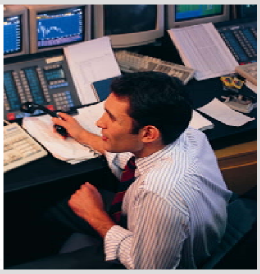

The Model Code

The International Code of Conduct and Practice for the Financial Markets

(Updated Electronic Version 07 April 2009)

"Strong focus on governance - ethical and moral standards"

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The Model Code

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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and Committee for Professionalism ("CFP") have agreed that *The Model Code* updates, generally, need not, and will not be published in a printed form, but that it be updated where and when deemed necessary in as timely a fashion as practically possible.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 on-going basis.

During the update process, the members of CFP have realized 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 organization 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
Chairman (2004-present)
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
Chairman (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 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, 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 OTC 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
Chairman (1998-2001)
Committee for Professionalism
ACI - The Financial Markets Association
April 2000

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, organization 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 transaction are in strict adherence to *the Model Code*.

Any person utilizing *the Model Code* for any purpose should satisfy itself 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 to *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 organization warrants, whether expressly or impliedly, 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.
The situation lasted until the early 1970's when the 'O'Brien Letter' was issued to authorised banks in London by the Bank of England. This short, but timely and useful, first circular dealt with 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 an urgent international need amongst dealers and brokers operating in the OTC foreign exchange, money and derivatives markets. The Committee for Professionalism (CFP) of ACI - The Financial Markets Association 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 international or global code that could cover the essential provisions of all five recognised publications.
The conduct and best practice recommended in the five codes is in 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 embracing 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 over-the-counter markets and instruments traded by international bank treasury departments as listed in Appendix 2. 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 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 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).
- The London Code of Conduct (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).
- The Code of Conduct of the Tokyo Foreign Exchange Market Committee ('The Orange Book' December 1998).

In addition, market practitioners from every established international money centre were consulted on several of the issues covered in this book, particularly those areas where there are differences in interpretation and emphasis. The resulting advice and opinions expressed were fully debated at the Committee for Professionalism before the final text was agreed.

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 Chapter XI on Market Terminology, which forms an integral part of *The Model Code.* All dealers and examinations candidates 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 an FRA, 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 Chapter IX 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 this 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 Chapter IV (4) 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 in a clear division of categories. This style has been adopted in order to provide for the dealer or student quick and easy reference to 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 Over-the- Counter Financial Instruments Disputes Resolution. The terms and conditions of this service are set out in the Appendix 1.

Translation / language

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

Chapter I

Business Hours and Time Zone Related

1. After-hours/24-hours and off-premises dealing
2. Monday morning trading/market opening and closing hours
3. New bank holidays/special holidays/market disruption
4. Stop-loss orders
5. Position parking
6. Market disruption

1. After-hours / 24-hours and off-premises dealing

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. These extended trading hours can involve additional hazards, the avoidance of which necessitates clear control procedures.

Deals transacted after normal hours or from off premises, either by mobile phone or any other equipment, should only be undertaken with the approval of management who should issue clear written guidelines to their staff on the kinds of deals which are permitted and the limits applicable to such trades, specifying their normal trading hours. It would be prudent to have additionally an unofficial close of business for each trading day against which end-of-day positions can be monitored or revalued.
Management should also list the names of the dealers authorised to deal in off-premises or after-hours transactions and stipulate the procedure for the prompt reporting and recording thereof.
Where voice-mail equipment is used for instant reporting and recording of all off-premises transactions, it should be installed and located in such a way that reported transactions could not subsequently be erased without senior management approval.

2. Market opening and closing hours

The international financial markets are linked by an extensive network of centres. 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 markets participants and regulatory authorities, ACI - The Financial Markets Association has co-ordinated a global accord on official opening and closing times as follows.

Trades, whether direct or via a broker, transacted prior to 5.00 AM Sydney time Monday morning, are done so in conditions that are not considered to be normal market conditions or market hours.
Thus the official range in currency markets will be set from 5.00 AM Sydney time on Monday morning all year round.
The recognised closing time for the currency markets will be 5.00 PM Friday New York time all year round.

3. New bank holidays / special holidays / market disruption

New bank holidays or non-business/clearing days may be announced by the authorities in various centres. Such announcements of non-business/clearing day ("Unscheduled Holiday") may be made within a very short time period preceding the originally agreed settlement date. In order to ensure smooth and efficient functioning of the market, and bearing in mind these holidays are often unforeseen, clear market practice/ procedures should be in place.

In the event a country or a state declares a new national bank holiday or any other occurrence which would prevent settlement of banking transactions on a specific date, the following procedures are accepted as market practice for adjusting the settlement date of outstanding currency transactions maturing on that date.

(a) On Unscheduled Holidays, unless the bilateral agreements between the parties concerned specifically provides for such situation, it is market practice to extend contracts maturing on a non-business day to the next business day.

(b) 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.

(c) The affected parties should agree to adjust the exchange rate according to the prevailing relevant forward mid-rate.

4. Stop-loss orders

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.

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 be within management criteria on 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 offers automatic stop loss execution, the user of such system needs to make sure he is aware of the implications to 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 brokering company 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 which it has seen. 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 called for in Chapter IX (1) of *The Model Code* in the execution of these orders.

5. Position parking

The incidence of what is referred to as 'Position Parking' is far less common in recent years and could be defined as follows:
Position parking is 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. The consequence of such an agreement is 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.
The Model Code stipulation on this issue is unequivocal.

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

6. Market disruption

There are instances where the parties are prevented from performing their obligation under a transaction due to 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, illiquidity, etc.

Market participants are encouraged to provide for these events in their contracts. Various industry groups have developed standard languages to cover these types of events and the consequences of such events to their contractual relationships. Market participants should adopt the appropriate provisions in order to avoid disputes as much as possible.

Where there are instances of general market disruption caused by sudden events such as extreme weather or other unforeseen developments, local regulators or central banks may intervene with the publication of applicable procedures including interest rates to be implemented to cover interrupted settlement.

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 these rules in the absence of any written agreement dealing with such circumstances.

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 event which are beyond parties' control known as 'force majeure', 'illegality' and 'impossibility'. 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).

However, since these events, by nature, are unforeseeable, there could be cases where the provisions, at least arguably, may not adequately cover the factual situation at issue. In such cases, the relevant authority or industry group(s) may provide a regulation, guidance or recommendation for best practice. In addition, even where parties have a written agreement in place, industry groups may convene a meeting to form a market consensus in certain cases, where strict adherence to the market standard provisions is impracticable. Market participants should attend these meetings to the extent possible and be aware of, and honour the consensus reached at the meetings. Where there is a disruption in quoting, matching, straight-through processing, settlement etc. within the E-trading operational mechanism, such disruption may or may not have been caused by events beyond human control. However, the effects of such disruption may be just as serious.

E-trading owners and the members of such scheme 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.

Where severe climatic developments disrupt the normal functioning of payment or clearing administration, emergency procedures approved by the local regulator may be implemented. 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 to deals affected by such general disruptions should use for adjustments.

