

RESPOSIBILITY FOR DEALING ACTIVITIES

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History and Aims

In May 2000, the Committee for Professionalism of the ACI presented the new **Model Code** aiming to establish a world-wide code of conduct in the foreign exchange and money markets. The Model Code is based on the latest version of the ACI Code of Conduct and strives to embrace all main provisions of the recognized local Codes of Conduct. The following Codes of Conduct were considered:

- ACI Code of Conduct (revised 1998)
- The Guidelines for Foreign Exchange Trading Activities (1995)
- The London Code of Conduct (revised by the FSA in 1999)
- The French Code of Conduct (1999)
- The Singapore Guide to Conduct and Market Practices for Treasury Activity (revised 1998)
- The Code of Conduct of the Tokyo Foreign Exchange Market Committee (1998)

Scope

The Model Code covers the following OTC and off-balance-sheet instruments:

- FX Spot and forward
- FX – Options
- Money market deals
- Interest rate options
- FRAs
- Interest rate and Cross Currency Swaps
- Gold and precious metals

Arbitration procedures

The CFP is always ready to assist in resolving disputes by giving impartial advice to the parties concerned, if asked to do so. In order to facilitate dispute resolution, the Model Code established „Rules for Expert Determination Service“..

Structure

The Model Code consists of 11 chapters that deal systematically deal with all trading-related matters and market terminology.

RESPONSIBILITY FOR DEALING ACTIVITIES

1. Business Hours

After hours / 24 hours and off premises dealing

Deals transacted after normal hours or from off premise 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 an unofficial close for each trading day against which end of day positions can be monitored or revalued, thus avoiding problems with determining intra-day and overnight limits.

Management should also list the names of the dealers authorized to deal off premises or after hours transactions and stipulate the procedure for the prompt reporting and recording thereof. Where answerphone equipment is used for instant reporting and recording, it should be installed and located in such a way that reported transactions could not subsequently be erased without senior management approval.

The use of mobile phones from within the dealing room, except when used in an emergency, is not considered good practice.

Market opening and closing

Trades, whether direct or via a broker, transacted prior to 5:00 AM Sydney time, 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 recognized closing time for the currency markets is 5:00 PM Friday New York time all year round.

New bank holidays / special holidays / market disruption

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 in the future, the following procedure should be adopted for adjusting the value date on outstanding foreign exchange transactions maturing on that date:

- The new value date will be the first common business day (for both currencies of the contract) following the original value date except where a bank holiday is declared on the last business day of a month, in which case the new value date will be the first common business day (for both currencies of the contract) prior to month end (ultimo).
- Value dates will not be split
- There will be no adjustment of the exchange rate on outstanding contracts

Stop-loss orders

The terms under which such orders are accepted, should be explicitly identified and agreed between the parties concerned, specifying any time validity or constraints, and be within any management criteria on such orders. Any dealer handling such an order must have adequate lines of communication with the counterparty for use in the event of an extreme price/rate movement or other unusual situation.

In accepting a stop-loss/profit order, an institution assumes an obligation to make every reasonable effort to execute the order quickly at the established price. However, the specified rate order does not necessarily provide a fixed-price guarantee to the counterparty.

When a dispute arises between institutions as whether an order should have been executed, brokers can be used as information source only since a broking company represents only a trading range seen from within the institution which may not be indicative of the entire market range. Consequently, such information, as any other source, should be treated with discretion and essential professional caution.

Position parking

Management should not allow the parking of deals or positions with a counterparty and with the understanding to repatriate the dealing position at a given moment and at historical rates. Position parking can either lead to a distorted risk position or be abused for tax avoiding activities.

2. Personal Conduct Issues

Drugs and abused substances

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

Entertainment and gifts

Neither management nor employees should offer inducements to conduct business, or solicit them from the personnel of other institutions. However, it is recognized 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:

- monitor the form, frequency and cost of entertainment/gifts that the dealers receive
- have a clearly articulated policy towards the giving/receipt thereof
- establish procedures for dealing with gifts judged to be excessive but which cannot be declined without causing offence
- ensure the transparency of all entertainments received or provided

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

Gambling / betting between market participants

Gambling or betting amongst market participants has obvious dangers and should be strongly discouraged. Where it is allowed the management should have a clearly defined written policy on the control of this activity.

