should be specified at the outset, in order to avoid misunderstandings between counterparties or brokers.

- **Currency swap** = A currency swap is a contract similar to a parallel or back-to-back loan. In a currency swap, the counterparties do not lend currencies to each other but sell them to each other with a concomitant agreement to reverse the exchange of currencies at a fixed date in the future at the same price. The interest rates for the two currencies are not reflected in the two exchanges but are paid separately.

- **Fixed-rate payer =**

  - Pays fixed in the swap.
  - Receives floating in the swap (generally).
  - Has established the price sensitivities of a longer term fixed rate liability and a floating-rate asset.

- **Floating-rate payer =**

  - Pays floating in the swap.
  - Receiving fixed in the swap (generally).
  - Has established the price sensitivities of a longer-term fixed rate asset and a floating-rate liability.

iii) Interest rate options = The interest rate option markets for caps, collars, floors and swaptions contain vast numbers of possible permutations of option, style, period, structure and strike price as well as various underlying interest rate products on which the option may be written. Despite this, as in the interest rate swap market, the majority of business is concentrated into standard structures which have become the market norm and require no qualification beyond the basic parameters. Therefore, the writer of a USD 3-year European style 6.00 payers option on a 5-year annual money market (actual/360) swap against 3-month Libor at a premium of 0.95% of the notional principal, on a net cash settlement structure, will in fact be represented in the market as: *'a seller of three years five years, six per cent payers at ninety five'.*

If the option was American style, the underlying swap against 6-month Libor or the option to be exercised into a swap, as opposed to its present valued cash equivalent, would all require qualification. As the standard structures differ from currency to currency, are largely unwritten and will sometimes change as markets evolve and mature, it is recommended practice in potentially ambiguous cases to specify the precise terms at the time of quotation or negotiation.

Finally, in all dealing conversations, it is strongly recommended that where there is any doubt, it is best to err on the side of caution and clarify what is being proposed rather than risk using any terminology that could be misinterpreted.

Selected market language and terminology is explained in the following pages of *The Model Code* in order to clarify certain situations that arise in the course of quotation and consummation of OTC deals and to serve as a useful guide for market participants. This section is not meant to be a comprehensive glossary of every term and instrument, rather an illustration of general market interpretation of the terminology and products contained herein.

- **Interest rate cap** = An interest rate cap is an agreement between the seller (or provider) of a cap and a borrower, under which the seller pays to the buyer (in return for payment of an upfront fee or premium payable value spot) an amount equal to the extent to which a previously specified market rate exceeds the agreed cap rate during an agreed period of time. This protects the borrower against a rise in rates without locking the borrower into a fixed rate commitment.

- **Interest rate collar** = An interest rate collar is a (hedge) strategy against adverse movements in interest rates, where the cost of the strategy is reduced by selling some of the benefit of favourable movements in interest rates. This is done through the combination of an interest rate cap at one limit rate and an opposite position in an interest rate floor at a lower limit rate. Typically the purchaser of an interest rate collar contract could be a borrower who desires to limit the cost of borrowings on a floating interest rate obligation. This will entail *purchasing* an interest rate cap at a premium at the higher reference rate and *selling* an interest rate floor at the lower reference rate, thus receiving a premium. The premium received from the selling of the interest rate floor makes the hedge against rising interest rates more affordable. Conversely, the seller of an interest rate collar could be an investor hedging floating rate investments against falling interest rates. This is done by buying an interest rate floor and reducing the cost of the hedge by selling an interest rate cap.

- **Interest rate floor** = An interest rate floor is an agreement between the seller (or provider) of the floor and an investor under which the seller pays to the buyer (in return for payment of an upfront fee or premium payable value spot) an amount equal to the extent to which a previously specified market rate falls below the agreed 'floor' rate during an agreed period of time. This protects the investor against a fall in rates without locking the investor into a fixed rate commitment.

- **Swaption** = An interest rate swaption is an option granted by the seller that gives the buyer the right to enter into an underlying interest rate swap transaction, or in some cases to be paid a cash settlement amount in respect of the underlying interest rate swap transaction, at or with reference to a predetermined settlement rate.

- **Zero cost collar** = A zero cost collar is one where the premium payable on purchasing the interest rate cap or floor is equal to the premium received from selling the opposite position.

E) TERMINOLOGY - miscellaneous:

- **Base currency** = In foreign exchange markets, the base currency is the first currency in a currency pair. The second currency is named the quote currency, counter currency or term currency. Exchange rates are quoted in per unit of the base currency. Note that FX market convention is the reverse of mathematical convention.

- **Cash settlement** = The means by which non-deliverable financial instruments (usually derivatives such as FRA) are settled with reference to a pre-specified market settlement rate such as BBA Libor and Euribor.

- **Euribor =** The interest reference rate specifically for the Euro calculated daily by a panel of over 35 banks of which a majority are from EU countries. This may change as new members are also being considered.

- **Libid** = London interbank bid rate. Unlike Libor, it is not an officially published settlement or reference rate, rather a non-specific reference to the going 'prime' interbank bid rate in the London market at any one time.

- **Libor** = London interbank offered rate, calculated daily from the rates of between six & 18 London banks, widely used as a reference rate for loan agreements and, more recently, as the cash settlement reference rate of non-deliverable financial instruments in the major currencies. (Note: For some of the lesser used currencies, a smaller panel is used).

- **Non-Deliverable Forwards (NDF)** = Forward exchange contracts where the counterparties have agreed in advance to non-delivery with cash settlement instead, at maturity, by reference to the prevailing spot rate as quoted by a predetermined source.

- **Repos** = A repo (repurchase agreement) is an agreement between two parties whereby one party sells the other a security, at a specified price, in exchange for cash, with a commitment to repurchase the security at the same price and repay the cash plus interest at the agreed rate at a specified later date.

Chapter Three - Dealers and Dealing Room

17.) In any financial institution, the unique role of treasury as the custodian of liquidity, funding and financial risks usually gives the department a prominent profile in marketing and publicity. Moreover, the promotion of the dealing room as the nerve centre of the institution's global financial markets' transactions often tends to attract more media and public attention than any other department. In unstable locations, the area could be particularly vulnerable to or targeted for external disruptive action or even sabotage. Accordingly, many institutions have a strict security policy covering access to the dealing room and additional security measures covering information technology, systems and equipment may be in place specifically for the treasury department.

18.) The practice of recording telephone conversations in dealing rooms has become so widespread that what was once reluctantly accepted has now become normal practice. Access to tapes can help settle dealing conversation disputes quickly and amicably. It also facilitates investigations into whether staff members have been involved in inappropriate behaviour. The practice of recording conversations is now almost universal for front office lines and is common for some back office lines. However, telephone is not the only medium of communication used by dealers and back office staff. A variety of electronic text messaging systems are widely used, including email and conversational dealing systems. Messages sent over these systems may be recorded and available for inspection at a later date. Experience has shown that recourse to tapes is invaluable to the speedy resolution of differences. It can also play a useful role in compliance.

It is recommended that prompt access should be allowed to compliance officers investigating whether or not there has been a specific breach of law, regulation or policy by a dealer, and for general compliance monitoring. Access should also be allowed to internal audit. Access by anti-money laundering officers is likely to be obligatory under law or regulation. Allowing access for other reasons should be carefully considered in the light of local law. Access, except for compliance officers, should be documented and supervised by a senior line manager, for example, the chief dealer in the case of taped dealing room conversations or the head of operations in the case of taped back office conversations. Dealers and other staff are reminded that, whether or not conversations are being taped or electronic text messages are being recorded, telephones and electronic text messaging systems in the firm are intended for business use and conversations and exchanges of text messages should be conducted in a professional manner.

19.) In recent years, the practice of concluding OTC deals with principals who are unidentified/unnamed at the outset has been a cause for increasing concern.

The recent increase in the volume of OTC transactions conducted through institutional fund managers/investment dealers and investment advisors, under mandates of their customers, has resulted in a substantial number of deals where the principal counterparties are not known at the time of transaction.

20.) The process of appointment or authorisation of treasury dealers to trade has become an important and more formal function of control in recent years. Best practice will often see the delivery of an authorisation letter to the dealer, containing detailed restrictions on that individual's authority. This practice should not be seen as absolving management from the responsibility of control.

Where the transaction involves a CCP or prime-broker, if the users are deemed to be agents of the CCP or prime-broker, such responsibility should rest with the CCP or prime-broker and if the transactions between two users are formed and immediately novated or otherwise transferred to create transactions between the CCP or prime-broker and the respective users, both the CCP or the prime-broker and the users should be responsible. The CCP and the prime-broker should co-operate with the users in a commercially reasonable manner.

21.) The practice of dealing at non-current rates has been a contentious issue in the foreign exchange markets for over two decades. *The Model Code* strongly discourages such activity for reasons outlined but concedes that under certain stringent conditions the practice can be acceptable.

22.) The obligation to trade at a quoted price and the procedure for qualifying quotes should be fully understood by both dealers and brokers. In this section, *The Model Code* deals with the main issues that arise in this area and clearly stipulates the correct procedure to be followed.