These local rules and procedures often 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 or where there is no written agreement, it is recommended that local market participants should strictly adhere to these rules. In case such rules or procedures conflict with any provision of the existing written agreement, the parties should consult their local counsel as to the effect of such rules or 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 rule or procedure.

Although it is strongly encouraged that there be a written agreement to govern trading relationship, where no agreements or local provisions are in place it is recommended that the Model Code best practice in Chapter I (1) New bank holidays/special holidays should be used where practicable.

Chapter II

Personal Conduct Issues

1. Drugs & abused substances
2. Entertainment & gifts
3. Gambling and betting between market participants
4. Fraud
5. Dealing for personal account
6. Confidentiality
7. Misinformation and rumours
8. Customer relationships, advice and liability
9. Use of Confidential Information

1. Drugs and abused substances

Problems connected with abused substances such as drugs and alcohol have been a growing phenomenon in both social and business spheres in many countries. Although attitude, legislation and social tolerance on this issue, vary between cultures, The Model Code recommends active management involvement in dealing with the problem.

Management should take all reasonable steps to educate themselves and their staff about possible signs and effects of the use of drugs including alcohol and other abused substances. Policies should be developed and clearly announced for dealing with individuals who are found to be substance abusers.
The judgement of any members of staff dependent on such substances may well be impaired and their ability to function satisfactorily seriously diminished. They are also likely to be vulnerable to outside inducement to conduct business not necessarily in the best interest of the firm or the market generally.

2. Entertainment and gifts

Gifts or entertainment can be offered in the normal course of most businesses. However, financial markets need to be particularly vigilant in the avoidance of excesses or abuse of this practice. Gifts given or entertainment provided by brokers or non-principals to dealers should be monitored by management.
Management or employees must neither offer inducements to conduct business, nor solicit them from the personnel of other institutions. However, it is recognised that gifts and entertainment may be offered in the normal course of business; such gifts or entertainment should not be excessive in value or frequency. Management should:
(a) monitor the form, frequency and cost of entertainment/gifts that the dealers receive,
(b) have a clearly articulated policy towards the giving/receipt thereof, ensuring it is properly observed,
(c) establish procedures for dealing with gifts judged to be excessive but which cannot be declined without causing offence
(d) ensure the transparency of all entertainment received or provided.

Entertainment should neither be offered nor accepted where it is underwritten but not attended by the host.

3. Gambling / betting between market participants

For many years, the practice of making personal bets or wagers between market participants has frequently been a cause for concern amongst bank management and brokers. The underlying topic or contest for the bet can be the publication of a financial indicator such as official trade figures, a political event, or a sport.
Excesses or abuse of such gambling can become a disease and lead to extremely serious consequences, including conflict of interest and even personal financial ruin.
The Model Code strictly opposes this practice and insists on strong management involvement in its control.

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 have a clearly defined written policy on the control of this activity.

4. Fraud

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.
Nevertheless, strong administrative controls are recommended to prevent its occurrence.

Attempts at fraud occur regularly and many are meticulously planned. 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 should be confirmed by telex or similar means by the recipient seeking an answer-back to ensure the deal is genuine.
Particular care should be taken in checking authenticity where the beneficiary is a third party or other than the transaction counterparty.
In the event of any suspicious circumstances staff must notify management without delay.

5. Dealing for personal account

The practice of dealing for personal account either in-house or externally has several implications including credit risk and potential conflict of interest. The Model Code advocates clear written management policies and controls.

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 and to ensure that no action is taken by employees which might adversely affect the interests of the firm's clients or counterparties.
Management should have a clearly defined policy for personal transactions of staff including investment. Written procedures should be in place to cover these transactions as well as those on behalf of the dealer's family and other members of personnel, management included.
Managers should be aware that a conflict of interest may arise if traders are permitted to deal for themselves in those commodities, instruments or products closely related to the ones in which they deal for their institution and should stipulate clearly which ones, if any, the dealers can trade in for their own account.

Particular care should be exercised where day trading for personal account is concerned. 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.
In this respect, where dealing for personal account is permitted, management's written procedures should clearly stipulate the institution's control policy in relation to the unprofessional practice often referred to as 'front running'. This arises where an employee could execute 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.
Traders should recognise that they too have a responsibility to identify and avoid conflicts of interest.

6. Confidentiality

Both dealers and brokers are privy to highly confidential information. In order to preserve a reputable market, it is essential that strict standards of confidentiality are maintained and that all market participants exercise great care during the course of conversations which may be overheard or read through modern communications systems or in the public domain.

Confidentiality is essential for the preservation of a reputable marketplace. Dealers 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, or in the process of being transacted, or in the process of being arranged, except to or with the counterparties involved.
Care should be taken over the use of open loudspeakers or any or all new telecommunications systems to ensure that no breaches of confidentiality occur.
Dealers and brokers should also exercise great care where confidential issues are discussed in the public domain such as in restaurants where there is a danger that conversations may be overheard.

Individual dealers or brokers should not visit each other's dealing rooms except with the express permission of the management of both parties. Dealers should not deal from within a broker's office, nor should brokers arrange deals from outside their own office.
A dealer should not place an order with a broker to find out the name of a counterparty in order to make direct contact to conclude the deal.
A dealer 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. Pressure 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.
Dealers in financial institutions should resist any similar pressure from corporate clients to divulge confidential information, nor should the corporate dealer exert such pressure.
Any breaches in confidentiality should be investigated immediately according to a proper documented procedure.

7. Misinformation and rumours

Financial markets are generally responsive to news on related developments. It is not surprising therefore that gossip and misinformation emanating from various sources is often relayed through the market telephone lines and screens. These rumours can be quoted, or even originate in the financial media. The Model Code insists that dealers and brokers refrain from passing on any information which they know to be untrue.

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

8. Customer relationship, advice and liability (1)

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 more 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.

In general, all financial market transactions are presumed to be on an arm's length basis unless parties explicitly acknowledge otherwise. All such transactions are entered into solely at each party's risk. When dealing with customers, the financial market professionals are advised to clarify the foregoing nature by explicitly agreeing in writing that:

(a) the customer understands the terms, conditions and risks of that transaction;

(b) the customer made its own assessment and independent decision to enter into such transaction and is entering into the transaction at its own risk and account;

(c) the customer understands that any information, explanation or other communication by the other party shall not be construed as an investment advice or recommendation to enter into that transaction except in a jurisdiction where laws, rules and regulations (such as the Mifid directive by the EC) would qualify the given information as an investment advice;

(d) 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.

These 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.

For its own protection, prior to the transaction, the financial institution should endeavour to provide all necessary information reasonably requested by the customer so that the customer fully understands the effects and risks of the transaction. Both before and after entering into the transaction, it may, if it deems appropriate under the circumstances, also provide any additional information or material it may think fit as a precautionary measure against future adverse allegations or assertions of claims by the customer.