Money laundering / know your counterparty

All banks are reminded of the need to "know their customer" and to take all necessary steps to satisfy themselves that their transactions are not used to facilitate money laundering. As part of the international effort to combat such activities, and in particular, drugs related laundering, the Central Bank governors of the G10 countries endorsed, in November 1988, a statement of best practice entitled "The Basle Statement of Principles". The G-7 in July 1989 promoted the creation of the Financial Action Task Force (FATF). Firms should adopt appropriate procedures consistent with this G-10 governors statement and the FATF recommendations and also familiarize themselves with their legal responsibilities in this matter. Only senior management should decide whether to undertake business with institutions dealing on behalf of clients on a discretionary management basis.

Dealers should be aware of any suspicious transactions and should report any such to the compliance officer or the appointed officer who is charged with responsibility for money laundering issues. Also brokers should be aware of money laundering issues and be vigilant at all times where suspicious transactions are concerned.

Fraud

Attempts at fraud occur almost daily and many are meticulously planned. Great vigilance is required by all staff, particularly so when calls are received on an ordinary telephone line. 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 before paying away funds in favor of a third party. In the event of any suspicious circumstances staff must notify management without delay.

Dealing for personal account

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



The management should establish guidelines concerning:

- Personal investments by traders
- Investments of traders on behalf of the trader's family, other members of personnel and management
- Instruments and products closely related to the ones in which the trader deals for the institution, avoiding conflict of interests
- Full disclosure and transparency of trades for personal account, particularly where day trading for personal account is allowed. This should ensure that the trader gives full attention to the institution's business.

Traders should recognize that they too have a responsibility to identify and avoid conflicts of interest.

Confidentiality

Confidentiality is essential for the preservation of a reputable and efficient market place. Dealers and brokers share equal 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 arranged except to or with the counterparties involved. Care should be taken over the use of open loud-speakers to ensure that no breaches of confidentiality occur. Dealers and brokers should also exercise great care if confidential issues are discussed in the public places where conversations can be overheard.

Individual dealers or brokers should not visit each others 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 outside their own offices. 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 not, in any way, pressure a broker by inducement, threat or promise, for information which would be improper for him to divulge. Pressure includes any statement to the effect of , or which could be taken as implying, that a failure to co-operate would lead to a reduction in business.



Dealers should resist any 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 proper documented procedure.

Misinformation and rumors

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.

3. Back Office, Payments and Confirmations

Back office location and segregation of duties / reporting

The organizational structure of market participants 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 a physical segregation of back and front office is a matter for the management to decide in the light of essential controls and regulatory requirements. If international banks want to centralize all back office operations in the same center (usually near the head office) the approval of the regulatory authorities in the centers involved is required.

The incentive and compensation plans for back and middle office personnel should be independent from the financial performance of the traders.

Written confirmations

The issue and checking of confirmations is a back office responsibility which should be carried out independently from those who initiate deals. Confirmations must be sent out as quickly as possible (preferable by electronic means) after a deal has been done and should be addressed to the back office or settlement department of the counterparty bank. 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. As a minimum, however, all confirmations should include the following information:

- Date of transaction
- By which means effected (Broker, phone, telex, dealing system, etc.)
- Name and Location of Counterparty
- Rate, Amount and Currency
- Type and Side of Deal
- Value Date, Maturity Date and all other relevant dates (e.g. Exercise Date)

- Standard Terms/Conditions applicable (e.g. FRABBA, BBAIRS, ICOM, etc.)
- All other important, . Relevant information

Upon receipt, all confirmations must immediately be thoroughly checked and appropriate action taken to rectify any differences. If the counterparty's confirmation is considered incorrect, the counterparty must immediately be informed. A new confirmation must be requested from and provided by the bank whose original confirmation was incorrect. Any bank failing to receive a confirmation must query the matter with the back office (or the management) of the counterparty. Where transactions are arranged through a broker, the broker should send a confirmation to each counterparty by fax or other acceptable electronic means.

