



# **ACI FX Global Code Certificate**

## **Syllabus**

**Effective 7 March 2019**

### **Introduction**

The ACI FX Global Code Certificate is designed to provide understanding of the best market practices, and the principles of good market practice in Foreign Exchange markets.

The FX Global Code has been developed to provide a common set of guidelines to promote the integrity and effective functioning of the wholesale foreign exchange market (FX Market).

This Certificate will enable participants to have both a thorough understanding of the principles as well as their application, to enable them to understand the expectations on them to promote integrity and effective functioning of the FX Market globally.

This programme is designed for the following groups:

- Financial Market Participants across buy side, sell side and intermediary institutions as well as regulators and central banks
- Middle office and operations personnel
- Compliance and risk officers

The ACI FX Global Code Certificate is also supported by continuous learning and proof of adherence through the ACI ELAC portal.

In addition to the topics outlined below, candidates will be expected to be up-to-date with the latest events and changes in the markets.

### **Overall Objective**

For candidates to have a thorough knowledge of the provisions of the FX Global Code and best market practices, with emphasis on application of high standards of integrity, conduct and professionalism, as well as the monitoring and control mechanisms to be introduced to protect individuals and their institutions from undue risks and resultant losses.

## **LEARNING OBJECTIVES:**

- Know: Candidates should be able to recall what they have learned
- Understand: Candidates should be able to demonstrate comprehension on what they have learned
- Apply: Candidates should be able to use what they have learned to achieve an accurate result
- Analyse: Candidates should be able to review content and make an informed decision and draw conclusions
- Evaluate: Candidates should be able to extract meaning from what they have learned

## **1. Introduction to the FX Global Code**

At the end of this section, candidates should:

- Understand what the FX Global Code is and how it was developed
- Know and understand:
  - The six leading principles of the FX Global Code
  - To whom the FX Global Code applies
  - What type of Market Participants are impacted by the FX Global Code
  - What is the 'Statement of Commitment'

## **2. Ethics**

At the end of this section, candidates should understand what is expected of them to exercise judgement to act ethically and professionally.

- Understand Principle 1 (Striving for highest ethical standards):
  - Know the core expectations for ethical behaviour
  - Understand who is responsible for maintaining these standards of behaviour
- Understand Principle 2 (Strive for the highest professional standards):
  - Understand what is required to conduct themselves to the highest standards of professionalism
- Understand Principle 3 (Conflict of interest):
  - Understand potential areas where conflicts of interest may arise
  - Know what appropriate arrangements can be made to eliminate conflicts of interest
  - Understand the importance of the disclosure of conflicts of interest

### 3. Governance

At the end of this section, candidates should: Understand the appropriate governance structures that should be in place to promote and support the principles of the FX Global Code.

- Understand Principle 4 (Oversight and supervision):
  - Understand how to provide business strategy and financial soundness to supervise and oversee Market Participants' conduct
- Understand Principle 5 (A culture of ethical and professional conduct):
  - Know and understand different types of internal and external methods of conduct supervision
- Understand Principle 6 (Remuneration structures):
  - Understand why different mechanisms of promotion and remuneration are used
  - Know the factors to be considered to ensure ethical and professional conduct
- Understand Principle 7 (Policies and procedures for improper behaviour):
  - Understand the importance of effective mechanisms to investigate and respond to reports of inappropriate behaviour
  - Know where and how to report concerns of inappropriate behaviour
  - Understand the correct procedure for investigating reports of inappropriate behaviour
  - Understand the correct procedures for internal escalation and external reporting

### 4. Execution

At the end of this section, candidates should: Understand what is expected to execute and negotiate transactions in a fair and transparent manner.

- Understand Principle 8 (Roles and responsibilities):
  - Understand the difference between Agent and Principal
- Understand Principle 9 (Order management):
  - Understand the role and conduct expected of order handlers
  - Understand what Clients should be made aware of when handling orders
  - Understand conduct expectations of Principal role in order handling
  - Understand conduct expectations of Agent role in order handling
  - Understand expectations of an E-Trading Platform
  - Understand conduct expectations of Interdealer Brokers
  - Understand expectations of Clients
- Understand Principle 10 (Different types of orders):
  - Understand how to handle Stop Loss Orders
  - Understand how to fill a Client order correctly
  - Understand the expected behaviour when only a partial fill has been completed on an order
  - Understand how to handle a Client order to transact at a fixing rate
  - Understand the impact of handling orders that may have a sizeable impact on the market