Unless required by applicable laws and/or regulations, financial institutions are under no general legal obligation to explain the effects, risks or projected outcome of the transaction or to advise on possible solutions. However, 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 the possible action/inaction. If the financial institution does provide advisory services, it should do so in good faith and in 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.

It is important to note that the relevant laws in these areas differ substantially from jurisdiction to jurisdiction. 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.

(1) " 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."

9. Use of confidential information

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. To disclose such confidential information to unrelated parties – and, in some cases, to related parties - without consent before it becomes public is unethical and a breach of confidentiality. It may also violate local data protection law. Dealing in financial instruments based on confidential information about the issuer of such instruments or the instruments themselves constitutes ‘insider dealing’ and possibly ‘market abuse’. Insider dealing is a criminal offence in many countries.

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. Dealers should refrain from trading against confidential information, and they should never reveal such information outside their firms, even after they have changed employment. Dealers have a duty to familiarize themselves with the requirements of the relevant legislation and regulations governing insider dealing and market abuse in their jurisdiction to order to ensure that they are in full compliance.
Firms must have in place clearly documented policies and procedures, and strong systems and controls, to manage confidential information within the dealing environment and other areas of the firm which may obtain such information.

This should include, where appropriate, ‘Chinese walls’ to restrict the internal distribution of confidential information to those who need to know in order to be able to execute orders for customers or for compliance purposes. Appropriate sanctions should be available to and used by management against staff who do not comply with policy or procedures, or breach controls. 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 and prevent any recurrence. Management has a responsibility to inform dealers of the requirements of relevant legislation and regulations. 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.
It should be acknowledged that authorized dealers actively involved in trading for the account of their firm (proprietary trading or risk management) 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.

Chapter III

Back Office, Payments and Confirmations

1. Back Office location & segregation of duties/reporting
2. Confirmation procedure (written)
3. Confirmation procedure (verbal)
4. Payment & settlement instructions
5. Netting

1. Back office location and segregation of duties/reporting

The improvement in global communications in recent years has been an important factor in the growing trend amongst financial institutions towards having front and back office in different locations. Many international banks have centralised and consolidated the back office administrative function in or close to head office but covering separate active dealing rooms in several overseas centres. Provided the regulatory authorities involved are in agreement with this arrangement, the Model Code has no objection to such a consolidation of the back office function. However, there is no flexibility whatever concerning the insistence on the strict segregation of front and back office <u>duties and reporting lines.</u>

The organisational structure of market principals should ensure a strict segregation of duties and reporting lines as well as independent risk management controls between front and back office staff. Where the middle office has a control or administrative function a similar segregation of duties and reporting should apply.

The issue of physical segregation or location of the two offices is a matter for the management of each institution to decide in the light of essential controls and local regulatory requirements.
Whereas some institutions favour the administrative advantage of immediate or close proximity, there is, with modern communication and information technology, a growing trend amongst international banks active in several dealing centres to centralise back office operations in one location near to or in the same centre as head office. This structure will inevitably require the approval of the regulatory authorities in the centres involved.
The incentive and compensation plans for back office and middle office personnel should not be directly related to the financial performance of the traders.

2. The confirmation or automatic matching of transactions

One of the essential risk controls available to institutions dealing in financial markets has been the independent confirmation of the details of a transaction between the back offices of the counterparties. Failure to ensure that confirmations have been sent and the interception of confirmations by dealers has contributed to many of the most notorious incidents of deception by rogue dealers. Confirmations continue to be an essential risk control in bilaterally negotiated and settled transactions. However, the introduction of multilateral trading and clearing in some OTC instruments has led to confirmations being replaced by the automatic matching of transactions.

One of the essential risk controls available to institutions is the prompt independent cross-checking of transactions reported by their dealers. This procedure helps to prevent settlement problems by identifying discrepancies in instructions in advance of the settlement day. It also provides assurance to management that dealers are reporting their positions accurately and provides an audit trail for subsequent investigation. In the event of a dispute over the terms of a transaction, valid confirmations can be used as evidence of the terms of the contract.
Traditionally, cross-checking has been implemented through the issuance of confirmations by one or both of the back offices of counterparties to a transaction. The back offices should be independent of and segregated from front offices. It is imperative that front office staff should not be able to intercept confirmations.
Confirmations should be sent out by an efficient and secure means of communication as quickly as possible after a transaction has been agreed and should be addressed to the back office of the counterparty.
The practice of sending two confirmations (e.g. an initial one by fax or other electronic means) followed by a written confirmation is not recommended as the latter, if posted, might not arrive until after the settlement date and could cause confusion.
Where transactions are executed under a master agreement, but that agreement has not been signed, unresolved differences over the detail of the agreement should not delay the exchange of confirmations. However, Chapter V of The Model Code stresses the importance of having documentation in place before dealing.

The format and content of a confirmation will vary according to the instrument dealt in and reference should be made to any applicable Terms and Conditions published in order to ascertain the correct content and format for any particular instrument (see Appendix 3: Terms and Conditions for Financial Instruments). At a minimum, however, all confirmations should include the following information:

(a) date of transaction
(b) by which means effected (broker, phone, telex, dealing system, etc.)
(c) name and location of counterparty
(d) rate, amount and currency
(e) type and side of deal
(f) value date, maturity date and all other relevant dates (e.g. exercise date, etc.)
(g) standard terms/conditions applicable (e.g. FRABBA, BBAIRS, ISDA, ICOM, etc.)
(h) other important, relevant information (e.g. settlement instructions).

Brokers should confirm all transactions to both counterparties immediately by an efficient and secure means of communication.
It is vital that the counterparties to a transaction check the confirmation carefully and immediately upon receipt, so that discrepancies can be quickly revealed and corrected. If a counterparty's confirmation is considered incorrect, the counterparty must immediately be informed. A new confirmation (or written agreement to a correction) should be requested from and provided by the counterparty whose original confirmation was incorrect.
It is not uncommon in some markets, for only one party to a transaction (rather than both) to send out confirmations. This practice is not recommended as it gives rise to operational and legal risks. If an institution acquiesces in the practice because of the insistence of a counterparty or customer, the management of the latter should commit in advance and in writing to check confirmations promptly and respond in good time to the issuer of the confirmation by agreeing/querying the terms of the transaction. It is also essential that the issuer of the confirmation has in place procedures for chasing a response if one is not forthcoming within a few hours of the confirmation being sent.

If a counterparty or customer does not respond to confirmations, the senior management of the party issuing the confirmations may need to consider what measures should be taken to protect their institution in the event of problems arising from the unconfirmed transactions.
The precise method of confirmation and how discrepancies are resolved are the responsibility of senior management.
The advent in the foreign exchange market in recent years of multilateral automatic trading systems (ATS) and multilateral central clearing counterparties (CCP) has introduced an alternative means to confirmations of implementing the prompt independent cross-checking of transactions. Transactions executed or registered on ATS and transactions registered on CCP are automatically matched and counterparties are informed of discrepancies. The details of matching transactions are relayed automatically to the back office systems of the counterparties. Provided that an ATS or CCP is independent of the counterparties, that matching takes place without undue delay after the registration of transactions, that communications with the ATS or CCP are efficient, secure and robust, and that counterparties have efficient procedures in place to resolve unmatched transactions, it is unnecessary for the counterparties to exchange confirmations. The users and, if it is practically difficult for the users to do so, the CCP or ATS provider, should satisfy themselves that such agreement on the confirmation process will be valid under the relevant law and that such forms of confirmation will be admissible evidence in the courts of relevant jurisdiction(s).