In the derivatives markets it is perfectly acceptable that only one party of the deal sends out a confirmation if the two principals have agreed. The other counterparty has to check promptly the confirmation and should respond to the issuer agreeing or querying the terms. The issuer of the confirmation should have in place procedures for chasing a response if one is not forthcoming within a few hours of the confirmation being sent.

The practice of sending two confirmations (an initial one by telex, followed by a written confirmation) is discouraged since the late arrival of the second confirmation could cause confusion and uncertainty.

Many automated dealing systems produce confirmations automatically. Provided these are verified by the back office, no additional confirmation need to be sent.

Verbal deal checks

Many dealers now request regular verbal or telex deal checks from brokers prior to the exchange and checking of a written or electronically dispatched confirmation. Their use can be an important means of helping to reduce the number and size of differences, particularly when dealing through brokers or for deals involving foreign counterparties. The practice of intra-deal checks is strongly recommended.

It is for each firm to agree with their brokers (or counterparties) whether or not it wishes to be provided with this service and if so, how many such checks a day it requires. If a single check is thought to be sufficient, this should be undertaken towards or at the end of the trading day.

There should always be an acknowledgment 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 a dispute results in an open risk position for one counterparty the position should be immediately closed out in the market without inference that either party is wrong pending final resolution of the dispute. 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 an error or difference is first highlighted by either party, lack of response should not be construed as acknowledgment.

Where it is not possible for the broker to send a full confirmation immediately, e.g. during nighttime, the principal should verbally reconfirm with the broker all the completed transactions.

Payments and settlement instructions

Instructions should be passed as quickly as possible to facilitate prompt settlement. The use of standardized payment instructions between counterparties who trade regularly with each other is recommended as their use can make a significant contribution to reducing both the incidence and size of differences arising from the 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 must themselves 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, or 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 the 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, the broker's liability should be limited. This should reflect the broker's limited possibilities to rectify any payments that have gone astray.

Netting

Market participants should aim to reduce credit risk by establishing bilateral currency netting agreements. The potential of multilateral netting agreements should be investigated. It is strongly recommended that all participants are familiar with the following publications:

- Reducing Foreign Exchange Settlement Risk (New York FX Committee, 1994)
- The Supervisory Recognition of Netting for Capital Adequacy Purposes (BIS, 1993)
- The G-10 Central Banks Report of the Committee on Interbank Netting Schemes (1990)

4. Disputes, Differences, Mediation and Compliance

Disputes and mediation

Where disputes arise, it is essential that the amangeemnt of the parties involved take prompt axtion to resolve or settle the issue quickly and fairly with a high degree of integrity and mutual respect. Where disputes can not 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 “Expert Determination Service” lined out in the Model Code.

The Expert Determination Service

- is available for members and non-members of the ACI
- can be referred to in cases related to over-the-counter instruments dealt with in the Model Code
- deals with disputes related to market practice or conduct as set out in the Model Code, but excluding legal disputes

Where there are local restrictions in force or where differences exist between the Model Code and a similar document issued by the Regulatory Authority governing the conduct of those transacting business in the financial markets in the center o which it is responsible, the terms of the local Code of Conduct shall apply for transactions between institutions in that center. However, where differences exist involving transactions between two institutions in separately regulated centers, the terms of the Model Code should apply.

The vast majority of disputes arise from

- failure of dealers to use clear, unambiguous terminology or
- failure of back office staff to check promptly and accurately the counterparty’s confirmation.

