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News release

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Change to the Non-Investment Products Code in Relation to Undisclosed Principal Trading

The Foreign Exchange Joint Standing Committee (FX JSC), for which the Bank of England provides a Chair and Secretariat, today announces a change to the Non-Investment Products (NIPs) Code affecting the wholesale foreign exchange market in the UK. The change concerns undisclosed (or unnamed) principal trading, which typically occurs when a fund manager deals with a market counterparty but does not disclose full details of the client (i.e. the principal) for whom it is dealing, because the client wishes to preserve anonymity in the market. Financial institutions trading with undisclosed principals are potentially unable to assess their credit exposures and legal risks.

The Code now states that where clients wish to preserve anonymity in the foreign exchange market, fund managers should disclose the identity of the underlying client to the credit, compliance, or legal functions of their counterparty. However that information should not be conveyed to the counterparty's trading area. Financial institutions will need to have systems and controls in place to ensure that they can protect this confidential client information. This change has been formulated after consultation with representatives from banks and fund managers, including the Investment Management Association and the British Bankers Association.

In order to give institutions sufficient time to make the necessary changes to legal agreements and IT systems, there will be a grace period of one year before this change takes effect.

The Chairman of the FX JSC, Paul Fisher, head of the Foreign Exchange Division at the Bank of England, commented:

"This is a welcome change to trading practices that resolves a long standing issue of contention in the foreign exchange market. On behalf of the Foreign Exchange Joint Standing Committee, I am extremely grateful to the representatives of banks and fund managers who have led the development of this change to the Non-Investment Products Code."

Gay Huey Evans, Director of the Markets and Exchanges Division of the Financial Services Authority commented:

"The FSA welcomes the change to the NIPs Code in respect of undisclosed principal trading. This market-based initiative to change the Code should bring a greater degree of certainty to market participants. Failure to observe the NIPs code may raise issues as to a firm's integrity and or competence"

In conjunction with the change to the Non-Investment Products Code, the ACI (the Financial Markets Association) have changed their Model Code - a similar code of good market practice with regards to undisclosed trading. Stuart Norris, a member of the ACI's Committee for Professionalism, which is responsible for maintaining the Model Code, commented:
"Market participants need to ensure that they have the correct procedures and controls in place to identify their counterparties and the source of funds in each transaction. ACI has confidence that market participants will adopt the changes to market best practice, that have been made to this chapter of The Model Code, in a timely fashion."

More information on the change to The Model Code may be found at:
www.aciforex.com/mktpractice/model_code_updates.htm

Statements of support for this change have been received from a number of trade associations in the United Kingdom; from many Central Banks; and from Market Practice committees in other centres, such as the New York Foreign Exchange Committee.

The FX JSC has today published an open letter to market participants in the UK, explaining the change and asking them to observe the revised Code in due course. The letter can be downloaded from www.bankofengland.co.uk/markets/forex/fxjsc.

Notes to Editors

1. The Non-Investment Products Code is a code of market conduct for the sterling, foreign exchange and bullion wholesale deposit markets, and the spot and forward foreign exchange and bullion markets. It can be downloaded from: http://www.bankofengland.co.uk/markets/forex/fxjsc/nipscode.pdf. The FX JSC has responsibility for the maintenance of the code with respect to foreign exchange, although the other committees that endorse the NIPs Code have been consulted with regard to this change. The Money Market Liaison Group (MMLG) and the London Bullion Market Association (LBMA) co-ordinate the NIPs Code as it affects their relevant markets, jointly with FX JSC. The Association of Corporate Treasurers (ACT), the British Bankers Association (BBA), the Building Societies Association (BSA), the Chartered Institute of Public Finance and Accountancy (CIPFA), the London Investment Banking Association (LIBA), and the Wholesale Markets Brokers' Association (WMBA) also endorse the code.

2. The Foreign Exchange Joint Standing Committee (FX JSC) was established in 1973, as a forum for banks and brokers to discuss broad market issues, under the Chairmanship of the Bank of England. There are similar committees in other international foreign exchange centres, notably the New York Foreign Exchange Committee, which is supported by the New York Federal Reserve.
3. Undisclosed (unnamed) trading does not occur in continental Europe (including Switzerland), because the codified nature of their legal systems prevents trading when the counterparty is unknown and thus the Fund Manager would become the principal to the deal if they did not disclose.
4. The commonly accepted term in the London foreign exchange market is 'undisclosed' trading. In the United States this is termed 'unnamed' trading.
5. ACI - the Financial Markets Association - is a trade association for international financial markets. The ACI Model Code is an international code of good market conduct, which has been adopted, either in full, or in part, in sixteen countries. For more information see www.aciforex.com/index.html.
6. The New York Foreign Exchange Committee has sent an open letter to market participants in the United States to discourage the practice of unnamed principal trading in New York. They have also written an open letter to the FX JSC expressing their support for the change in London. The text of the New York letter can be downloaded from: www.newyorkfed.org/fxc/2002/fxc1106.pdf.