23.) Bilateral reciprocal dealing relationships are common in the OTC markets and often extend to unwritten understandings between dealers to quote firm two-way dealing prices. These usually evolve as a result of regular business in specific products. Over time, informal understandings may develop, which can vary in scope, depth, spread, dependability and importance. Informal bilateral reciprocal arrangements amongst institutions' dealers to quote each other dealing prices are a logical development in the OTC markets and play an important role in providing support and

liquidity. Due to the issues discussed in the Code, dealers should bear in mind provisions in *The Model Code* concerning honour, honesty and integrity in trading practices.

24.) The widening acceptance of technical trading concepts and controls in recent years has led to a substantial increase in the use of stop-loss orders. *The Model Code* emphasises the importance of clear, concise documentation and ongoing lines of communication.

25.) One consequence of position parking is such that, for a period of time, the obligations of an institution are excluded from its books of account and management or regulatory oversight. These transactions could be undertaken either on the initiative of dealers to mask risk positions (usually in foreign exchange), thereby misleading management, or on the initiative of banks to disguise speculative positions from the authorities on, or during, a reporting period. There could also be tax avoidance implications.

Chapter Four - Dealing Through Brokers (Voice Brokers and Electronic Broking Platforms)

29.) The qualifying conditions can include: where a price is quoted subject to the necessary credit approval, finding a counterparty for matching deals, or the ability to execute an associated transaction. For instance, a dealer may quote a rate which is firm, subject to the execution of a hedging transaction.

30.) The business of quoting prices, proposing and agreeing trades in volatile OTC markets, either direct, electronically or through voice brokers, calls for unambiguous market rules for fair and acceptable procedures and conduct. This is particularly important at the point of proposal and consummation of a trade. *The Model Code* offers guidance and clarification on aspects of this area where misunderstandings and disputes have often arisen in the past.

31.) It is now common in most major centres for brokers' charges to be freely negotiable rather than set out in a common tariff, as was the previous arrangement. Further, brokers normally quote dealing prices excluding commission/brokerage charges.

32.) Following the quotation of a price to a principal and a subsequent proposition to trade or indication of intent to trade, there is a point at which the broker may divulge the name of the principal supporting the price. As this point varies depending on a number of factors including the nature of the instrument or market, *The Model Code* outlines the conditions that determine whether or not it is appropriate to disclose the name of the price supporting institution.

33.) In spot foreign exchange trading, brokers typically do not reveal the names of counterparties until the amount and exchange rate are agreed upon. It is therefore possible that, after these details are agreed, the name of one counterparty may prove unacceptable to the other due to the unavailability of a credit line. They will then try to arrange name substitution, because the two offsetting transactions will utilise credit and because they are often executed at an exchange rate that is off-market due to the time it takes to arrange name substitution, such activities should be identified as switching transactions.

Chapter Five - Dealing Practice for Specific Transactions

- **Modified Following Business Day Convention** = If a repo's maturity date is on a date which is not a business day, the official maturity date will be on the next business day, unless this day lies within the next calendar month, where the maturity date will be the first preceding day that is a business day; hence, repos are dealt on an end-to-end basis.

34.) The diversification in structure and activity of broking firms in recent years can result in brokered transactions where there is a shareholding or material connection between the broker and one of the principals. In order to avoid any potential conflict of interest and safeguard the independence of the broker, it is important that all the relevant information is disclosed and that the principals are fully aware of the situation.

PART IV: THE MIDDLE OFFICE

- **Back-Valuation** = Back-dating of a transaction on a correspondent bank account to adjust the value date on a settlement that failed to occur on the originally agreed date in order to reduce any associated loss.

- **Compensation Claim** = Claim for interest compensation from a counterparty as a consequence of delayed settlement. The claim should be paid in full or, if possible, arrangements should be made to back value the transaction on the counterparty's account with their correspondent bank.

- **Discrepancies** = Discrepancies are mismatches which are normally detected during the daily reconciliation process and should be investigated and resolved in a timely manner.

- **Use of funds** = Interest earned by an institution as a result of the failure of counterparty's settlement.

Chapter Six - Middle Office Practice

37.) Trade surveillance is essential to providing transparency, efficiency and oversight in the current trading environment. It ensures that entry of erroneous figures and the use of incorrect rates are kept to a minimum. These systems can aid in the detection of any methods utilised by employees to manipulate the markets, as they will flag any suspicious behaviour.

With the huge volume of trades transacted daily within the FX markets, the ability of firms to discover fraud and unethical trading practices is becoming more of a concern. Firms in general should have a trade surveillance system on top of their due diligence and other supervisory procedures, to ensure these issues are kept to a minimum.

40.1.-4.) It is essential that Nostro reconciliations are performed on a daily basis. This daily check improves control and reduces operational risk and potential interest claims by identifying missing payments, unidentified funds and other discrepancies in the shortest possible time.

40.5.) Where discrepancies between two parties arise, every effort should be made to obtain a quick resolution. Ongoing differences should be escalated promptly to the front office and operations management and disputes should be settled with clients in a professional manner.

Compliance with *The Model Code* is necessary to ensure that the highest standards of integrity and fair dealing continue to be observed throughout the international OTC markets. To this end, the ACI Committee for Professionalism is fully prepared to investigate complaints concerning breaches of *The Model Code* and shall take appropriate action where necessary.

(a) The calculation formula for a back value request is:
The average of each day's EONIA rate + 0.25 per cent/360 + EUR 100 administration fees depending on local market practice and only if interest amount is higher than EUR 100.--.
If the EONIA rate + 0.25 is more than the ECB marginal lending facility rate, then the flat ECB rate is to be used.

(b) The calculation formula for a UOF request is:
The average of each day's EONIA rate - 0.25 per cent.
If the EONIA rate – 0.25 is less than the ECB deposit facility rate, than the flat ECB rate is to be used.
Note: an additional source is the ISDA Best Practice for Interest Compensation Claims.

41.) It is essential that the mark-to-market calculations are correct and reliable, as this will affect the accuracy of a firm's Profit and Loss accounts. Through marking to market, the current value of FX cashflows is highlighted and this provides information about market risk, allowing management to better manage and evaluate outstanding market positions.

Chapter Seven – Prime-Brokers

45.) The prime brokerage transaction process flow is divided into four steps:

1) Notification.
2) Matching and acceptance or rejection.
3) Confirmation.
4) Allocation.

A prime-broker must determine if a transaction meets the requirements and conditions set and thus decide if it will reject or accept the trade.

The standards and procedures governing the notification of trade details and the acceptance or rejection of trades are typically the subject of bilateral agreements between the prime-broker and

the executing dealer, and the prime-broker and the client. In practice, notifications from the executing dealer to the prime-broker are made in a timely manner. However, notifications from the client may not be as consistent and thus can affect the timing of trade acceptance or rejection by the prime-broker; late executing dealer notices can have the same effect. The adoption of several best practices can assist in facilitating efficient notification and acceptance processes.

Chapter Eight - Disputes, Complaints and Claims

48.) The vast majority of disputes referred to the Committee for Professionalism arise from:

(a) Failure of dealers to use clear, unambiguous terminology resulting in the parties concerned having different ideas of the amount or the currency dealt in, the value date or period, or even who bought and who sold; and
(b) Failure of back office staff promptly and accurately to check the counterparty's confirmation.

The Committee for Professionalism strongly advises management, dealers and back office staff to pay particular attention, in their own interests, to the above matters.

PART V: THE BACK OFFICE

- **Automated (online) netting =** Software to perform the automated calculation of netted payments.

- **Basis risk** = Type of risk that occurs in the event where parties interpret post-trade events differently. For example, with respect to an exotic option transaction, a situation may arise in which the executing dealer informs the prime-broker that the barrier on their trade has been broken and the trade knocked out even as the client contends that its trade with the prime-broker remains valid.

- **Buy-Side =** The Buy-Side comprises investing institutions such as Mutual Funds, Hedge Funds, Asset Managers, Insurance Firms, Corporates and Governments that buy or invest in securities and financial instruments with a view to increasing their assets.

- **Capacity** = Primarily concerned with answering the question 'how much', the capacity of a system or business process is taken to be the measure of the quantity of work in total that can be processed and stored by the resources available over a particular period of time.

- **Central Counterparty (CCP) =** Clearing refers to the management (risk management, transaction monitoring, netting) of a transaction after the matching of a buy and sale trade and prior to the legal fulfilment of the respective obligation. It exists in two forms, either as a CCP, in which case the CCP becomes the counterparty of the original buyer and seller, or as a facilitator, in which case the original buyer and seller remain legal counterparties to each other.

- **CLS** = Continuous Linked Settlement is the global standard for FX settlement. All of the world's major banks participate in CLS. CLS mitigates the risk associated with FX settlement across time zones. In addition, CLS has improved efficiencies in FX settlement, and facilitated growth in the market. CLS changes the way the financial services industry operates by linking central banks and the world's leading financial institutions in a unique global real-time settlement system that has become the world's largest settlement service by value. The CLS Group of companies is an industry-owned consortium that exists to deliver the CLS service to the market. The main holding company, CLS Group Holdings AG, is owned by CLS shareholders and its directors are representatives drawn from shareholder institutions. The Group was formed in 1997 and the settlement system has been operational since 2002. The CLS vision is to be the industry standard solution for settlement related services to the FX market and multicurrency, cash final settlement of traded financial products.

- **Confirmation =** The information exchanged and agreed between the counterparties of a trade at the time of booking that details the financials of that transaction. The confirmation may, in addition, include the legal terms and settlement instructions. The confirmation process is fundamental in ensuring operational risk is minimised for both parties to the trade and that settlement may take place efficiently.