Differences between principals

If all the procedures recommended in the Model Code are adhered to, the incidence and size of differences should be reduced and those mistakes which do occur should be identified and corrected promptly. Nevertheless, mistakes and disputes will arise from time to time, both between banks when dealing directly with each other or between a bank and a broker. Disputes should be routinely referred to senior management for resolution, thereby transforming the dispute from an individual trader to trader or trader to broker issue to an inter-institutional issue. Where a dispute involves the amount, currency, value date(s), (or any other factor which means that one of the two parties concerned has an "open" or "unmatched" position), it is strongly recommended that action should immediately be taken by one of the parties concerned (preferably with the agreement of the other) to "square off" or "neutralize" 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, principals should not benefit from undue enrichment by retaining 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 solution.

Differences with brokers and use of "points"

Where a broker quotes a firm or unqualified price and is subsequently unable to substantiate the quote when the deal is proposed, the bank proposing the trade is fully entitled to hold the broker to the price (so-called Stuffing). The broker must make good the difference between the price quoted and the price at which the business is concluded.

Where differences arise, the following guidelines for compensation should apply:

- Disputes should be routinely referred to senior management for resolution, thereby transforming the dispute from an individual trader to 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 of adjustment to brokerage bills.

- 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.

The CFP is not in favor of the settlement of differences by points, but recognizes that in those financial markets where the regulatory authority controls all participants in that market, this practice, properly regulated by the appropriate authority is acceptable.

Compliance and Complaints

Compliance with the Model Code should ensure the highest standards of integrity and fair dealing in the international OTC market. Management should ensure that all complaints are fairly and independently investigated, whenever practicable, by employees or representatives 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 it should seek to settle it amicably. If an amicable solution is not possible the counterparty subject to the complaint should make the complainant aware that it can bring the matter to the attention of the CFP of the ACI.

5. Authorization, Documentation and Telephone Taping

Authorization and responsibility for dealing

Control of the activities of all personnel engaged in dealing (both dealers and back office) in both banking and broking firms is the responsibility of the management of such organizations. Management should clearly set out, in writing, the authorizations and responsibilities within which dealing (and support staff) should operate.

These might include

- General dealing policy including reporting procedures
- Persons authorised to deal
- Instruments to be dealt in
- Limits on open positions
- Confirmation and settlement procedures
- Relationships with brokers/banks
- Other relevant guidance as considered appropriate

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

Terms and documentation

Documentation 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 strongly. Standard terms and conditions have been issued by various authorities for many instruments. When using such agreements, any proposed modifications or choices offered in the agreement must clearly be stated before dealing. Dealers and brokers should make it clear whether or not they propose to use standard terms and where changes are proposed, these should be made clear. If the changes are substantial, these amendments should be 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 commercial terms of the transaction are agreed. Making swaps transactions subject to agreement on documentation is considered bad practice. Every effort should be made to finalize documentation as quickly as possible.

Qualifying and preliminary dealing procedure

Both dealers and brokers should state clearly at the outset, prior to a transaction being executed, any qualifying conditions to which it will be subject. These include: where the price is quoted subject to the necessary credit approval; finding a counterparty for matching deals, or the ability to execute an associated transaction. If a dealer's ability to conclude a transaction is constrained by, for example, opening hours in other centers, this should be made known to brokers and potential counterparties at an early stage and before names are changed.

Telephone taping

Experience has shown that recourse to tapes proves invaluable to the speedy resolution of differences. The use of recording equipment in the offices of 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 equipment or taking on new clients or counterparties, firms should inform their counterparties and clients that conversations will be recorded. Tapes should be kept for at least two months. Firms dealing in longer term interest rate swaps, FRAs or similar instruments where errors may only be found on the date that the first movement of funds is due to take place, may consider it prudent to retain tapes relevant to these transactions for longer periods. Management should ensure that access to tapes, whether in use or in store, is strictly controlled so that they cannot be tampered with.

6. Brokers and Brokerage

The role of brokers and dealer/broker relationship

Brokers act as intermediaries or arrangers of deals and should aim to agree mutually acceptable terms between principals. Brokers are forbidden to act in any discretionary fund management capacity.