- Understand Principle 11 (Pre-Hedging Client orders):
  - Evaluate why Pre-Hedging is used by Market Participants
  - Know the acceptable manner in which Pre-Hedging may be conducted to prevent market disruption
  - Understand the expectations in communicating Pre-Hedging practices to Clients
- Understand Principle 12 (Price discovery):
  - Understand what is not acceptable behaviour when engaging in the market
  - Understand the role of quotations
  - Understand appropriate considerations of market conditions and impact
  - Understand the right of a Market Participant to decline a transaction
- Understand Principle 13 (Bilateral understanding):
  - Understand how to confirm market reference price parameters and third-party measures
- Understand Principle 14 (Mark Up):
  - Understand the definition of Mark Up
  - Know how to apply transparency when conducting Client business
  - Know how to apply fair and appropriate Mark Up to Clients
  - Know how Mark Up practices should be monitored
- Understand Principle 15 (Trade discrepancies):
  - Understand the various participant roles to mitigate risks associated with trade discrepancies
- Understand Principle 16 (Name switching):
  - Understand when name switching is appropriate
  - Know what is expected when agreeing to undertake name switching
- Understand Principle 17 (Last look):
  - Understand the definition of last look
  - Understand the transparency requirements and what disclosures are expected when Market Participants use last look practices
  - Understand how Market Participants may handle Clients' trade requests in the context of last look
- Understand Principle 18 (Algorithmic trading and aggregation):
  - Understand what algorithmic trading is
  - Understand what aggregated trading is
  - Understand what disclosures are expected when conducting either algorithmic or aggregated trading
  - Understand ongoing expectations on algorithmic and aggregator providers by their Clients

## 5. Information Sharing

At the end of this section, candidates should: Understand what is acceptable conduct when using any form of communication in the FX Market.

- Understand Principle 19 (Confidential Information):
  - Understand and identify different types of Confidential Information
  - Know how to limit access to and protect Confidential Information
- Understand Principle 20 (Disclosure of Confidential Information):
  - Know under which circumstances it is acceptable to disclose Confidential Information

- Understand Principle 21 (Communication):
  - Understand why communication is important to the reputation of the firm and industry
  - Understand how to articulate the source of information being communicated
  - Understand expectations when sharing opinions
  - Understand why it is important not to share false or misleading information
- Understand Principle 22 (Market Colour):
  - Understand what Market Colour is
  - Understand when it is appropriate to share Market Colour
  - Understand how to most ethically communicate Market Colour
- Understand Principle 23 (Channels of communication):
  - Understand what are acceptable modes of communication
  - Understand expectations to trace, audit, record and trace communication

## 6. Risk Management & Compliance

At the end of this section, candidates should: Understand frameworks of risk management and compliance that assist in the prevention of risks associated with engagement in the FX Market.

- Understand Principle 24 (Frameworks):
  - Know the common components of the risk management and compliance frameworks
- Understand Principle 25 (Compliance framework):
  - Understand the risk types that risk managers are expected to identify
- Understand Principle 26 (Risk management framework):
  - Understand the difference between risk limits and monitoring mechanisms
  - Understand different types of risk management frameworks used in the FX Market
- Understand Principle 27 (Risks related to FX Trading):
  - Understand why monitoring is important in risk management
  - Understand the importance of regular reporting of positions and trading activity
  - Understand the appropriate control measures to ensure proper order and quote submissions
  - Understand the importance of reconciliations and reporting of breaches
  - Understand the risks associated with limited sources of liquidity
- Understand Principle 28 (Review of effectiveness of risk and compliance frameworks):
  - Understand some methods used to effectively review the risk and compliance functions
- Understand Principle 29 (Counterparty Credit Risk):
  - Understand what counterparty credit risk is
  - Understand options to manage counterparty risks
  - Understand record-keeping expectations to mitigate counterparty risks

- Understand Principle 30 (Market Risk management):
  - Understand what stress testing is
  - Understand the effect of liquidity conditions on market risk
- Understand Principle 31 (Mark-to-market):
  - Understand what is meant by mark-to-market
  - Understand acceptable external resources to obtain prices to calculate mark-to-market valuations
  - Understand the importance of agreed market opening and closing hours in efficient referencing for mark-to-market evaluation prices
  - Understand how to source alternative acceptable pricing when reference pricing is not available
- Understand Principle 32 (Operational Risk):
  - Understand what operational risk is
  - Understand operational risks when conducting cross-border trading
  - Understand operational risks related to infrastructure
- Understand Principle 33 (Business Continuity Plan):
  - Understand why Business Continuity Plans are important
  - Understand some types of Business Continuity Plans
- Understand Principle 34 (Technology Risks):
  - Understand risks associated with reliance on technology and systems
  - Understand processes that could be used to mitigate these risks
    - New system integration
    - E-Trading Platforms
    - Third-party electronic venues
- Understand Principle 35 (Settlement Risk):
  - Understand what settlement is
  - Understand some options to mitigate Settlement Risk
- Understand principle 36 (Compliance Risk):
  - Understand how record retention affects Compliance Risk
  - Understand what types of records are expected to be stored for future access
- Understand Principle 37 (KYC):
  - Understand why Know-Your-Customer (KYC) is important
  - Understand some processes and procedures applicable to measure KYC
- Understand Principle 38 (Governance and Controls):
  - Understand why it is important to have adequate governance and controls to limit trading access
  - Understand some acceptable forms of monitoring practices used in the FX Market
- Understand Principle 39 (Records of transactions):
  - Understand what type of records need to be kept in relation to transactions
  - Understand how these records could be used post-conclusion of the transaction
- Understand Principle 40 (Legal Risk):
  - Understand the difference between Applicable Law and standard terms and conditions
  - Understand how to deal with legal changes proposed during negotiation of deals