- **In/Out Swap =** An additional liquidity management tool which helps financial institutions to manage intraday liquidity effectively. The in/out swap is designed to reduce the payment

obligations to CLS and to mitigate liquidity pressures. An in/out swap is an intraday swap consisting of two equal and opposite FX transactions that are agreed as an intraday swap.

One of the 'legs' is settled inside CLS in order to reduce each settlement member's net position in the two relevant currencies. The other 'leg' is settled outside CLS.

- **Master Agreement =** A Master Agreement (or master contract) is a contract reached between parties, in which the parties agree to the terms that will govern future transactions or future agreements. A Master Agreement permits the parties to quickly negotiate future transactions or agreements, because they can rely on the terms of the Master Agreement, so that the same terms need not be negotiated for each subsequent trade.

- **Netting agreement =** Documentation to support settlement with counterparties on a net payment basis. Market institutions should aim to reduce the settlement and related credit risk on currency transactions by establishing legally viable bilateral currency payment and transaction netting agreements with counterparties.

- **Payment Cut-Off** = The payment cut-off time is the last possible time provided by the institutions' correspondent banks to receive commercial payments for settlement of a particular currency on a given value date.

- **Performance** = Primarily concerned with throughput within a system and is taken to be the measure of how long specific activities take to complete or how many repeated iterations can take place in a given period of time (e.g., transactions per hour).

- **Standard Settlement Instructions (SSI)** = The agreement between two financial institutions which defines the receiving agent bank details for the settlement of trades for a specific currency. These agreements allow a more efficient and controlled process in settling trades. Utilising SSI may also lower the potential for fraud.

- **Third party beneficiary** = Recipient of the payment different to the counterparty of the relevant trade.

Chapter Ten - Control

60.) It has become crucial for an institution to have a proper SSI process in place in order to mitigate any potential settlement risk with regards to incorrectly formatted payments. This includes the exchange of SSI, responsiveness to SSI changes from the institution's clients, and the capability to adjust existing trades with a new set of SSI.

Chapter Eleven - Post-Trade Standards and Practices

61.)The development of markets, types of financial products, communication mechanisms, automation, and increased regulation create an environment where all market participants should have similar capabilities. Regulators, along with the main participants, have the opportunity to leverage general rules and best practices that may be applied throughout the life of a trade and the processing thereof. Efficiency and accuracy have been considered in all the best practices and recommendations discussed in this document. They are two of the most important features in the operational process and help to avoid unexpected discrepancies and delays which may increase risk.

62.)Past events have made a lot of institutions aware that, in order to reduce the settlement and related credit risk on currency transactions, CLS and/or netting agreements between counterparties should be established. Clearly, procedures for confirmations and for confirming bilateral net amounts reduce the settlement and related credit risk, and such procedures should be included into the netting agreement. The usage of an automated netting system enables proper calculations in each currency and reduces throughput time and errors in the process.

63.1.) Errors and discrepancies in payment and settlement instructions result in expensive overdraft and interest claims. Prompt, clear and timely instructions are required to eliminate costly mistakes. In order to achieve prompt and accurate settlement of trades it is important for an institution to incorporate the collection of basic static data within their on-boarding procedures. This is a key step in developing and maintaining an integrated STP process. The goal of STP is to reduce systemic risk and to improve the certainty and quality of settlement, while optimising efficient operations.

63.2.)Recent crisis situations in the financial markets made institutions aware that payment cut-off times are extremely important in order to guarantee a smooth liquidity exchange. Incorrectly managed cashflows within an institution's cash management departments such as missed payment cut-off times lead to additional funding costs.

63.5.)The CLS system is a process of instruction submission, authentication and matching, with related daily funding and settlement. On each settlement date, upon determining that the accounts of the submitting Settlement Members satisfy each of the risk management tests, CLS simultaneously settles each pair of matched instructions by making the corresponding debit and credit entries across the Settlement Members' accounts at CLS Bank.

64.)The events of the past highlighted that FX trading practices (and the tools now employed by institutions to assist this) can exert considerable pressure on the end-to-end FX ecosystem. As a consequence, the best practices listed in this section set out the minimum standards that firms participating in the FX market should aim to achieve.

PART VI: USE OF TECHNOLOGY AND GENERAL SECURITY

Chapter Twelve - Security

65.) As dealers are generally precluded from a direct role in any administrative procedures requiring special authentication, such as making payments to a third party, instances of fraud directly involving dealers are rare. However, attempts at fraud involving other areas of the business do occur from time to time and many are meticulously planned.

66.) The methods used in money laundering and terrorist financing are diverse and often complex, and criminals are constantly innovating to overcome countermeasures. Money laundering basically involves three steps:

1. Placement, or introduction of illegal proceeds, often in the form of cash, into the financial system.
2. Layering, or separating the proceeds of criminal activity from their origins through layers of complex financial transactions.
3. Integration, or providing an apparently legitimate explanation for the illicit proceeds.

Banks are exposed to involvement in all stages of money laundering. In the case of terrorist financing, the principal risk arises from money being moved via banks in the reverse direction, in other words, from legitimate sources to terrorists. Criminals and terrorists can make use of banks' money transfer and currency conversion capabilities, and try to conceal the sources of criminal proceeds and terrorist financing amid the enormous volumes of transactions that are processed each day by banks. Criminals and terrorists seek to exploit the cross-border 'fault lines' between national legal and regulatory regimes. They try to take advantage of the principle of commercial confidentiality and the anonymity traditionally offered in areas like wholesale markets, private banking and asset management. They may also use new technology, which has opened up opportunities for money laundering and terrorist financing by facilitating transactions on behalf of remote counterparties.

Special attention should be paid to unusual transactions, for example, transactions which are:

- Complex, particularly where there is no apparent reason for this complexity.
- Lacking an obvious business rationale.
- Inconsistent with a customer's established pattern of business.
- Unusual in frequency or amount, where no reasonable explanation has been offered; this includes cases where a customer enters into a business relationship, but then does a single transaction or a number of transactions over a very short period.
- Of a type not normally used by the customer and for which no reasonable explanation has been offered.
- With counterparties or intermediaries who provide insufficient or suspicious information or try to avoid reporting or record-keeping requirements.
- With counterparties or intermediaries who are located in countries or territories that do not accept or enforce the recommendations of the Financial Action Task Force (FATF).
- With 'politically-exposed persons' (as defined by FATF).
- Making extensive use of offshore accounts, companies or structures where there is no apparent business reason for doing so.
- Unnecessarily routed through third-party accounts.
- With undisclosed principals.
- Dealt anonymously over-the-counter (OTC).
- Where it is unclear who is the beneficial owner of assets.
- Where agents and principals are connected.

These types of transaction should be handled with care. Many will be found, upon closer examination, to result from legitimate business activity. On the other hand, the above list is not exhaustive. These risks apply as much to matched-principal brokers as to principals dealing for their own account. In addition to the methods stated in the Code, another key protection for firms against money laundering and terrorist financing is the application of the traditional principle of 'Know Your Customer'. Firms and dealers have always been strongly advised to 'Know Your Customer' for reasons of suitability and customer service. The threat of money laundering and terrorist financing makes the effective application of this principle even more important. In many jurisdictions, the 'Know Your Customer' principle is part of financial market legislation. 'Know Your Customer' is an incentive for firms to put monitoring procedures and systems in place, so that transactions can be detected which give reasonable grounds for suspecting money laundering or terrorist financing (by falling outside their expectations of what is normal or falling inside one of the categories that should give rise to investigation).

ACI - The Financial Markets Association and the Committee for Professionalism strongly supports any attempt by legislators, regulators, industry association and individual banks to eradicate money laundering, terrorist financing and other criminal activities from the marketplace and the stance of the CFP remains uncompromising in this regard. Further information and guidance on money laundering and terrorist financing are provided by the FATF, which is the inter-governmental body that co-ordinates action against these crimes. It is recommended that management and compliance officers familiarise themselves with FATF publications and monitor the issuance of new publications. The Basel Committee on Banking Supervision, the International Organisation of Securities Commissions (IOSCO) and the Wolfsberg Group of Banks has issued other relevant international guidance. This list is not exhaustive and there is also much valuable guidance issued by national bodies.

Chapter Thirteen - Use of Technology

- **Broken Trade** = When there is a system break where one or both parties to the deal are unclear as to whether the deal has been done.

- **Flash Trading** = A form of High Frequency Trading (see below), involving the placing of orders with very short quote lives into a market. The use of this tactic to influence prices without the intention to deal is highly discouraged.

- **High Frequency Trading** = Models run automated short-term strategies that result in rapid order entry and execution. The average size of deals tends to be small.

- **Liquidity Aggregators** = In its simplest form this presents to the end user a combined or aggregated view of FX prices from several venues. Placing orders and executing trades is then managed by the aggregator according to customised algorithms

- **Minimum Quote Life** = The minimum period of time that an order can remain in the Matching System before it can be cancelled.

- **Mis-hit** = When a trader makes a genuine error in the execution of an order. The amount, the side, the rate are all examples of types of error that can occur on an electronic platform.

67.) The growth in wireless communication devices such as cellular phones, personal digital assistants and interactive pagers has opened up new channels for electronic mobile commerce. The global digital revolution is driving business transformation and the rapid technological changes have led to an accelerated use of mobile commerce in the financial markets. The use of wireless communication devices (whether they are privately owned or company owned) to transact business can undermine the controlled environment in dealing rooms with fixed line telecommunication, tape-recorded handsets and essential audit trails for all transactions.