Senior management of both trading institutions and brokerage firms should assume an active role in overseeing 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 institutions should ensure that their staffs are aware of and in compliance with internal policies governing the trader-broker relationship..

Ultimately, the senior management is responsible for the choice of the broker. Additionally its should periodically monitor the patterns of broker usage and be alert to possible undue concentration of business.

Management should impress upon their employees the need to respect the interests of all of the institutions served by their firm.

Commission / brokerage

In countries where broker's 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.

Electronic broking

Transactions executed through an electronic broking system should be handled in accordance with the provisions of individual vendor's Dealing Rule Book and all documents and agreements to a customer's utilization of the services. The vendor's dealing book should stipulate clearly the procedure and responsibilities that apply in the event of:

- communication breakdown at the point of the consummation of trades
- off-market discrepancies
- software inadequacies or limitations ("Bugs")

Electronic broking includes an increased potential for systemic risk particularly due to erroneous price or "big figure" inputting. It is unethical to consummate deals at rates outside current market prices when it is obvious that the counterparty has made a mistake.

Any abuse of the electronic system are deemed unethical and should be strongly discouraged by management. These include:

- Inputting of bid/offer prices well out of range of the current market spread, seeking profitable off market deals by exploiting big figure decimal errors in the confusion of sudden volatility
- Sudden temporary withdrawal of a specific credit limit or limits in a tactical manipulation to mislead the market

Management of banks should institute control measures to prevent unauthorized access to any electronic broking system and ensure that dealers have a full comprehension of the system involved. To this end, dealers should read and understand the relevant operational manuals.

Passing of names by brokers

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 the 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 in fact have quoted a price or rate which it could not in fact substantiate. In certain centers, 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 the name or with an alternative acceptable name if offered immediately. The name of a lender (or buyer in respect of CD's) shall be disclosed only after the borrower's (or issuer's) name has been accepted by the lender (or buyer).

The proposed borrower may decline the lender's name when,

- in the case of short date deposits, the borrower is not prepared to repay the deposit prior to advice of receipt of the funds from his correspondent bank
- he has no lending line for the placer of the funds and does not wish to be embarrassed by being unable to reciprocate.

- the borrower is prohibited by management from entering into any transaction with the lending institution

Additionally, in the case of instruments like 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?", he is considered committed with the particular seller in question (or an alternative acceptable name 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.

Name substitution / switching by brokers

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 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 utilize 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 they 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 within policy guidelines. Finally, a dealer must not seek nor accept favors from the broker for switching names.

7. Dealing Practice

Dealing at non current rates

Deals at non-market rates should generally be avoided. Where, however, the use of non-current rates may be necessary, they should only be entered into with the prior express permission of senior management, who should ensure that proper controls are in place for the monitoring and reporting of such transactions to avoid losses, fraud and unauthorized extension of credit. Where, however, the use of non-current market rates may be necessary (as in swaps market or in certain transactions with corporate clients), they should be entered into with the prior express permission of senior management, who should ensure that proper controls are in place for the monitoring and reporting of such transactions to avoid the above mentioned problems. Cash flow implications should be taken into account in the pricing. Spot rates should be fixed immediately within the current spread, to reflect current rates at the time the transaction was done.

Consummation of a deal

Dealers should regard themselves as bound to a deal once a 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 are qualified as being indicative or subject to negotiation of commercial terms, dealers should normally treat themselves as bound to a deal to a point where terms have been agreed without qualifications. Verbal agreements are considered binding; 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 minimize 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.

Where 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 brokers contact is positively acknowledged by the dealer.

A broker should never assume a deal is done without some form of verbal 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.