3. Verbal Confirmations

In active and volatile markets, it is essential that any discrepancies in the terms of bilaterally negotiated and settled transactions are highlighted as quickly as possible. As stated in the previous section, the prompt checking of confirmations is an essential control in this regard.
Additionally, where turnover justifies, there is a strong case to have in place an additional 'call back' or verbal deal check in order to identify and resolve as soon as possible, any discrepancies, particularly those involving amounts or value dates.

The practice of intra-day oral checks is strongly recommended for transactions that are negotiated and settled bilaterally as it can be an important means of helping to reduce the number and size of differences, particularly when dealing through voice brokers, or for deals involving foreign counterparties. It can also be useful in faster moving markets such as foreign exchange or when dealing in other instruments which have very short settlement periods.
It is for each firm to agree with their brokers (or counterparties) whether or not it wishes to instigate this practice and if so how many such checks a day it requires.
If a single check is thought to be sufficient, it is recommended that this be undertaken towards or at the end of the trading day.
There should always be an acknowledgement between the parties on completion of the check that all deals have been agreed or, if not, that any identified discrepancies are resolved as a matter of urgency. Where the discrepancy involves a dispute resulting in an open risk for either counterparty, the position should be immediately closed out in the market without inference that either party is wrong pending final resolution of the dispute. Where an error or difference is first highlighted by either party, lack of response should not be construed as an acknowledgement.
Where it is not possible for the broker to send a full confirmation immediately, e.g. during night time, the counterparty should verbally reconfirm with the broker all the completed transactions.

4. Payment and settlement instructions

Errors or misunderstandings in payment and settlement instructions frequently result in expensive overdrafts and interest claims. Prompt, clear and early instructions are a priority. The use, where possible, of Standardised Settlement Instructions (SSIs), helps to eliminate costly mistakes.

Payment and settlement instructions should be passed as quickly as possible to facilitate prompt settlement.
The use of standardised settlement instructions (SSIs) between counterparties who regularly trade with each other is strongly recommended as their use can make a significant contribution to reducing both the incidence and size of differences arising from mistaken settlement of funds. SSIs should be established either via authenticated Swift message or confirmed letter and not by Swift broadcast.
In some foreign exchange and currency deposit markets, it is not customary for brokers to pass payment instructions where both counterparties are based in the same country as the broker, but the counterparties themselves must exchange instructions without delay.

Whether dealing direct or through a broker, principals should ensure that alterations to original payment instructions, including the paying agent where this has been specifically requested, should be immediately notified to the counterparty, and where a broker has been used and at least one of the principals is in another country, to the broker also. This notification should be supported by written, telex or similar confirmation of the new instructions, receipt of which should be acknowledged by the counterparty concerned. Failure to inform the broker of a change in instructions could clearly place the liability for any ensuing difference with the principal.
Where the beneficiary of a transaction is a third party, it is management’s responsibility to ensure that appropriate authentication controls are in place for the payment to be executed.
Where differences or costs occur resulting from a broker’s error on payment instructions, it should be recognised that once payments do go astray, the broker is limited in what action it can directly take to rectify the situation. It is therefore recommended that the broker’s liability in the event of such an error should be limited accordingly.

5. Netting

For several years there has been a growing interest in payment netting as financial institutions with substantial daily foreign exchange settlement requirements have sought to reduce some of the related credit exposure. With expanding global daily turnover in foreign exchange, the Bank for International Settlements, particularly mindful of the potential settlement risk, has together with the major central banks exerted considerable pressure on the market banks to avail where possible of bilateral and multilateral payment netting agreements.

While the various forms of netting arrangements may have operational similarities, they can differ significantly in their legal and risk-reducing characteristics. While payment netting systems can achieve a substantial reduction in daily settlement risk, other forms such as netting by novation seek to reduce the credit risk on gross outstanding transactions by legally substituting net obligations in place of gross obligations. Bilateral agreements covering these issues are now commonplace amongst active market participants. The substantial credit risk and the potentially high cost of capital resulting from such a risk resulted in the creation of the CLS Group (essentially CLS Bank and CLS Services) as the first global settlement system. Most of the major global FX banks are shareholder/members of the CLS group. Continuous Linked Settlement (CLS) enables cross border currency transactions to be settled intra-day, real-time. CLS Bank virtually eliminates the settlement risk in FX related transactions that are eligible under the CLS Bank operational rules, amended and supplemented from time to time, by matching two party's payment instructions and by applying a payment versus payment system.

Market institutions should, where activity justifies it, 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 or by considering the considerable risk reduction possibilities offered by global settlement systems such as CLS .

Chapter IV

Disputes, Differences, Mediation and Compliance

1. Disputes and mediation
2. Differences between principals
3. Differences with brokers and use of ‘points’
4. Compliance and complaints
5. Money laundering and terrorist financing

1. Disputes and mediation

The Committee for Professionalism of the ACI 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 Chairman 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 1. In resolving such disputes, the Committee for Professionalism will be guided by The Model Code.
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; (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.
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.
However, where differences exist involving transactions between two institutions in separately regulated centres, the terms of The Model Code should apply.

2. Differences between principals

Differences between principals frequently arise and where they occur every effort should be made to obtain a quick resolution with the early involvement of management. Where payments have been made to wrong accounts, The Model Code strongly recommends that all parties involved, including those who are not counterparties in the trade, should co-operate to achieve a fair settlement.

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 direct with each other or between a bank and a broker.
As stated in the introduction, 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 from 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.

3. Differences with brokers and use of 'points'

The method by which a broker makes good an amount representing the difference for which a bank may justifiably 'stick' the broker has long been a contentious issue, particularly in the international foreign exchange markets. Whilst The Model Code does not favour payment of differences by the 'points' system, there are strict conditions under which it may be acceptable.

Where a broker quotes a firm or unqualified price in a particular market or instrument for a specified or market amount and is subsequently unable to substantiate the quote when a deal is proposed, the bank proposing the trade is fully entitled to 'hold' or 'stick' the broker to the price quoted. This practice, which should not be a regular occurrence, is sometimes referred to as 'stuffing' the broker. This effectively means that the broker must make good the difference or loss to the proposing bank between the price quoted and the price at which the business is concluded.

Where these differences arise, the following guidelines for compensation should apply:
(a) Differences should be routinely referred to senior management for resolution, thereby changing the dispute from an individual trader/broker issue to an inter-institutional issue. All compensation should take the form of a bank cheque or wire transfer in the name of the institution or adjustment to brokerage bills.
(b) All such transactions should be fully documented by each firm. It is bad practice to refuse a broker's cheque or reduction in the brokerage bill for the amount concerned and to insist on a name at the original price.