68.) Electronic execution, either via broking or proprietary intranet or internet delivered platforms, is now an accepted part of the global OTC markets, to varying degrees, according to products being dealt.

Although the expected standards of market best practice still apply, the nature of electronic broking is so fundamentally removed from voice broking that it raises many different technical, practical and even ethical issues. The 'automatic' consummation of trades and the potential 24-hour business span necessitate separate strategies and control policies. The operational risks involved in managing the trading business render the potential for off-market trades greater than through voice broking and care should be exercised when inputting prices.

The recommendations contained in *The Model Code* are relevant to all participants in the OTC markets, money and derivatives markets, including brokers and electronic brokerage firms.

The use of electronic trading interfaces is encouraged as it can:
- reduce operational risks;
- reduce human error;
- improve the efficiency of the market;
- increase transparency;
- reduce fraud; and
- provide full audit trails for compliance.

This section offers guidance on best practice and, in so doing, recognises the clear difference between acceptable and natural exploitation of market inefficiencies compared to unacceptable direct manipulation of those inefficiencies for profit. The FX market remains dominated by the OTC business model. These different methods may lead to conflicting views on how to address disputes or market frictions. This guidance aims to provide a consistent approach to the treatment of the trade life cycle.

The FX market is going through a period of significant change including:
- rapidly growing number of new trading systems and venues;
- increased use of 'liquidity aggregators';
- fast growth of trading automation;
- explosion of high frequency trading models;
- increased integration into other asset classes;
- significant technology investments; and
- broader client base to include retail business (higher ticket number lower nominal value).

This has all made for a less distinct demarcation of the traditional boundaries between the trading entity and regulatory purview. The continued rapid growth of this method of transacting FX business and the entrance of new entities to the market have introduced liquidity providers, risk managers, intermediaries and end users to new types of risk, and have modified existing risk issues and opened up parts of the market to potentially sophisticated exploitation of the differences in the capabilities of trading systems. The 'Know Your Customer' and money laundering provisions set out in the Code have particular relevance in this area and should be strictly adhered to.

Adherence to the following suggested best practice should help reduce some of these possible risks; however, the onus to design robust processes and clearly understood terms of engagement between counterparties, intermediaries and clients, remains with individual firms.

These proposals recognise that participants in the wholesale FX market are regularly trading on slightly different terms but agree to conform to a set of common principles in the way they and their clients transact business with each other.

Please be aware that individual electronic trading platforms/vendors have their own compliance rules, regulations and best practices and that these must be adhered to in addition to the guidelines set out in this section.

APPENDICES

Appendix ONE - General Risk Management Principles for Dealing Business

The professional dealer must not only understand and manage the market risk pertaining to a trading position, but should also be aware of the credit, legal, liquidity and operational risks relating to the business. Participants should obtain a sound understanding of risk management principles, the adoption of which should be encouraged in those institutions where they are not already in place. Adherence to these basic principles should promote financial markets of greater depth, benefiting members, financial institutions and their clients.

The following principles, which have much in common with those developed by many financial institutions, should be observed by all OTC market participants.

1. Promote the highest standard of conduct and ethics

- Honour, honesty and integrity must be the underlying principles of trading practices.
- Participants should implement and enforce both *The Model Code* for trading and the rules and procedures of one's own institution.
- The highest ethical standards should be maintained at all times.

2. Ensure senior management involvement and supervision

- Senior management should establish, enforce and regularly review a risk management framework clearly specifying authorities, limits and policies.
- The risk management procedures should be fully approved by a Board of Directors, or appropriately designated committee or designated management personnel.
- Senior management should be held fully accountable for risk management.

3. Organisational structure should ensure independent risk management and controls

- A separate system for independent monitoring to ensure compliance with the risk management framework should be in place.
- There must be complete segregation of duties between the front, middle and back office activities (see Section 12: Segregation of Duties).
- Regular internal audits, independent of trading and risk management functions, should be carried out to ensure early identification of internal control weaknesses.
- Open and effective communication channels between all levels of staff and cross-functions should be maintained.

4. Ensure the involvement of highly professional management in all administrative processes

- Policies should be established that ensure the principles of professionalism of the highest standard are embedded in all processes.
- A priority to minimise deal input cycles, errors and down time should be in force.
- There should be a regular review of internal processes to identify and rectify weaknesses, disconnects and fails.
- Time-wasting and resource inefficiencies should be kept to a minimum, while improving the working environment.

5. Provide appropriate systems and operational support

- There should be appropriate systems for timely documentation, processing and reporting.
- A technology policy to plan systematically for adequate systems support should be in place.
- A fully tested contingency site ready for backup should be available.
- There should be an ongoing awareness of, and responsibility for, identifying inconsistencies and weaknesses.

6. Ensure timely and accurate risk measurement

- Trading positions should be marked to market on a daily basis by a function independent from trading.
- The frequency of position valuation should be increased where justified by market volatility, volume and the institution's own risk profile.
- Valuations should be verified against independent sources wherever possible.
- There should be a robust process for evaluating any off-market transactions.
- The risk measuring methodology used should be based on generally accepted statistical practices and approved confidence levels.
- Market models should be validated before implementation.

7. Control market risk exposure by assessing maximum likely exposure under various market conditions

- The potential impact on the institution's earnings, liquidity and capital position should be carefully assessed, especially under adverse conditions.
- Risk positions should be regularly evaluated under stress scenarios.
- Volatility measures should be continually updated.
- The most accurate measurements of risk should be used.

8. Always recognise importance of market and cashflow liquidity

- The importance of market liquidity conditions should be considered before entering into transactions.
- The potential costs of unwinding positions, especially in illiquid markets, should be assessed.
- Policies and processes to manage liquidity and cashflow positions should be implemented.
- A liquidity contingency plan, to be implemented in crisis situations, should be in place for both on- and off-balance sheet instruments.

9. Consider impact of diversification and risk return trade-offs

- Returns should always be measured against market and other risks and against risk-weighted capital with a corresponding measure on regulatory capital taken into account.
- There should always be a rational diversification of trading and customer activities to reduce risk.

10. Accept only the highest and most rigorous client relationship standards

- The highest standard of conduct with clients should be promoted.
- Principals should ensure that clients have the authority to undertake transactions.
- Neither financial institutions nor brokers should knowingly conduct business with clients involved in business activities known to be illegal or inconsistent with generally accepted standards of ethical or social behaviour in the community. See also Section 66: Money Laundering and Terrorist Financing.

11. Clients should understand transactions

- All financial institutions should ensure that clients have adequate information and understanding with regard to terms and conditions of all transactions.
- Where requested, risk return information should be provided and explained clearly to clients.
- Senior management of clients should also be made aware of unusual or complicated transactions.

12. Risk management based on sound legal foundations and documentation

- Proper documentation for all transactions and counterparties should be in place.
- Prior to entering a transaction, financial institutions should ensure that customers and counterparties have the legal and regulatory authority to transact.
- The terms of contracts must be legally sound and enforceable.
- Confirmation of all transactions should be dispatched on time, and tracked for compliance.

13. Ensure adequate expertise and human resources support trading and risk taking

- Only suitably trained and qualified people should be placed in treasury positions.
- A policy of professional position training and career planning should be implemented.
- All staff should understand policies, limits and compliance requirements.

14. Use judgement and common sense

- There should be a preference for reliance on experience and expertise.

- There should be strict adherence to the spirit as well as the letter of *The Model Code*.

Appendix TWO - ACI Rules for Over-the-Counter Financial Instruments Dispute Resolution

1. Expert Determination Service

1.1. These Rules concern a service ('Expert Determination Service') which is made available by ACI - The Financial Markets Association ('ACI') in connection with any dispute:

1.1.1. related to over-the-counter financial instruments as detailed in Appendix Four.

1.1.2. between market participants (both natural and legal persons) which shall include disputes between a member and another member of ACI, a member of ACI and a non-member, or a non-member and another non-member.

1.1.3. related to market practice or conduct as set out in *The Model Code* but excluding legal disputes.

1.1.4. related to intra-border or cross-border transactions.

1.2. The objective of the Rules is to provide an independent, impartial and prompt expert decision on how the dispute should be resolved.

1.3. The Committee for Professionalism (CFP) of ACI makes the Expert Determination Service available.

1.4. When a dispute is submitted to ACI in accordance with these Rules, ACI shall refer the dispute to the CFP. The CFP shall make a decision, which shall be rendered by ACI as a decision in accordance with these Rules. The decision is not intended to conform to any legal requirements of an arbitration award but shall refer to what is considered as good market practice.

1.5. Unless otherwise agreed, a decision shall not be binding upon the parties. In this procedure the communication with ACI shall be conducted exclusively in writing, i.e., by communication received in a form that provides a complete verifiable record thereof, via teletransmission or other expeditious means.

1.6. ACI may, however, at its discretion allow communication through other media, provided it is complete and verifiable and is not in conflict with *The Model Code* or these rules.

2. Request

2.1. The initiator shall apply for a decision by submission of a request ('Request') to ACI. The initiator may be one of the parties to the dispute applying individually or more or all parties to the dispute submitting jointly a single Request. The Request, including all documents annexed thereto, shall be supplied to ACI in Paris, France, and a full set of copies to ACI's Managing Director.