In interbank trading, irrespective of whether direct or through a broker, a deal should be concluded upon verbal agreement. In cases where a dealer is calling “off” at the same instant as the broker is hitting a price, a transaction should be concluded. In such cases the broker should immediately inform the dealer that the deal is done and the name of the counterparty to the deal concerned. Conversely, in cases of a broker withdrawing at the same instant as a dealer is hitting a price, no transaction should be concluded. In such cases, the broker should immediately notify the dealer that no transaction has been concluded (nothing done). In cases where a price being quoted by a broker is hit simultaneously by several banks for a total amount greater than what the price concerned is valid for, the broker should apportion the amount the price is valid for proportionally among the banks concerned in accordance with the amount hit by each. In such cases, brokers should not be held to obligation to deal in standard trading units of currency, however they should immediately inform all the relevant banks that apportionment will be carried out.

Under no circumstances should brokerage firms inform dealers that a deal has been concluded when in fact, it has not..

Dealing quotations – firmness, qualification, reference

All market participants 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 broker 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 (e.g. spot forex or currency options) a dealer has to assume that a price given by a 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.

Since dealers have prime responsibility put to brokers, 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. Otherwise, the dealer should feel bound to deal with an acceptable name at the quoted rate in a marketable amount.

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.

There are four reasons why a dealer can fall no longer committed to a quoted price:

- The price was dealt on
- The deal was canceled
- His quote is superseded by a better bid/offer
- The broker closes the transaction in that currency with another counterparty at a price other than that originally proposed

In the last two cases, the broker should consider the original bid/ 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.

Dealing with unidentified principals

If transactions are conducted through funds managers/ investment dealers traders should undertake all efforts to identify the principal counterparties as soon as possible following a deal. Management at financial institutions engaged in trading with funds managers needs to be aware of the risks involved, particularly with respect to credit exposure and money laundering and should have in place a written policy governing such transactions.

Internet / on-line trading

Where Internet 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 authorized to use the facility. The "know your customer" and money laundering provisions should be meticulously followed.

8. Dealing Practice for Specific Transactions

Deals using a “connected broker”

Brokers should advise their clients of the names of any principals (i.e. banks and other financial institutions) that hold a share/ investment with the brokerage firm or have management responsibilities. With increasing diversification of broker firms and groups it is increasingly important that principals know with certainty the broking legal entity in any transaction.

Assignment and Transfer

Brokers and principals assigning or transferring a swap to a third party must ensure that:

- principals are aware that they are ultimately responsible for assessing the creditworthiness of the counterparty and
- their staff are well trained in the practices of the market place and are 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 from the outset. It is recommended that the confirmation sent by the principal should specify any intent to assign and give details of the procedure that will be used.

When a principal is entering to execute such a transfer it must 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 concluded in accordance with the principles of best practices.

Repos and stock lending

In the cases of sale and repurchase agreements or stock lending or lending transactions, proper documentation including written agreement of key terms and conditions should be in place prior to the consummation of any trades. Legal opinion on the enforceability of the contract should be obtained.



9. General Risk Management Principles for Dealing Business

Promote the highest standard of conduct and ethics

- Honor, honesty and integrity to be the underlying principles of trading practices
- Establish, implement and enforce both The Model Code for trading and the rules and procedures of one's own institution
- Demand the highest ethical standards

Ensure senior management involvement and supervision

- Establishment, recommendation and regular review by senior management of risk management framework-authorities, limits and policies
- Approval by Board of Directors is appropriately designed committee
- Accountability of senior management for risk management

Organizational structure should ensure independent risk management and controls

- Provide independent monitoring to ensure compliance to risk management framework
- Ensure segregation of duties between the front, middle and back office activities
- Undertake regular internal audits independent of trading and risk management functions to ensure timely identification of internal control weaknesses
- Maintain clear and open communication channels between all levels of staff and cross functions

Embed thoroughly professional management in all administrative processes

- Implement policies to ensure principles of quality are embedded in all processes
- Aim to minimize deal input cycles, errors and down time
- Regularly review internal processes to identify and rectify weaknesses, disconnects and fails
- Reduce time-wasting and resource inefficiencies while improving work environment

Provide appropriate systems and operational support

- Ensure appropriate systems for timely documentation, processing and reporting
- Have a technology policy to plan systemically for adequate systems support
- Have a contingency site ready for backup
- Ensure awareness and responsibility for identifying inconsistencies and weaknesses