On the subject of the settlement of differences by points the Committee for Professionalism reiterates its views as follows:

- The Committee for Professionalism recognises that the worldwide foreign exchange markets function smoothly and efficiently with a minimum of official regulation and is of the opinion that it is in the best interests of all members of our profession to promote and support any market practices which continue this tradition. The CFP has concluded that it does not favour the practice of settlement of differences by points, but recognises that it can be an acceptable practice in those centres where it is clearly subject to proper systems and controls.

4. Compliance and complaints

It is important that all market participants understand that compliance with The Model Code is essential to maintain a disciplined market with high ethical standards. 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.

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.
Management should ensure that all complaints involving transactions are fairly and independently investigated, whenever practicable, 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:

(a) will examine the complaint;
(b) may consult the local ACI national association and, where justified;
(c) will bring the matter to the attention of the appropriate regulatory body.

5. Money laundering and terrorist financing

Criminals and terrorists target banks with sophisticated and often unorthodox schemes in order to access and exploit financial markets for the purposes of 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.

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:

- Placement or introducing illegal proceeds, often in the form of cash, into the financial system.
- Layering or separating the proceeds of criminal activity from their origins through layers of complex financial transactions.
- 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 is 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 also opened up opportunities for money laundering and terrorist financing by facilitating transactions by remote counterparties.

Firms must have clearly documented policies and procedures, and strong systems and controls, to avoid being exploited for money laundering or terrorist financing. Firms must also 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. Measures must include effective training for staff in the front, middle and back offices. Training should ensure that staff are aware of the serious nature of these activities and the obligations on them to promptly report any knowledge or suspicions, while not revealing their knowledge or suspicions to the suspected criminal or terrorist. They should be trained 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.

For this purpose, someone should be clearly designated to whom all staff have easy, direct and confidential access and who has similar access to 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). 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.

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.
A 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.

"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). "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.
Dealers, brokers and back office staff will also help to protect themselves and their firms against involvement or implication in money laundering and terrorist financing by always acting with integrity, and maintaining the highest level of ethical standards and professional conduct. This is the golden thread running through the Model Code. Dealers, brokers and back office staff should comply with the letter and the spirit of the Model Code. If in doubt, they should use commonsense.
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 Financial Action Task Force (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 FATF website is www1.oecd.org/fatf.

Other relevant international guidance has been issued by the Basel Committee on Banking Supervision, the International Organisation of Securities Commissions (IOSCO) and the Wolfsberg Group of Banks. This list is not exhaustive and there is also much valuable guidance issued by national bodies.

Chapter V

Authorisation, Documentation and Telephone Taping

1. Authorisation, responsibility for dealing activity
2. Terms and documentation
3. Qualifying and preliminary dealing procedures
4. Recording telephone conversations and electronic text messages
5. Dealing room security

1. Authorisation and responsibility for dealing activity

The process of appointment or authorisation of treasury dealers to trade has become an important and more formal function of control in recent years. 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. The practice sometimes seen in the market to deliver an authorization letter containing detailed restrictions on each individual's authority, thereby shifting the burden of the responsibilities of confirming the necessary authorization, is not a good practice. The initial burden of ensuring a proper authorization and communicating the clear and unequivocal proof of such authorization to their market counterparties rests with the party certifying such authorization.

Where the transaction involves a central counterparty ("CCP"), if the users are deemed to be agents of the CCP, such responsibility should rest with CCP and if the transaction between two users are formed and immediately novated or otherwise transferred to create transactions between CCP and the respective users, both CCP and the users should be responsible. CCP should cooperate with the users in a commercially reasonable manner.

Where there has been a change in the individual authorised to enter into a transaction on behalf of the firm, it is recognized 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.

Control of the activities of all personnel engaged in dealing (both dealers and support staff) in both banking and broking firms is the responsibility of the management of such organisations. Management should clearly set out, in writing, the authorisations and responsibilities within which dealing and support staff should operate.
These authorisations, 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) confirmation and settlement procedures;
(f) relationships with brokers/banks;
(g) other relevant guidance as considered appropriate.

It is the responsibility of Management to ensure that all employees are adequately trained and aware of their own and their firm's responsibilities.

2. Terms and documentation

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.

Legal documentation covering instruments and transactions should be completed and exchanged as soon as possible after a deal is done, 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 3.
When using such agreements, any proposed modifications or choices offered in the agreement must be clearly stated before dealing.
When trading any of the products mentioned in the appendix to this Code of Conduct, dealers and 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.
In more complex transactions like swaps, dealers should regard themselves as bound to deal at the point where the commercial terms of the transaction are agreed. Making swap transactions subject to agreement on documentation is considered bad practice. Every effort should be made to finalise documentation as quickly as possible.

3. Qualifying and preliminary dealing procedures

Where quoted prices are subject to any qualifying conditions, The Model Code insists that these should be stated immediately.

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.
These 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.
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.

4. Recording telephone conversations and electronic text messages

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 of whether staff members have been involved in inappropriate behaviour. The practice of taping 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 e-mail 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. 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 payment or 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.
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 (eg the first movement of funds) - may consider it prudent to retain tapes relevant to these transactions for longer periods. Nevertheless, as stressed in Chapter III (2), it is vital that all confirmations are checked immediately upon receipt so that discrepancies can be quickly discovered and corrected.
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 taping telephone conversations and recording electronic text messages should impose controls to ensure taping 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.

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.

5. Use of mobile devices for transacting business

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. The dangers lie in unauthorised trades 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.

Management should have a clear written policy regarding the use of these devices by trading, sales and settlement staff.

The policy guidelines should stipulate amongst other monitor and control measures:

- whether privately and/or company owned devices can be used inside the dealing room and back office to transact, advise or confirm transactions;
- whether privately and/or company owned devices be allowed inside the dealing room;
- terms, conditions and under which circumstances the use of such devices can be authorized by management;
- procedures to allow an end-to-end transaction audit trail, including where appropriate, call back or answer phone facilities and controls.

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.

6. Dealing room security

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 both for non-treasury staff and external visitors. Additional security measures covering information technology, systems and equipment may be in place specifically for the treasury department.

The Model Code encourages senior management to recognise the importance of strict security controls governing treasury personnel, access to the treasury area, dealing room equipment and systems.

Notwithstanding the various security and operational risk control related provisions in The Model Code, with particular reference to Chapters III, V and IX, management should be aware of the vulnerability of treasury department to disruptive action or even acts of terrorism and sabotage.

In this respect, management of institutions with active treasury departments should have strict security measures in place covering treasury personnel, dealing room equipment and access to the treasury department and dealing room in particular. Specific and stringent access controls should also cover treasury IT systems equipment and confidential information.

Access to the dealing room by both non-treasury personnel and visitors should be limited in terms of frequency and duration. Clearly enforceable procedures should be set out in writing specifying time constraints, strict security checks on any outside equipment introduced and essential management approvals.