2.2. A Request shall be concise but shall contain all necessary information clearly presented, in particular, the following:

2.2.1. full name and address of the initiator, clearly stating such initiator's function(s) in connection with the transaction; and

2.2.2. full name and address of any other party to the dispute ('Respondent'), clearly stating such Respondent's function(s) in connection with the transaction, where the Request is not submitted jointly by all parties to the dispute; and

2.2.3. a statement of the initiator formally requesting a decision in accordance with the Rules; and

2.2.4. a summary of the dispute and of the initiator's claims, clearly identifying all issues related to the transaction to be determined; and

2.2.5. copies of the transaction documents in dispute, all amendments thereto, and all documents deemed necessary to establish the relevant circumstances; and a statement by the initiator that a copy of such Request, including all documents annexed thereto has been sent to each Respondent named in the Request.

3. Answer

3.1. The Respondent may submit an answer to the initiator's Request. The Respondent may be one or more of the parties to the dispute named in the Request as Respondent, submitting each individual answer(s) or submitting jointly a single answer. The answer must be received by ACI at the latest within the period stipulated in the ACI's Acknowledgement of the Request (see Article 5 below). The answer, including all documents annexed thereto, shall be supplied to ACI in Paris, France and a full set of copies to ACI's Managing Director.

3.2. The answer shall be concise and contain all necessary information clearly presented, in particular, the following:

3.2.1. name and address of the initiator;

3.2.2. date of the relevant Request;

3.2.3. a statement of the Respondent, formally requesting a decision in accordance with the Rules;

3.2.4. a summary of the Respondent's claims, clearly referring to all issues related to the transaction to be determined;

3.2.5. copies of all additional documents deemed necessary to establish the relevant circumstances; and

3.2.6. a statement of the Respondent that a copy of the answer, including all documents annexed thereto has been sent in writing to the initiator and to the other Respondent named in the Request.

3.3. If the Respondent does not provide a statement pursuant to Article 3.2.3, then the decision will not be made available to the said Respondent.

4. Supplements

4.1. Request, answers and Supplements shall be final as received.

4.2. ACI may ask the initiator and Respondent by way of an invitation to submit specific supplementary information, including copies of documents, relevant to the decision ('Supplement').

4.3. Supplements must be received by ACI within the period stipulated in the invitation. The Supplement shall be concise and contain all necessary information clearly presented and include copies of relevant documents. It shall also contain:

4.3.1. date and reference as stated in the invitation;

4.3.2. name and address of the issuer of such Supplement; and

4.3.3. a statement of the issuer of such Supplement that a copy of the Supplement, including all documents annexed thereto has been sent to the initiator and Respondent.

4.4. Supplements shall only be submitted to ACI upon and in accordance with an invitation issued by ACI.

5. Acknowledgements and Rejections

5.1. ACI shall confirm the receipt of Requests, answers and Supplements to the initiator and Respondent ('Acknowledgement').

5.2. ACI will stipulate a reasonable period of time within which each answer or Supplement must be received by ACI. The stipulated time should not exceed 30 days after the date of the Acknowledgement of the receipt of a Request or 14 days after the date of an invitation to submit a Supplement.

5.3. Any answer or Supplement received by ACI after expiry of the period of time specified in the relevant Acknowledgement or invitation, or any communication not solicited by ACI, may be disregarded by the CFP.

5.4. Under advice to the initiator and Respondent, ACI may reject at any time, before or after its Acknowledgement, any Request, answer or Supplement, in whole or part:

5.4.1. where ACI deems any issue to be determined to be unrelated to a transaction; or

5.4.2. which in other respects, in particular regarding form and/or substance, does not fulfil the requirements of these Rules.

5.5. Periods of time specified in these Rules or in any Acknowledgement or invitation referring to days shall be deemed to refer to consecutive calendar days and shall start to run on the day following the date of issuance stated in the relevant Acknowledgement or invitation. If the last day of the relevant period of time is, or any fixed day falls on, a non-business day in Paris, France, then the period of time shall expire at the end of the first following business day in Paris.

6. Committee for Professionalism (CFP) Procedure

6.1. The chair or acting chair of the CFP shall chair the dispute resolution procedure in question and the CFP may co-opt any member of ACI or any officer, official or employee of ACI as an expert to assist the CFP in its decision-making process.

6.2. The members of the CFP and officers, officials and employees of ACI involved in the provision of the Expert Determination Service shall, at all times, keep strictly confidential all information and documents related to any case.

6.3. The CFP shall render its decision impartially and exclusively on the basis of the Request, answer(s) and Supplement(s) thereto and the transaction. Any CFP member, who may have conflict of interests, will disclose it and disqualify himself.

6.4. Where it is deemed necessary by the CFP, its chair may ask ACI to invite the initiator and Respondent, pursuant to Article 4 of these Rules, to provide additional information and/or copies of documents.

6.5. Within 30 days, after it has received all information and documents deemed by it to be necessary and appropriate to the issues to be determined, the CFP shall draft a decision and its chair shall submit the decision to ACI.

6.6. Neither the initiator nor the Respondent shall:

6.6.1. seek an oral hearing in front of the CFP;

6.6.2. seek to have the CFP or any of its members, officers, officials or employees called as witness, expert or in any similar function to an arbitral tribunal or a Court of Law hearing the dispute in connection with which the CFP or any of its members, officers, officials or employees participated in the rendering of a decision in terms hereof.

7. Decision

7.1. Subject to Article 9.2 of these Rules, ACI will issue and make available the decision without delay to the initiator and the Respondent who has requested, pursuant to Article 3.2.3, a decision in accordance with the Rules.

7.2. The decision shall be issued by the ACI in the English language, unless the CFP decide otherwise and shall contain, inter alia, the following:

7.2.1. names of the initiator and Respondent; and

7.2.2. summary of the representations relevant to the issues determined; and

7.2.3. determination of the issues and the decisions taken with succinctly stated reasons, therefore; and

7.2.4. date of issuance and signature for and on behalf of ACI.

7.3. The decision shall be deemed to be made in Paris, France and on the date of its issuance by ACI.

8. Deposit and Publication of the Decision

8.1. An original of each decision shall be deposited with ACI and shall be kept there for ten years from date of the decision.

8.2. ACI may publish any decision, provided always that the identities of the parties to the dispute are not disclosed or cannot be easily identified.

9. Costs of the Service

9.1. In principle the Expert Determination Service shall be rendered free of charge. In exceptional circumstances, a fee may be payable, which shall be fixed by ACI at its discretion, taking into account the complexity of the issue and such other factors it may deem appropriate, provided that the fee shall consist only of direct out of pocket expenses, proof of which will be provided to the initiator on request. Wherever possible, the CFP shall endeavour to provide the initiator with an indication of out of pocket expenses already known or foreseen at the date of Acknowledgement of the Request. Such fee shall be invoiced to the initiator within a reasonable time but, at the latest, within 45 days after the date of the Acknowledgement of the Request.

9.2. Where a fee is payable, the decision shall not be made available until ACI has received the fee.

10. General

10.1. In all matters not expressly provided for in these Rules, ACI, CFP members, officers, officials and employees of ACI shall adhere to strict confidentiality and shall act in the spirit of these Rules.

10.2. CFP members, officers, officials and employees of ACI shall assume no liability or responsibility for the consequences arising out of delay and/or loss in transit of any message(s), letter(s) or document(s), or for delay, mutilation or other error(s) arising in the transmission of any telecommunication, or for errors in translation and/or interpretation of technical terms.

10.3. CFP members, officers, officials and employees of ACI assume no liability or responsibility for the discharge or purported discharge of their functions in connection with any decision, unless the act or omission is shown not to have been in good faith.

11. Amendment of the Rules

11.1. These Rules may at any time be amended by ACI, and will be available on a request being made to ACI. Such amendments shall be applicable to all future and current, including partly-heard, dispute resolutions, save to the extent that the CFP may, in the interests of a just determination of the dispute, rule otherwise.

Step 1: When a query or dispute arises between two parties, the initiator(s) request a decision from ACI. The original Request, which should contain relevant documentation, shall be supplied to the ACI

in Paris whilst copies shall be sent to ACI London. The initiator(s) must also send a copy of the Request to the Respondent(s).

Step 2: The Respondent(s) may submit an answer to ACI Paris (original) and London (copies), at the latest within the period stipulated in the ACI's Acknowledgement of the Request. The Respondent(s) must then also send a copy of the Answer to the initiator(s).

Note: If the Respondent(s) does not formally request a decision, then the decision will not be made available to the Respondent(s).

Step 3: ACI may ask the initiator(s) and Respondent(s) by way of invitation to submit supplementary information. Supplements must be received by ACI within the period stipulated in the invitation. Copies of supplements must also be submitted to all counterparties. ACI will confirm the receipt of Requests, Answers and Supplements to the initiator(s) and Respondent(s).

ACI will stipulate a reasonable period of time within which the Answer or Supplements must be received by ACI. Receipt of the Answer or Supplement beyond these specified periods, may be disregarded by ACI. The Answer must be submitted within 30 days from the date of ACI's Acknowledgement of receipt of the Request. The Supplement must be submitted within 14 days after the date of an invitation to submit a Supplement.

