

***Local Standards in Tokyo FX Market:
Supplementary provisions to the FX Global Code
(2021Edition)***

TOKYO FOREIGN EXCHANGE MARKET COMMITTEE

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FOREWORD

In the foreign exchange market where various market participants transact cross border, it is important for participants to develop and follow a code of conduct in order to promote and maintain market integrity.

Under such circumstance, the Bank of International Settlements (BIS) and its member central banks formed the Foreign Exchange Working Group (FXWG) to establish and promote adherence of the code of conduct. In the FXWG, central banks from 16 countries or regions including the Bank of Japan, Market Participants Group (MPG) from various countries, and Foreign Exchange Market Committee in each country who plays an important role in the development and management of the code of conduct in each market, worked jointly and published the FX Global Code in May 2017. At the same time, the Global Foreign Exchange Committee (GFXC) was established as a forum bringing together central banks and private sector participants with the aim to promote a robust, fair, liquid, open, and appropriately transparent FX market.

However, there are unique market practices in the Tokyo market such as “same day exchange quotation” calculated independently by each financial institutions. Therefore, the Tokyo Foreign Exchange Market Committee published “Local Standards in Tokyo FX Market: Supplementary provisions to the FX Global Code (the Local Standards)” in 2017. Until the publication of the FX Global Code, the Tokyo Foreign Exchange Market Committee had maintained its own code of conduct (*) but it was taken over by the FX Global Code and the Local Standards in 2017. While the previous code of conduct was mainly catered for “Sell-Side” (financial institutions), the FX Global Code and the Local Standards apply to all FX Market Participants that engage in the FX Markets, including but not limited to “Buy-Side” (customers) as well.

The FX Global Code is due to be reviewed on a regular basis given the circumstance where the increasing usage of e-trading platform affects the foreign exchange market business. The GFXC carried out a review process since 2020 and released a revised version of the FX Global Code in July 2021. The Tokyo Foreign Exchange Market Committee also conducted a review process for the Local Standards and decided to revise a part of articles, and we are pleased to release the “Local Standards in Tokyo FX Market: Supplementary provisions to the FX Global Code (2021 edition)” here.

The Tokyo Foreign Exchange Market Committee believes the understanding and adherence of the FX Global Code and the Local Standards by market participants will contribute to the healthy development and functional maintenance of the foreign exchange market. We will continue to work proactively so that more market participants express their support to the FX Global Code and the Local Standards.

October 2021

Naoto Nakamura, Chairperson of Tokyo Foreign Exchange Market Committee

Masato Kanato, Chairperson of Subcommittee on Code of Conduct

(*) Code of Conduct (2013 Edition) and Guidelines of Foreign Exchange Transaction (2015 Edition)

CHAPTER I BASIC ISSUES

- Article 1 This Local Standards complements the “FX Global Code” (hereinafter referred to as the “Code”). It outlines market conduct and practices that the Tokyo Foreign Exchange Market Committee currently recommends and deems should be complied with.
- Article 2 The Code and this Local Standards replace the “Code of Conduct (2013 Edition)” and the “Guidelines of Foreign Exchange Transaction (2015 Edition)” previously released by the Tokyo Foreign Exchange Market Committee.
- Article 3 Market participants must construct their internal control system in consideration of the Code and the spirit of this Local Standards. In case inappropriate conduct such as treatments or transactions that unduly lead to potential adverse outcomes for counterparty is found, it must be immediately reported to supervisors, compliance and legal departments.
- Article 4 The Code and this Local Standards do not prevail over the Financial Instruments and Exchange Act, other related laws and regulations or any agreement or arrangement between counterparties.

CHAPTER II SAME DAY EXCHANGE QUOTATION (SDEQ)

- Article 5 Providers of exchange quotation must specify procedures in internal rules for setting exchange quotation to ensure approval process of exchange quotation by supervisors who have internal authorities and qualifications.
- Article 6 Providers of exchange quotation should inform counterparties that exchange quotation is not necessarily prevailing market rates at the time of transaction and that exchange quotation may be changed according to prevailing market rates.
- Article 7 Providers of exchange quotation should strive to ensure counterparties won't confuse exchange quotation with Benchmark.
- Article 8 Users of exchange quotation should fully understand the nature and purpose of exchange quotation upon using them.

CHAPTER III MARKET OPENING AND CLOSING HOURS

- Article 9 The official recognized opening and closing hours of the interbank market is set from 5 a.m. Sydney time on Monday morning to 5 p.m. New York time on Friday.
- Article 10 Market participants should confirm and agree with counterparties regarding opening and closing hours before trading.
- Article 11 Market participants should agree with counterparties using specific scenarios regarding order execution when prices fluctuate under reduced liquidity or outside market hours.

CHAPTER IV CONSIDERATIONS RELATED TO PRIME BROKERAGE ACTIVITIES

- Article 12 Prime brokers must clearly specify to all related counterparties the scope of information sharing and the roles of each party.
- Article 13 Prime brokers should have an appropriate level of separation between their prime brokerage business and their other sales and trading business, in order to avoid any potential conflict of interest.
- Article 14 Prime brokers must specify their credit risk controls such as procedures regarding margin calls in their internal policy and procedures.
- Article 15 Prime broker should perform preliminary due diligence with respect to clients, in order to manage credit risk, operational risk, compliance risk and so on.
- Article 16 It is desirable that market participants using prime brokers do not rely on only one prime broker.

CHAPTER V BUSINESS CONTINUITY IN THE EVENT OF A LARGE-SCALE DISASTER

- Article 17 Market participants should prepare in advance business continuity plans (“BCP”) to be followed in the event of a large-scale disaster. The effectiveness of such BCP should be secured by clarifying the sharing of responsibilities and duties by internal rules and through regular drills.
- Article 18 Market participants should understand business continuity plans prepared by settlement system operators and properly position them in the participants’ own BCP.

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