All staff should be vigilant and immediately report to senior management any suspicious activities or unusual requests for access to or information on treasury business or systems.

Chapter VI

Brokers and Brokerage

1. The role of brokers and dealer/broker relationship
2. Commission/brokerage
3. Electronic broking
4. Passing of names by brokers
5. Name substitution/switching

1. The role of brokers and dealer / broker relationship

The Model Code defines the role of brokers in the OTC markets and strongly recommends active management involvement in monitoring dealer/broker relationships.

The role of brokers 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. Management should establish the terms under which brokerage service is to be rendered, agree that any aspect of the relationship can be reviewed by either party 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 staffs are aware of and in compliance with internal policies governing the trader/broker relationship.
Ultimately, the senior management at a trading institution is responsible for the choice of brokers.

Therefore, senior management should periodically monitor the patterns of broker usage and be alert to possible undue concentrations of business. Brokerage management 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.

2. Commission / brokerage

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. The Model Code states that brokerage negotiations should be carried out only by people with appropriate seniority and encourages the prompt payment of brokerage bills.

In countries where brokers' charges are freely negotiable, such charges should be agreed only by directors or senior management on each side and recorded in writing.
Any deviation from previously agreed brokerage arrangements should be expressly approved by both parties and clearly recorded in writing.
Brokers normally quote dealing prices excluding commission/ brokerage charges.
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.

3. Electronic broking

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 in the business (see below) 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 exchange, money and derivatives markets including brokers and electronic brokerage firms.

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 services.

The vendor's dealing rule book should stipulate clearly the procedure and responsibilities that apply in the event of:

(a) a communications breakdown at the point of or during the consummation of trades;
(b) off-market discrepancies;
(c) software inadequacies or limitations ('bugs').

The systemic risks in electronic broking provide a greater potential for off-market trades and dealers should exercise care with 'big figure' price inputting. As errors can easily arise, dealers are reminded that it is unethical to consummate trades at rates outside the current market prices. The practice on the part of market principals of inputting bids and offers well out of range of the current market spread, seeking profitable off-market deals by exploiting big figure decimal error in the confusion of sudden volatility is an abuse of the system and not good practice.
Similarly, the sudden temporary withdrawal of a specific credit limit or limits in a tactical manipulation to mislead the market is bad practice and strongly discouraged.
Management of banks should institute control measures to prevent unauthorised access to any electronic broking system and should ensure that dealers have a full comprehension of the systems involved. To this end, dealers should read and understand the relevant operational manuals.

4. Passing of names by brokers

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.

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. However, this will not always be possible. There will be times when one principal's name proves 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 principals 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) 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:

(a) when, in the case of short date deposits, he (the borrower) is not prepared to repay the deposit prior to advice of receipt of the funds from his correspondent bank;
(b) when he has no lending line for the placer of the funds and does not wish to be embarrassed by being unable to reciprocate;
(c) when the borrower is prohibited by management from entering into any transactions with the lending institutions.

Additionally, in the case of instruments such as CDs, where the seller may not be the same entity as the issuer, the broker shall first disclose the issuer'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.
The seller has the right to refuse the particular buyer so long as it is prepared to accept, at that time, sums up to the same amount and at the same price from an alternative acceptable name immediately shown to it by the broker.

5. Name substitution / switching by brokers

The practice of name switching/substitution is both acceptable and desirable provided the underlying conditions justify it and the switching transaction has been approved by individuals who have the appropriate authority.

In spot exchange, 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. In these circumstances, it is accepted market practice that brokers will attempt to substitute a third name to stand between the two original counterparties to clear the transaction.
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 and should be 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 policy guidelines.

Finally, a dealer must not seek or accept favours from the broker for switching names.

Chapter VII

Dealing Practice

1. Dealing at non-current rates and rollovers
2. Consummation of a deal
3. Dealing quotations, firmness, qualification and reference
4. Dealing with unidentified principals
5. Internet online dealing
6. Dealing reciprocity

1. Dealing at non-current rates and rollovers

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.

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, however, 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 express 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.
Cash flow implications should be taken into account in the pricing.
When setting the rates for the 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 quote for the sake of brevity and efficiency. This is done confidently, 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 a big figure or more away from the prevailing market rate. If, however, 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.

2. Consummation of a deal

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.

Dealers should regard themselves as bound to a deal once the price and any other key commercial terms have been agreed. However, holding 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, firms 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.
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 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 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 dealers 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 banks 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.

3. Dealing quotations, firmness, qualification and reference

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.

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.
When dealing in fast-moving markets (like spot forex or currency options) a dealer has to assume that a price given to a voice/traditional 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.

Since dealers have prime 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.
For their part, 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. A broker, if quoting on the basis of small amounts or particular names, should qualify the quotation accordingly.
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.
Dealers are expected to be committed to the bids and offers they propose through 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.
In the 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 a client or when such a principal has received the name of a client from a 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. Brokers and principals should work together to establish a range of institutions for whom the principal's rate is firm subject to credit.

4. Dealing with unidentified/unnamed principals

In recent years, the practice of concluding O.T.C. deals with principals who are unidentified/unnamed at the outset has been a cause for increasing concern, particularly in the areas of credit risk, "Know Your Customer", anti-money laundering and reputational risk.

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 front-running or the use of non-public information for the firm's own benefit.

The recent increase in the volume of O.T.C 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.

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. [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 central counterparty ("CCP") is involved and one or more of its members are in a similar position as the fund managers, above, CCP should ensure that this practice is adhered to by that user and cooperate with the bona fide request from other users to confirm the identity of the principal.

Management at financial institutions should have appropriate written policies in place to safeguard this 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.

5. Internet/online trading

Internet or online trading is a recent but rapidly growing phenomenon which could have a substantial effect on money, exchange and derivative dealing in the near future. Existing use of the internet for client trading in particular has already highlighted the capacity to open up treasury business to a much wider field of participants than has been possible through any other means of communication.

Although still in its embryonic stages, currency dealing through the internet has attracted the attention of a large number of international financial institutions. Most of these are actively developing the product either to enhance their commercial treasury business, which already uses this distribution method for its own clients, or to provide access through white labeling (which enables institutions to use another firm's technology and liquidity under their own name) or via a "give-up" type of arrangement, for clients of their clients.

These new methods of distribution may under certain circumstances necessitate the liquidity provider to add an additional layer of diligence to client transactions. Where internet trading facilities are established by a bank for a client, the conditions and controls should be comprehensively stated in the bank's rulebook and documentation. There should be appropriate security in place governing access, authentication and identification of personnel who are authorised to use the facility. The 'know your customer' and money laundering provisions set out in Chapter IV have particular relevance in this area and should be strictly adhered to.

Where internet trading facilities are established by a bank for a client, the conditions and controls should be comprehensively stated in the bank rulebook.

There should be appropriate security in place governing access, authentication and identification of personnel who are authorised to use the facility.