Step 4: The (acting) chair of the CFP will preside over the resolution procedure. Within 30 days of receiving all necessary and relevant information and documentation, the CFP shall draft a decision.

Steps 5 and 6: ACI will issue and make available the decision without delay to the initiator(s) and those Respondent(s) who have requested a decision. The chair shall submit the decision to ACI. The decision is deemed to have been made in Paris and on date of issuance by ACI. The decision will be issued in English, unless the CFP decide otherwise. Original transcripts of the decision will be deposited with ACI Paris and kept for a period of ten years. ACI may publish any decision so long as the identities of parties are not disclosed.

Note: There are no costs, however, in exceptional circumstances ACI may charge a fee at its discretion.

12. Disclaimer

The advice, resolutions, statements, views or determination (the 'Determination') by the Committee for Professionalism (CFP) do not necessarily reflect the views of any particular member of CFP or of the entity, organisation or group each member works for, belongs to or is otherwise associated with, or of ACI - The Financial Markets Association (ACI). The Determinations by CFP are made solely on the facts known to CFP from the information or materials presented to it and based on the practices which, at the time of making such Determination, are considered in good faith by the members of CFP to be standard and best practices in the relevant market. Therefore, a Determination may not apply where underlying facts and/or the time when the dispute is brought to CFP are different, and indeed CFP may arrive at a different conclusion or result on similar disputes if such differences exist. The Determinations may not be made with any specific laws, regulations, rules or other requirements in mind.

The CFP or any of its members does not purport to give legal, regulatory, tax, accounting or other general or specific advice. Parties to the dispute must seek advice of the appropriate professional as he/she deems necessary.

Without prejudice to the generality of 10.2 or 10.3, above, none of the members of CFP, ACI or any associated organisation warrants, whether expressly or impliedly, or shall be responsible for the accuracy, completeness, or fitness or appropriateness of the Determinations, in whole or in part. ACI, CFP and its members expressly disclaim any liability as to the consequences, direct or indirect, of any action or inaction taken pursuant to the Determination.

13. Form of Request Letter

[ ] (the 'Requester'), a [ ] organised in [ ] [and licensed as [ ] under the laws of [ ]] hereby request the ACI - Financial Markets Association, Committee for Professionalism (hereinafter, 'CFP') to provide the Expert Determination Service (the 'Service') in accordance with and under the terms and conditions provided in Appendix Two to *The Model Code* and upon terms and conditions herein contained.

1. The Requester represents and warrants on the date of this Request, that any acts contemplated hereunder will not violate or contravene any applicable laws or regulations and that it has taken all necessary steps to authorise this Request.

2. The Requester agrees to provide to CFP all information reasonably requested by CFP for the purpose of the Service and to provide reasonable access to employees and directors of the Requester as CFP requests. CFP shall be entitled to rely upon and assume, without any obligation of independent verification, the accuracy and completeness of all information that is publicly available and of all information that has been furnished to it by the Requester or any other person related to the Service or the dispute or otherwise reviewed by CFP, and CFP shall not assume any responsibility or have any liability therefore. CFP has no obligation to conduct any appraisal of any assets or liabilities or to evaluate or examine the genuineness or authenticity of any information or communication, written, oral or otherwise.

3. The Requester represents and warrants on each date when the information is provided to CFP by it or any of its directors, officers, employees, affiliates or any other person at its request (each a 'Third Party Provider') that it or the relevant Third Party Provider has obtained consents from all necessary person(s), natural or juridical, regarding the disclosure of such information to CFP. Where such consents have been obtained, the Requester represents and warrants to CFP that the provision or disclosure of such information will not violate any applicable laws, rules or regulations (the 'Applicable Laws') or breach any agreement binding on it and, to the best of its knowledge, shall not cause CFP to violate the Applicable Laws.

4. The Requester agrees (i) to indemnify and hold harmless CFP and its members, past and present, agents, any person requested to assist CFP in rendering of the Service and ACI and its officers and employees (CFP and each such entity or person being referred to as an 'Indemnified Person'), from and against any losses, claims, demands, damages or liabilities of any kind (collectively, 'Liabilities') relating to or arising out of activities performed or services furnished in connection with the Service, or CFP's role in connection therewith, and (ii) to reimburse each Indemnified Person for all reasonable expenses (including reasonable fees and disbursements of counsel) incurred by such Indemnified Person in connection with investigating, preparing or defending any investigative, administrative, judicial or regulatory action or proceeding in any jurisdiction related to or arising out of such activities, services, or role, whether or not in connection with pending or threatened litigation to which any Indemnified Person is a party, in each case as such expenses are incurred or paid. The Requester will not, however, be responsible for any such Liabilities or expenses to the extent that they are finally judicially determined to have resulted primarily from CFP's bad faith, gross negligence or wilful misconduct. The Requester also agrees that no Indemnified Person shall have any liability (whether direct or indirect, in contract, tort or otherwise) to the Requester or any of its security holders or creditors for or in connection with the Services, or CFP's role or services in connection therewith, except to the extent that any such Liabilities or expenses incurred by the Requester are finally judicially determined to have resulted primarily from CFP's bad faith, gross negligence or wilful misconduct. In no event shall any Indemnified Person be responsible for any special, indirect or consequential damages. This paragraph shall survive the revocation or termination of this Request and the conclusion of Services by CFP.

5. In the event of inconsistency between the provisions in this Request and in *The Model Code*, the provisions in this Request shall prevail.

6. This Request shall be governed by the laws of England and Wales.

Appendix THREE - ALM Best Practices

1. Governance of Liquidity Risk Management

1.1. A liquidity risk tolerance for a bank's business strategy and role within its financial system should be established.
1.2. Strategies, policies and practices to manage liquidity risk in accordance with the risk tolerance should be developed by senior management, which should also ensure that the bank maintains sufficient liquidity.
1.3. Information on the bank's liquidity developments should be regularly reviewed by senior management.
1.4. Liquidity costs, performance measurement, new product approval process for all significant business activities (both on- and off-balance sheet) and benefits and risks in the internal pricing should be established. This should align the risk-taking incentives of individual business lines with the liquidity risk exposures their activities create for the bank.

2. Measurement and Management of Liquidity Risk

2.1. Processes for identifying, measuring, monitoring and controlling liquidity risk should be established. These processes should include a robust framework for comprehensively projecting cashflows over specific time periods arising from assets, liabilities and off-balance sheet items.
2.2. Methods to monitor and control liquidity risk exposures and funding needs within and across legal entities, business lines and currencies should be utilised. They should take into account legal, regulatory and operational limitations to the transferability of liquidity.
2.3. Funding strategies that provide effective diversification in the sources and tenor of funding should be established.
2.4. To promote efficient diversification of funding sources the funding strategies should maintain a permanent presence in their selected funding markets and strong relationships with fund providers.
2.5. A principal should regularly employ its capacity to raise funds quickly from each source and it should identify the main factors that affect its ability to raise funds. These factors should then be closely monitored, such that estimates of fund raising capacity remain valid.
2.6. Intraday liquidity positions and risks to meet payment and settlement obligations on a timely basis under both normal and stressed conditions should be regularly managed. This will be required for the smooth functioning of payment and settlement systems within principals.
2.7. Collateral positions, differentiating between encumbered and unencumbered assets, should be regularly managed. Principals should also, in a timely manner, monitor the physical location and legal entity where collateral is held and how it may be mobilised.
2.8. Stress tests should regularly be performed for a variety of short-term and protracted institution-specific and market-wide stress scenarios (individually and in combination). These will help establish sources of potential liquidity strain and ensure current exposures are within a principals established liquidity risk tolerance. The outcomes of the stress tests should be utilised to adjust the liquidity risk management strategies, policies, and positions and to develop effective contingency plans.
2.9. Formal contingency funding plans that clearly set out the strategies for addressing liquidity shortfalls in emergency situations should be in place. These plans should outline policies to establish clear lines of responsibility, manage a range of stress environments and include clear invocation and escalation procedures. The formal contingency funding plans should be tested and updated in a timely manner.
2.10. A cushion of unencumbered, high quality liquid assets to be held as insurance against a range of liquidity stress scenarios should be maintained. These include those that involve the loss or impairment of unsecured and typically available secured funding sources. No legal, regulatory or operational impediments to obtain funding via these assets are in place.

Appendix FOUR -Markets and Instruments covered by The Model Code

All over-the-counter (OTC) financial markets and instruments on- or off- balance sheet as follows:

- foreign exchange dealing (spot and forward);
- foreign exchange options;
- money-market dealing;
- interest rate options;
- forward rate agreements;
- interest rate and currency swaps;
- bullion and precious metals.

Appendix FIVE Terms and Conditions for Financial Instruments

The following is a non-exhaustive list of the publications containing definitions of the terms used in documenting financial market products. Market participants should bear in mind that these are all subject to updates, subsequently published documents or supplements or addenda thereto.

1. Foreign Exchange Related Products

1998 FX and Currency Option Definitions (plus Annex A, as amended, 2005 Barrier Option Supplement and other attachments, annexes and supplements), published by The International Swaps and Derivatives Association, Inc. (ISDA), The Emerging Markets Traders Association (EMTA) and The Foreign Exchange Committee (NYFXC).

International FX and Currency Options (IFXCO) 2004 Master Agreement (Terms), published by NYFXC in association with The British Bankers Association, The Canadian Foreign Exchange Committee and The Japanese Bankers Association.