- Understand Principle 41 (Prime Broking):
  - Understand what types of risk management are expected from a Prime Broker
  - Understand why real-time oversight is important for a Prime Broker
  - Understand what inclusions in Prime Broker's policies are important to smooth market operations

## 7. Confirmation and Settlement

At the end of this section, candidates should: Understand why post trade processes are important to the smooth, predictable and timely settlement of transactions.

- Understand Principle 42 (Operating practice consistency):
  - Understand why it is important that there are overarching processes to ensure legal, operating, credit and conduct risks are all aligned
- Understand Principle 43 (Normal and peak conditions):
  - Understand the basic expectations for end-to-end processing capacity in normal and peak market conditions
  - Understand the need to ensure extreme changes can be responded to in a timely manner
- Understand Principle 44 (Transmission of trade data):
  - Understand what straight-through transmission of trade data is
  - Understand what measures to take in the case of a breakdown in the transmission
- Understand Principle 45 (Novations, amendments and cancellations):
  - Understand the importance of reporting these trades
  - Understand the importance of segregation of duties to facilitate these types of transactions
- Understand Principle 46 (Confirmation):
  - Understand what types of confirmation mechanisms are acceptable for transactions in the FX Market
  - Know how confirmations should be transmitted
  - Understand the risks associated with open-source communications and information security
  - Understand the expectations to conduct efficient trading confirmation via bilaterally matched trades over electronic dealing systems
- Understand Principle 47 (Block transactions):
  - Understand the processes to review and affirm block transactions
  - Understand how to correctly allocate counterparties to block transactions
- Understand Principle 48 (Discrepancies):
  - Understand how to identify discrepancies and deal with these as quickly as possible
  - Understand when it is appropriate to escalate these discrepancies and the use of these records to evaluate operational risks
- Understand Principle 49 (Processes specific to each FX product):
  - Understand the obligation of operations to establish policies that include procedures to deal with specific confirmation and settlement requirements across all FX products traded in their institution
- Understand Principle 50 (Settlement Risk):
  - Understand why methods of quantifying FX Settlement Risk are important
  - Understand the appropriate use of automated netting systems
  - Understand bilateral netting arrangements that should be in place

- Understand Principle 51 (SSIs):
  - Understand the meaning of Standard Settlement Instructions
  - Understand the responsibilities for entering, authenticating and maintaining SSIs
  - Understand how to set up and maintain SSI data
  - Understand how settlement is conducted in respect to SSI instructions
  - Understand why and how alternate settlement instructions are used
- Understand Principle 52 (Direct Payment):
  - Understand the risk reduction brought by Direct Payments
  - Understand the importance of clearly formulated policies for the use of Third-Party Payment and their correspondent risk assessments
  - Understand why arrangements for Third-Party Payment need to be fully agreed and documented prior to trading
- Understand Principle 53 (Funding requirements):
  - Understand the management of funding requirements expected over nostro accounts for each tenor
  - Understand how time zones could affect efficient funding management of nostro accounts across global banks
  - Understand why bilateral agreements need to be in place for cancellations and amendments of trades
- Understand Principle 54 (Account reconciliation):
  - Understand the importance of timely reconciliations across expected and actual cash flows
  - Understand the benefits of having automated nostro account reconciliations
  - Understand how to resolve disputes related to unreconciled trades.
- Understand Principle 55 (Settlement discrepancies and compensation claims):
  - Understand why procedures are necessary to detect settlement discrepancies
  - Understand why policies for compensation costs related to late payments need to be clearly and transparently communicated
  - Understand why escalation policies are important to rectify and update Settlement Risk in the case of settlement discrepancies



## EXAMINATION PROCEDURE

Format: The examination lasts 1 hour and consists of 40 multiple-choice questions.

The overall pass level is 75% (30 correct answers).

	<b>Topic Basket</b>	<b>Number of questions</b>
<b>1</b>	Introduction	2
<b>2</b>	Ethics (principles 1-3)	2
<b>3</b>	Governance (principles 4-7)	6
<b>4</b>	Execution (principles 8-18)	8
<b>5</b>	Information Sharing (principles 19-23)	6
<b>6</b>	Risk Management & Compliance (principles 24-41)	8
<b>7</b>	Confirmation & Settlement (principles 42-55)	8
	<b>Total</b>	<b>40</b>

## GRADING

Pass 75% - 84.99%

Merit 85% - 94.99%

Distinction 95% and above

## READING LIST

- The **FX Global Code** is available at: [www.globalfx.org/docs/fx\\_global.pdf](http://www.globalfx.org/docs/fx_global.pdf)