The 'know your customer' and money laundering provisions set out in Chapter IV have particular relevance in this area and should be strictly adhered to.

6. Dealing reciprocity

Bilateral reciprocal dealing relationships are common in the OTC markets, particularly foreign exchange, 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 a specific treasury product or products. Over time, informal understandings may develop, which can vary in scope, depth, spread, dependability and importance. 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 Model Code encourages the development of sound reciprocal dealing relationships between institutions. However, 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.

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.

However, 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.

In this respect dealers should bear in mind The Model Code provisions contained in Chapter IX (1) concerning honour, honesty and integrity in trading practices.

Chapter VIII

Dealing Practice for Specific Transactions

1. Deals using a ‘connected broker’
2. Assignments and transfers
3. Repos and stock lending

1. Deals using a 'connected broker'

The diversification in structure and activity of broking firms in recent years can result in broked 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.

Brokers should advise their clients of the names of any principals where there are shared management responsibilities or where an investment or shareholding exists.
With the increasing diversification of broking firms and groups, it is important that principals know with certainty the broking legal entity in any transaction.

2. Assignments and transfers

In the derivatives markets, assignments are a common occurrence. In order to take account of the credit and other implications of these transactions, The Model Code stipulates the correct practice and control procedures that must be adhered to.

Brokers and principals assigning 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.

3. Repos and stock lending

The structured nature of repos and stock lending necessitates full written agreement on underlying documentation before any deals are done.

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.
It is also recommended that legal opinion should be obtained on the enforceability of the contract.

Chapter IX

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 the Board of Directors or appropriately designated committee or designated management personnel.
- Senior management should be held fully accountable for risk management.

3. Organisational structure ensuring 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 also Chapter III).
- 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 a thoroughly professional management in all administrative processes

- Policies should be established that ensure the principle 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 work 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 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 cash flow 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 cash flow 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 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 Chapter II (4) on money laundering).

11. Clients should understand transaction (see also Chapter XI)

- 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 despatched 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.

Chapter X

Additional Guidelines for Dealing with Corporate/Commercial Clients

The recommendations and provisions contained in this code are generally concerned with the OTC wholesale foreign exchange, money and derivatives markets where the contract parties are generally banks or other financial institutions. The ‘principals’ in these ‘core’ markets are, for the most part, the treasury or money dealing departments of both domestic and international commercial and investment banks, served in some centres by a network of professional broking firms. Historically these markets would be regarded by many as the main wholesale ‘professional’ money, exchange and, more recently, derivatives markets.
However, in recent years, it has been quite common for large non-bank or corporate entities to develop comprehensive treasury dealing departments with experienced and sophisticated trading staff using the full range of modern risk transfer and arbitrage markets and products.
These corporate treasuries are no longer confined to covering trade or commercially related exchange and interest rate risk and frequently promote and justify substantial profit budgets for arbitraging and dealing in money as an end in itself, an activity traditionally reserved for the specialist market making financial institutions.

The line therefore between the banks and ‘non banks’ is no longer a professional/non professional demarcation.
Nevertheless, the vast majority of ‘corporate’, ‘commercial’ or ‘non-bank’ clients do not come into this category and the issues covered in this chapter concern the additional recommended best practice for treasury business transacted with clients who would not normally be considered to be wholesale market ‘principal’ participants.

General principles and practice

While the conduct and practice recommended in chapters I/X in this code generally apply to all OTC market participants, there are specific issues that arise in the bank/financial institutional (principal) – client/corporate relationship which are particularly relevant where a separate Corporate code does not exist. These include the convention of considering the ‘suitability’ of the client, particularly in respect of complex transactions (see no 3 below). This notion requires principals to satisfy themselves, as far as possible, that the client understands the transaction being proposed and its implications for his firm and that no obvious impediment to closing the transaction exists.

Special consideration should also be given to the following:

1. Authorisation

Both principal and client should exchange lists of the names of personnel authorised to deal, clearly stipulating in which instrument(s)/market(s) and amounts each individual is authorised to trade.
The existence of such a list should not necessarily negate a deal already done in good faith between the two parties.

2. Segregation of duty

The essential segregation of front and back office duties and reporting lines called for in Chapter III (1) is equally important for commercial clients who have an established dealing department or section. The management controls recommended in this connection should be implemented by both bank and client.

3. Complex product information

It is the duty of the principal to be vigilant and fair to the client/customer at all times and to be mindful of the client’s interests. In this respect, the principal should be prepared to provide the client with whatever information the client may request pertaining to a projected transaction, in particular to new or complex products, instruments or strategies and the risks they entail (see also Chapter II (6) – Confidentiality).

4. Confidentiality

Notwithstanding the provisions contained in Chapter II (6) of this code, neither principals nor clients should divulge to third parties the nature or conditions of transactions being negotiated, discussed or traded with each other. Where a client is in the process of negotiating a specific or specially designed or individually tailored product or strategy with its bank, the technical details of the business under negotiation should not be divulged to any third party.

5. Entertainment and gifts

Further to the provisions of Chapter II (2), principals are reminded that the excessive granting of entertainment and gifts by financial institutions to clients can compromise the client dealer's impartiality.

6. Historic exchange rates/FX rollovers

The swapping forward or prolongation of forward exchange contracts should be executed within the parameters clearly set out in Chapter VII (1), (Off Market Rates), using the existing spot rate for the reverse purchase or sale of the maturing deal thus ensuring the immediate realisation of maturing profits or losses. Any deviation from this practice should be agreed and fully documented by the senior management of both contract parties.

7. Legal documentation

For particular or complex transactions not covered by standard documentation, the principal and client should ensure in advance that they are in agreement on the terms of the legal documentation and conditions of the transactions prior to dealing. An additional support or safeguard policy that insists that full written agreement(s) and procedures should be in place before the second deal is transacted would be considered good practice.

8. Margin account/collateralised trading

Margin account dealing facilities for clients should be fully documented and signed in advance of any trades. Close out procedure in the case of net negative equity of the client should be clearly stipulated in the written agreement. There should be both a regular mark-to-market and reconciliation of all positions.

9. Know your customer

The 'know your customer' provisions stipulated in Chapter IV (5) on 'money laundering' should be carefully observed.

10. Internet/online trading

Where internet trading facilities are established the recommendations and controls set out in Chapter VII (5) should be enforced.

Chapter XI

Market 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 (because there is no meeting of minds etc.). 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 is a non-exhaustive example of market jargon, and their commonly accepted meanings and usages, to help avoid such problem. However, the more complex or novel the product becomes, and in faster and volatile markets, so the need for the 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 Chapter V (2 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 there under will supersede all prior oral communications. The Confirmation procedures set forth in Chapter III 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 3 contains product specific definitions for various financial instruments.

Traders, as well as middle office and back office personnel, should familiarize themselves with the terms relevant to their lines of businesses. 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.

** This chapter has been updated February 2007*

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 USD10 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.

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.

**See the section on Terminology below.*

Interest rate swaps

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 misunderstanding between counterparties or brokers.

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 percent 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.