2. Interest Rate Products

- Definitions (as supplemented) by ISDA
- CSA Credit Support Annex by ISDA

3. Bond Related Products

- ISDA Government Bond Option Definitions
- TBMA/ISMA Global Master Repurchase Agreement (plus Annexes)
- PSA/ISMA Global Master Repurchase Agreement (plus Annexes)
- Overseas Securities Lending Agreement

4. Credit Derivatives

- Credit Derivatives Definitions (as supplemented) by ISDA

5. Commodities (including energy, weather and emission) Related Products

- Bullion Definitions by ISDA
- ISDA Commodity Definitions (plus Annexes)

6. Collateralisation

- ISDA Collateral Definitions

Appendix SIX - Other Published Codes of Conduct and Approval for Translating

Australia: Code of Behaviour in Dealing and Market Terminology.

Belgium: Guide to Market Practice.

Canada: Guidelines to Market Behaviour for the Canadian Foreign Exchange Market.

France: The French Code of Conduct (March 1999).

Germany: Guide of Practice for Banks participating in the German Foreign Exchange Market.

Greece: Code of Professional Conduct.

Ireland: Code of Conduct for Dublin Foreign Exchange Market.

Italy: Codice di Comportamento relativo allattivita di Foreign Exchange, Money Market e strumenti derivati (Settembre 92).

Japan: The Tokyo Foreign Exchange Market Committee Code of Conduct (Orange Book) September 2008.

Kuwait: Code of Conduct (in Arabic, March 1993).

Luxembourg: Le Contrôle des Activités des Cambistes (Commissariat au Contrôle des Banques Luxembourg n° 25/74) - Institut Monétaire Luxembourgeois - Circulaire 93/101 Règles relatives à l'organisation et au contrôle interne de l'activité de marché des établissements de crédit (October 1993).

New Zealand: Foreign Exchange Market Code of Behaviour and Practice.

Singapore: Guide to Conduct and Market Practice for Treasury Activities (February 2012).

Switzerland: Code of Conduct recommended by The Swiss Bankers Association.

UK: The Non-Investment Products Code (The London Code of Conduct). FSA (November 2011).

USA: Guidelines for Foreign Exchange Trading Activities (July 2004) and Management of Operational Risk in Foreign Exchange or 'the sixty best practices'.

Approval for Translating

Ownership: ACI – The Financial Markets Association is the owner of the original English version of The Model Code, whilst the translated version is the ownership of the local association or language group responsible for the translation.

Prerequisites for translating

1. Local associations or language groups of ACI - The Financial Markets Association should notify and seek formal prior written approval from ACI's Committee for Professionalism (CFP) for the translation.

2. Translations should be undertaken by market practitioners and not academics, so as to maintain an accurate and market-oriented perspective.

3. The draft of the translation should be checked by legal, accounting, IT and other professionals, as appropriate, to ensure the integrity of the translation and to minimise the risk of misunderstanding by using the most appropriate terminology available in the language to convey the spirit of the Code. If necessary, notes explaining the subtle difference between the English term and its closest translation in the local language should be provided.

4. A caveat should be added stating that such translation is for educational and reference purpose only and that ACI's Committee for Professionalism will not be responsible for its contents in whatsoever

way and that in the event of inconsistency or discrepancy, the original English language shall prevail.

5. That the 'official' *The Model Code* is the original English version and that arbitration, expert determination and dispute resolution matters will only refer to that version.

6. That the ownership of the translated work is under the control of the Local Association or Language Group, responsible for the translation.

7. That the Copyright of *The Model Code* is held by ACI - The Financial Markets Association and translations should at all times comply with these Copyright conditions.

8. That the translated work is linked to ACI's website in soft copy format and a hard copy be forwarded to ACI's Committee for Professionalism for record purposes.

Appendix SEVEN - The Charter of ACI - The Financial Markets Association

Mission Statement

To be a leading, global association of wholesales financial market professionals, contributing to the market development through education, market practices, technical advice and networking events.

Charter of ACI:

Article I
ACI – The Financial Markets Association is a non-commercial organisation, established under the French Law of 1901, based on mutual recognition of markets professionals, with the objective of the development of the profession, without discrimination of any sort.

Article II
Members undertake to maintain the professional level of competence and the ethical standards of loyalty that are indispensable in the development of international relations, and render mutual assistance so far as possible.

Article III
Members commit to maintain, at all times, the highest possible standards in their profession by constantly setting an example of propriety and best ethical behaviour in business under all circumstances, in strict accordance with the content and spirit of *The Model Code*.

Article IV
The National Associations that the members have formed in various countries are groups linked by affiliation to ACI – The Financial Markets Associations.

Article V
The affiliated Associations are united by the moral ties of their common membership of the profession and by the common desire to give the best possible service within it, particularly by the establishment of personal and friendly relations between all those who are so engaged.

Article VI
Each National Association will be fully autonomous in designing and managing its national scope of business, but commits itself and its members to behave, at all times and under all circumstances in line with *The Model Code* and the current Charter and the Statutes of ACI – The Financial Markets Association.

Article VII
Education is a key objective of ACI – The Financial Markets Association. It will seek to ensure that educational programmes and examinations in line with the constantly changing nature of the industry are made available to both new entrants to the profession and seasoned professionals.

Affiliation of National Associations:

1. Affiliation to ACI - The Financial Markets Association is restricted to national Associations established in countries where financial institutions have the right to conduct business internationally and the conditions exist to facilitate this.

2. An Association meeting the necessary conditions and desiring to be affiliated to ACI - The Financial Markets Association should apply to the Vice President of ACI - The Financial Markets Association, submitting its request, with a copy to the ACI Secretariat. The application should include a list of the institutions from which its members are drawn and full details of the regulatory authorities supervising those institutions.

3. The Vice President, in co-operation with the respective Regional/Sub-Regional Executive, after study of the Statutes of the respective Association and after verification of their conformity with the Charter and the Statutes of ACI - The Financial Markets Association, will forward the Association's application for affiliation to the Executive Committee. After consideration, the Executive Committee will recommend to ACI - The Financial Markets Association's Council the admission of the Association.

4. ACI - The Financial Markets Association's Council reserves the right to take into consideration the number of members of an Association applying for affiliation. A minimum number of 40 members are required for an application to be considered with the objective being to ensure that an applicant had critical mass in its own market and the prospect of long-term affiliation.

5. ACI - The Financial Markets Association's Council has the power to determine by simple weighted majority the admission of the candidate Association.

Appendix EIGHT - Main SWIFT Currency Codes/as of 1.1.2013

Americas

Argentina ARS
Bahamas BSD
Brazil BRL
Canada CAD
Chile CLP
Colombia COP
Costa Rica CRC
Mexico MXN
Peru PEN
Uruguay UYU
USA USD
Venezuela VEB

Asia Pacific

Afghanistan AFA
Australia AUD
Bangladesh BDT
China CNY
Hong Kong HKD
India INR
Indonesia IDR
Japan JPY
Korea (Republic of) KRW
Macau MOP
Malaysia MYR
Mongolia MNT
New Zealand NZD
Pakistan PKR
Philippines PHP
Singapore SGD
Sri Lanka LKR
Taiwan TWD
Thailand THB
Vietnam VND

Europe

Albania ALL
Austria EUR
Belgium EUR
Bulgaria BGN
Channel Islands GBP
Croatia HRK
Cyprus EUR
Czech Republic CZK
Denmark DKK
Estonia EEK
Finland EUR
France EUR
Georgia GEL
Germany EUR

Europe

Greece EUR
Hungary HUF
Iceland ISK
Ireland EUR
Israel ILS
Italy EUR
Latvia LVL
Lithuania LTL
Luxembourg EUR
Macedonia MKD
Malta EUR
Monaco EUR
Netherlands EUR
Norway NOK
Poland PLN
Portugal EUR
Romania RON
Russia RUB
Serbia RSD
Slovakia EUR
Slovenia EUR
Spain EUR
Sweden SEK
Switzerland CHF
Turkey TRY
Ukraine UAH
United Kingdom GBP

Middle East and Africa

Angola AON
Bahrain BHD
Egypt EGP
Iran IRR
Israel ILS
Jordan JOD
Kenya KES
Kuwait KWD
Lebanon LBP
Mauritius MUR
Morocco MAD
Nigeria NGN
Oman OMR
Qatar QAR
Saudi Arabia SAR
South Africa ZAR
Sudan SDD
Tanzania TZS
Tunisia TND
United Arab Emirates AED

Appendix NINE - The Euro

1 Euro

= 13.7603 Austrian schillings
= 40.3399 Belgian francs
= 0.585274 Cyprus pounds
= 15.6466 Estonian kroon
= 5.94573 Finnish markka
= 6.55957 French francs
= 1.95583 German marks
= 340.750 Greek drachmas
= 0.787564 Irish pounds
= 1,936.27 Italian lire
= 40.3399 Luxembourg francs
= 0.429300 Maltese Lira
= 2.20371 Dutch guilders
= 200.482 Portuguese escudos
= 30.1260 Slovak koruna
= 239.64 Slovenian tolars
= 166.386 Spanish pesetas

The Euro replaced the ECU at the rate of 1 Euro = 1 ECU

Thus 17 of the Member States of the European Internal Market have adopted the Euro.