Ensure timely and accurate risk management

- Trading positions to be regularly marked to market by function independent from trading
- Frequency of position valuation to be determined by market volatility, volume and the institution's risk profile
- Valuations to be verified against independent sources where possible
- Ensure robust process for evaluating off-market transactions
- Measure risks using approved methodologies based on generally accepted statistical practices and approved confidence intervals
- Market models to be validated before implementation

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

- Assess impact on the institutions earnings, liquidity and capital position, especially under adverse conditions
- Where possible, regularly evaluate risk positions under stress scenarios
- Continually update volatility measures
- Promote most accurate measurements of risk

Always recognize importance of market and cash flow liquidity

- Always consider market liquidity conditions before entering into a deal
- Assess costs of unwinding positions, especially in illiquid markets
- Implement policies and processes to manage liquidity and cash flow positions
- Prepare a liquidity contingency plan to be implemented in crisis situation

Consider impact of diversification and risk return trade-offs

- Returns should always be measured against market and other risks and risk weighted capital
- Ensure adequate diversification of trading and customer activities to reduce risk

Accept only the highest and most rigorous client relationship standards

- Promote highest standard of conduct with clients
- Ensure clients have the authority to undertake transactions
- Do not knowingly conduct business with clients involved in business activities known to be illegal or inconsistent with generally accepted standards of ethical or social behavior in the community

Clients should understand transaction

- 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
- Ensure that senior management of clients is aware of unusual or complicated transactions

Risk management based on sound legal foundations and documentation

- Ensure proper documentation of all transactions and counterparties
- Prior to entering a transaction, ensure that customers and counterparties have the legal and regulatory authority to transact
- Ensure terms of contract are legally sound and enforceable
- Ensure timely confirmation of all transactions

Ensure adequate expertise supports trading and risk taking

- Resources to reflect demands of the position
- Right people to be placed in right positions
- Ensure proper position training and career planning
- All staff should understand policies ,limits and compliance requirements

Use judgement and common sense

- Reliance on experience and expertise
- Adherence to the spirit as well as the letter of The Model Code

10. Guidelines for Dealing with Corporate/ Commercial Clients

Authorization

Both Principal and Client should exchange lists of the names of personnel authorized to deal clearly stipulating in which instruments/ markets and amounts each individual is authorized to deal. The existence of such a list should not necessarily negate a deal already done in good faith between the two parties.

Segregation of duty

The segregation of front and back office duties and reporting lines should also be established in companies with their own dealing department.

Complex product information

It is the duty of the principal to be vigilant and fair to the customer at all times and to be mindful of the customer's interest. Banks should keep the following points in mind:

- The customer must understand the transaction
- Consequences and risks of a deal have to be clearly and understandably explained to the customer, in particular if the projected transaction includes a complex product or strategy

Confidentiality

Banks and clients should not pass any information concerning the nature and conditions of a deal to a third party. If a product or strategy is individually designed for a customer, the technical details of the proposed transaction should not be divulged to any third party during the negotiation phase.

Entertainment and gifts

In addition to the provisions of the Model Code, principals should be aware that the excessive granting of entertainment and gifts by financial institutions can compromise a dealer's impartiality.



Historic exchange rates/ FX rollovers

The prolongation of FX contracts should be executed by closing the open position at the existing spot rate and entering a new deal at current rates. This way, a proper image of realized gains and losses is ensured. Any deviation from this practice should be agreed and fully documented by the senior management of both counterparties.

Legal documentation

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

Margin account / Collateralized trading

The establishment of a margin account should be fully documented and signed in advance of any trades. Close out procedures in the case of a customer's default should be clearly stipulated in the written agreement. There should be both a regular mark-to-market and reconciliation of all positions.

Know your customer

The provisions of the Model Code should be carefully observed.

Internet / on-line Trading

If internet trading facilities are established the recommendations and controls of the Model Code should be enforced.