Part I

Terminology relating to quotations and transactions in the foreign exchange (FX) and money markets (MM).

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.

*Denotes terminology used only in Foreign Exchange.
** See the section on Forward Exchange in the introduction to this chapter on page 58.

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.

Given

A deal has been proposed and agreed at the bid price quoted.

*Denotes terminology used only in foreign exchange.
** See the section on Forward Exchange in the introduction to this chapter on page 58.

Paid or Taken

A deal has been proposed and agreed at the offered price quoted.

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’.

Off

Cancellation of existing bids or offers.

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 fwd base currency**.
MM
The dealer will borrow.

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.

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.

Either way, Choice, Your choice

Same price for both bid and offer.

Done

Deal agreed as proposed.

Firm, Firm price

The rate quoted is valid and can be traded on.

For indication, Indication, For information. For level

Indicative quotation only and should be validated/confirmed before trades are proposed.

Checking:

The availability of a credit limit is being checked before the deal can be agreed.

* Denotes terminology used only in Foreign Exchange.
** See the section on Forward Exchange in the introduction to this chapter on page 58.

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.

My risk

An acknowledgement by the dealer receiving the quote that the rate may have to be requoted at the receiver's risk

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)

Basis points

One-hundredth of 1 per cent in an interest rate.

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).

Discount

The 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.

Par

The spot and forward exchange rates for a specific period are the same.

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.

*Denotes terminology used only in Foreign Exchange.
** See the section on Forward Exchange in the introduction to this chapter on page 58.

Part II

Terminology relating to dealing periods, delivery dates, and maturity dates in the FX, MM and derivatives markets

Spot

Generally, two banking days from 'today'. Exceptions can include the Canadian Dollar (CAD) and the Hong Kong Dollar (HKD).

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.

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.

Short dates

Maturity dates of less than one month.

Overnight O / N

Value today against tomorrow (or next business day).

Tom-next T / N

Value tomorrow (next business day) against the following business day (spot).

Spot-next S / N

Value spot against the following business day.

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.

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.

Spot against end month, End of the month

Value spot against the last business day of the month.

Turn of the year

Value last business day of the year against the first business day of the next year.

Forward-forward, Fwd / fwd

Value any forward date against any other forward date.
Can apply to both money market and FX instruments.

Part III

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 cash flow (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 instrike point when the spot rate moves towards ‘out-of-the-money’.
Reverse knock-in option (or ‘kick-in-option’) reaches the instrike 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 outstrike.

Reverse knock-out option (or ‘kick-out-option’) reaches the outstrike 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 touchstrike or 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 touchstrike 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 the 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.

Part IV

Terminology relating to interest rate derivative products

1. 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.

2. 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.

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.

3. Interest rate options

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.

Part V

Miscellaneous Terminology

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 FRAs) 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 57 banks of which 47 are from EU countries.

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 16 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.

Non deliverable forwards (NDF's)

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.

Appendix 1

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

1. Expert determination service
2. Request
3. Answer
4. Supplements
5. Acknowledgements and rejections
6. Committee for Professionalism (CFP) procedure
7. Decision
8. Deposit and publication of the decision
9. Costs of the service
10. General
11. Amendment of the rules
12. Disclaimer
13. Form of Request Letter

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 2

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; and

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 Expert Determination Service is made available by the Committee for Professionalism of ACI ('CFP').

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 with 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.

ACI may however in 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

2.2.6. 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 chairman or acting chairman 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 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 chairman 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 chairman 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:

7.1.1. the initiator; and
7.1.2. 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 10 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 request 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) chairman 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 chairman 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, organization 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 different conclusion or result on similar disputes if such difference exist. The Determinations may not be made with any specific laws, regulations, rules or other requirements in mind.

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 organization 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.

Request Form

[ ] (the "Requester"), a [ ] organized 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 the Appendix 1 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 authorize this Request.

2. The Requester agrees to provide to CFP all information reasonably requested by CFP for the purpose of the Services 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 Services 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 Services 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 Services, 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 willful 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 securityholders 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 2

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
- moneymarket dealing
- interest rate options
- forward rate agreements
- interest rate and currency swaps
- bullion and precious metals.

Appendix 3

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.

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.

Interest rate products:

2000 Definitions (as supplemented) by ISDA

Bond related products:

ISDA 1997 Government Bond Option Definitions.

TBMA/ISMA Global Master Repurchase Agreement (plus Annexes)

PSA/ISMA Global Master Repurchase Agreement (plus Annexes)

Overseas Securities Lending Agreement

Equity related products:

2002 Equity Derivatives Definitions by ISDA
2006 Fund Derivatives Definitions by ISDA

Credit Derivatives:

2003 Credit Derivatives Definitions (as supplemented) by ISDA

Commodities (including energy, weather and emission) related products:

2005 ISDA Commodity Definitions (plus Annexes)
1997 Bullion Definitions by ISDA

Collateralization:

ISDA Collateral Definitions

Appendix 4

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) December 1998.

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

Luxembourg: Le Controle des activités des Cambistes (commissariat au contrale 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 1998).

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

UK: The London Code of Conduct. FSA (June 1999).

USA: Guidelines for Foreign Exchange Trading Activities 1996.

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 be 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 5

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 6

Main SWIFT Currency Codes

Americas		***Europe***	
Argentina	ARS	Hungary	HUF
Bahamas	BSD	Iceland	ISK
Canada	CAD	Ireland	EUR
Mexico	MXN	Israel	ILS
USA	USD	Italy	EUR
		Latvia	LVL
Asia Pacific		Lithuania	LTL
Australia	AUD	Luxembourg	EUR
China	CNY	Macedonia	MKD
Hong Kong	HKD	Malta	EUR
India	INR	Monaco	EUR
Indonesia	IDR	Netherlands	EUR
Japan	JPY	Norway	NOK
Korea (Republic of)	KRW	Poland	PLN
Macau	MOP	Portugal	EUR
Malaysia	MYR	Romania	RON
Mongolia	MNT	Russia	RUB
New Zealand	NZD	Serbia	RSD
Pakistan	PKR	Slovakia	EUR
Philippines	PHP	Slovenia	EUR
Singapore	SGD	Spain	EUR
Sri Lanka	LKR	Sweden	SEK
Thailand	THB	Switzerland	CHF
		Turkey	TRY
Europe		Ukraine	UAH
Albania	ALL	United Kingdom	GBP
Austria	EUR		
Belgium	EUR	***Middle East and Africa***	
Bulgaria	BGN	Bahrain	BHD
Channel Islands	GBP	Egypt	EGP
Croatia	HRK	Jordan	JOD
Cyprus	EUR	Kenya	KES
Czech Republic	CZK	Kuwait	KWD
Denmark	DKK	Lebanon	LBP
Estonia	EEK	Mauritius	MUR
Finland	EUR	Nigeria	NGN
France	EUR	South Africa	ZAR
Georgia	GEL	Tanzania	TZS
Germany	EUR	Tunisia	TND
Greece	EUR	United Arab Emirates	AED