Monaco, San Marino, and Vatican City also use the Euro, although they are not officially Euro members nor members of the EU. These countries use – and mint – the Euro by virtue of agreements concluded with EU member states (Italy in the case of San Marino and Vatican City, France in the case of Monaco), on behalf of the European Community. Andorra, Montenegro, and Kosovo, which are also not EU members, have adopted the euro unilaterally, as have the Sovereign Base Areas of Akrotiri and Dhekelia on the island of Cyprus.

Appendix TEN - Past Introductions to the Model Code and Past Acknowledgements

Foreword

The advent of new products and new technologies make *The Model Code* obsolete at a faster pace than we had expected. ACI's Executive Committee and Committee for Professionalism (CFP) have agreed that *The Model Code* updates, generally, need not, and will not be published in a printed form, but that it be updated where and when deemed necessary in as timely a fashion as practically possible. CFP has revised *The Model Code* to cope with the increasing use of electronic devices in the OTC financial markets. CFP will continue to update the market terminologies on an ongoing basis.

During the update process, the members of CFP have realised that much of the original *Model Code* remains applicable to most of today's financial market business environment. I cannot express enough my respect for the original author, and a great friend, the late Denis Nolan.

The Model Code is designed to have global application in the OTC professional financial product markets. Therefore, the contents are to a certain extent generic. Readers should consult their local compliance and/or counsel (internal or external) for the requirements and conditions specifically applicable to the transaction or business conduct concerned. As such, *The Model Code* should be taken as a globally accepted minimum standard. The detailed and intricate legal and regulatory requirements of one jurisdiction may only apply where there is a personal and/or subject matter nexus to that jurisdiction. Where such laws, rules and regulations do not apply, or where the nexus necessary for the application is not free from doubt, *The Model Code* will provide a good starting point. No matter how detailed and specific the rules and regulations may be the underlying principles of those rules and regulations can be found in *The Model Code.* This is probably why *The Model Code* is accepted and/or endorsed by many regulators, who in their own jurisdiction apply and implement more detailed rules and regulations.

The Model Code will be updated with the foregoing principles. I, being in the field of law too long, tend to lose sight of this. The members of CFP, representing diversified disciplines, geographic regions, as well as product coverage, do and will complement my shortfalls and make sure that *The Model Code* remains a reader friendly reference to the members of ACI throughout the world. ACI, being an individual based membership organisation covering the widest geographic regions amongst all financial market industry groups, believes this aspect should never be compromised.

The adherence by the members (and non-members alike) to the principles set out in *The Model Code* is expected to help keep the professional financial markets free from or subject only to a minimum regulation. The expectation by the regulators and central banks that the market professionals will, at a minimum, adhere to the principles laid down by this voluntary code forms the basis of such a regulation-free trading environment. ACI, through its executives, will continue to update and keep dialogues with the regulators, and through the Board of Education and CFP, will continue to promote *The Model Code* and adherence thereto.

Lastly, I would like to personally thank Werner Pauw and Eddie Tan, the past presidents and the members who worked for them for leaving behind a perfect basis on which we could work, and also to the current members, without whom I could not accomplish anything.

Terry Tanaka
Chair (2004-2011)
Committee for Professionalism
ACI - The Financial Markets Association
March, 2006

Foreword

When the first edition of *The Model Code* was launched at ACI's International Congress in Paris in May 2000, the project represented a new concept in the promotion of best market practice and conduct for the global, over-the-counter foreign exchange, money and related derivatives markets.

Despite supportive and encouraging comments from participants and a number of regulators in many countries, ACI's Committee for Professionalism was aware that there were understandable concerns amongst some of our membership, with a genuine division of opinion within the profession, as to the feasibility of such a radical undertaking. It was felt by some, albeit a small minority, that ACI's aspiration to create a new international code, which would be acceptable in diverse regulatory and supervisory regimes and cultures, could prove an overly ambitious project and might not, in the long run, gain full international acceptance.

I am pleased to report that our experience has shown that the need for such a Code was even more pronounced than we had envisaged and, in its first two years of existence, *The Model Code* has surpassed all of our estimates of demand and acceptability throughout the marketplace. It appears that the broad scope, novel structure and style of *The Model Code*, which is a user-friendly departure from the standard market Codes of Conduct, has met with an extremely favourable response from dealers, management and supervisors alike.

The Model Code has been distributed in over 100 countries with over 8000 copies sold. Already, the regulators in 17 countries have adopted *The Model Code* in whole or in part with ongoing discussions taking place in an additional 35. There is a growing demand for both the hard and soft copies (available solely as 'view only' on the ACI website).

Although the English version of *The Model Code* is regarded as the only official reference for the dispute resolution and expert determination purposes, many language groups have taken the initiative to translate *The Model Code*, with translations in nine languages available now (Arabic, Chinese, French, German, Italian, Polish, Romanian, Spanish and Slovakian). Indications are that translations by ten other language groups are planned for the future (including Portuguese). Large sections of *The Model Code* have also been translated into Japanese and form part of the Orange Book.

The growing reputation and acceptance of *The Model Code* as the most comprehensive, professional and broadly based publication and the sole international code in this field has been evident throughout our markets with enthusiastic responses from both bankers and supervisors.

One notable acknowledgement of its unique role came earlier this year in the highly regarded and widely reported Promontory Financial Group's 'Ludwig Report' on the large scale losses in FX options at Allied Irish Banks (AIB) Maryland subsidiary, Allfirst. The report referred to *The Model Code* as 'the most up-to-date and widely used Code of Conduct amongst the world's foreign exchange and money market traders'.

Against this successful background it is the intention of the ACI's Committee for Professionalism to maintain the high standard set in the original publication and continue to update *The Model Code* with insertions and amendments where necessary. To this end we are, as promised in the first edition, maintaining an ongoing review of treasury dealing activities and operations in our constantly evolving markets and implementing whatever changes we consider justified in recommended conduct and best practice.

This second edition contains a number of insertions and amendments which have been comprehensively researched and discussed amongst market practitioners and regulators with whom we liaise constantly. The Committee for Professionalism has thoroughly analysed and debated all of these topics before the final drafting process.

Recent events have provoked, among other things, the tendency or desire on the part of some legislators and regulators, to promote the regulation of the financial marketplace, including the inter-professional market, in which we carry out our business. In such an environment the need for a recognised, comprehensive and professionally developed code of conduct for the global, over-the-counter foreign exchange, money and related derivatives markets is ever more urgent.

There is the need to show the self-discipline of professional market participants by adherence to such a code and demonstrate that the marketplace is adequately functioning and that minimum or no regulation is necessary for inter-professional financial market activities.

All the evidence over the past two years suggests that *The Model Code* is gradually fulfilling this critical role throughout the currently 66 countries in which ACI has affiliated national associations. I am pleased to commend this second edition to all dealing, administrative, control, audit, accounting, compliance and management personnel amongst the participants in our markets.

The Model Code is also one of the important cornerstones and training aids for all market professionals and a comprehensive knowledge and insight into the letter and the spirit of *The Model Code* is a compulsory requisite of ACI's examination suite. It is considered imperative that both new entrants and experienced dealing professionals should gain valuable guidance as to the best market practice and personal conduct issues, applicable in the over-the-counter markets.

Werner Pauw
Chair (2001-2004)
Committee for Professionalism
ACI - The Financial Markets Association
September 2002

About the author: Denis J. Nolan

Denis Nolan was a well-known market practitioner with over 30 years' experience in the global exchange, money and derivatives markets.

As a chief dealer and treasurer throughout the 1970s and 1980s, he was amongst the very first treasurers of international financial institutions to embrace financial futures and derivatives as a logical extension of money and exchange dealing strategies.

A founder member of LIFFE and former visiting lecturer at The City University Business School, London, he wrote extensively on the subject of foreign exchange and addressed conferences and seminars on financial markets instruments, derivatives, arbitrage, back office and Code of Conduct, in Europe, the USA, the Middle East and Japan. He was co-author of *Mastering Treasury Office Operations* published by Pearson Education in 2001.

When the Code of Conduct was first included as a compulsory subject in the examinations for traders and dealers, he was approached by ACI – The Financial Markets Association to advise on related issues. With a unique training background and as an internationally recognised expert on the subject, he was commissioned in December 1998 to write a global code of conduct for treasury over-the-counter financial markets.

Liaising closely with the ACI Committee for Professionalism and maintaining ongoing contact with the regulatory authorities in Europe, USA and Japan, he completed *The Model Code* in March of 2000.

Sadly, Denis passed away in July 2003, following a long battle with cancer. However, he leaves behind him a long lasting and fitting memorial to his contribution to the industry in *The Model Code.*

Acknowledgements

The Model Code would not have been possible without the valuable insight, time and effort afforded us by the following:

- The Central Banks of the various OECD countries.
- The Financial Services Authority in the United Kingdom.
- The Foreign Exchange Committees in New York, Tokyo and Singapore.
- ACI representatives and market participants for the many countries in which ACI - The Financial Markets Association has a presence.

Last but not least, we would like to thank the author, Denis Nolan of ArbiTrain Ltd for compiling and editing the various drafts and the final product after the many long, arduous but thoroughly productive sessions with the Committee for Professionalism. Denis's experienced analyses, sense of commitment and meticulous preparation is greatly appreciated.

Eddie Tan
Chair (1998-2001)
Committee for Professionalism
ACI - The Financial Markets Association
April 2000