



FICC MARKETS
STANDARDS BOARD

Statement of Good Practice for Trading Platform Disclosures

Fixed Income, Currencies and Commodities markets

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Transparency Draft

FMSB invites comments on the proposals in this Statement of Good Practice by 25 February 2022. Please address any comments or enquiries to secretariat@fmsb.com.

I Introduction

1. The FICC Markets Standards Board

The FICC Markets Standards Board (“FMSB”) was established in 2015 in response to the Fair and Effective Markets Review in the UK with a mandate to issue Standards designed to improve conduct and raise standards in the wholesale Fixed Income, Currencies and Commodities (“FICC”) markets. The FMSB will work to build up a body of Standards (“Standards”) and Statements of Good Practice (“SGPs”) over time, prioritising those areas where FMSB member firms (“Member Firms”) consider there is a lack of clarity in the standards of behaviour expected of market participants, or a lack of understanding of the issues relevant to a product or transaction type, or evidence of poor conduct.

2. Applicability of FMSB Statements of Good Practice

SGPs are issued by the FMSB from time to time. SGPs do not form part of the FMSB Standards and they are not subject to FMSB’s adherence framework. Rather, they reflect FMSB’s view of what constitutes good or best practice in the areas covered by the SGPs in question. Member Firms are expected, and other firms are invited, to consider their own practices in light of the relevant SGP and make any changes to such practices that they deem to be appropriate. Failing to do so will not, however, create any presumption or implication that a firm has failed to meet its regulatory or other obligations.

Full details of the Member Firms are available at <https://fmsb.com/>. SGPs will be shared with non-member firms and their affiliates, who are encouraged to consider them. Information on SGPs will be made available to users of the wholesale FICC markets (e.g. corporates and end investors) so that they may be made aware of their existence and the FMSB’s expectation of market conduct. The FMSB will, as part of its normal course of business, periodically review the applicability of its published SGPs to ensure they are relevant and up to date for market conditions.

3. Relationship with law and regulation

FMSB Standards and SGPs do not impose legal or regulatory obligations on Member Firms, nor do they take the place of regulation. In the event of any inconsistency, applicable law, rules and regulation will prevail. In developing Standards and SGPs, certain regulators may have commented on their drafting, alongside Member Firms and other bodies, such that the Standards and SGPs, once finalised and published, are intended to represent an authoritative statement of global good practices and processes. However, they are not normally endorsed by regulators. Where they are endorsed by a regulator, that will be made clear on the face of the Standard or SGP in question.

4. Relationship with other codes

Other Codes already exist in relation to certain FICC markets, such as the FX Global Code, whilst others are in the process of being produced. There will be some overlap between the work of the FMSB and such other bodies and the FMSB will seek to ensure it adopts a consistent approach in cases of overlap wherever possible and will seek to avoid issuing a Standard or SGP where the subject matter is already covered adequately by existing regulation, or a Code issued by another body. It may draw attention to Member Firms of an existing code and request that Member Firms act in a manner consistent with it, once appropriate steps have been taken to confirm its applicability.

II Statement of Good Practice for Trading Platform Disclosures

1. Background

The use of Trading Platforms in FICC markets has increased significantly over the past 10 years - the proportion of global fixed income business traded electronically more than doubled between 2011 and 2019 and, in the same timeframe, the proportion of FX traded electronically grew from under two-thirds to over three-quarters of total trades¹. During this period, there has also been significant technological change and a wide diversity of platform types emerging - trends that are likely to continue. Given this increasing platform diversity, disclosures play a key role in allowing market participants to understand trading practices and policies across different platform types and have access to sufficient information to understand how their orders or trade requests interact with other platform users and/or Liquidity Providers. This SoGP aims to promote consistency of key information disclosures as to how platforms operate irrespective of their regulatory classification. This SoGP builds on certain existing regulatory requirements and policy initiatives impacting platform operators and users, including relevant aspects of MiFID II and the FX Global Code. Such requirements and initiatives relate to both the operation and governance of Trading Platforms, and the obligations on Trading Platform participants.

2. Purpose and context

MiFID II and other regulatory or policy initiatives, including the FX Global Code, impose extensive requirements on both the operators and users of Trading Platforms. However, the nature and applicability of these requirements depends on both the type of products traded and the manner in which buying and selling interests interact on such platforms.

In particular, there is regulatory distinction in two specific ways:

- between different product types, specifically whether they constitute ‘financial instruments’ under MiFID II; and
- between platforms facilitating multilateral and bilateral execution.

For the purposes of UK and European regulation:

- Electronic facilities, systems or platforms in which multiple third-party buying and selling interests are able to interact will typically be Multilateral Trading Facilities (as defined under MiFID II)² where the financial products constitute ‘financial instruments’ and therefore will be subject to MiFID II requirements. Where the products traded on such systems are exclusively non-financial instruments (e.g. spot FX), these platforms will not be subject to EU or UK regulation as Multilateral Trading Facilities, but platform operators should consider adopting best practices and guidance deriving from initiatives such as the FX Global Code.
- Bilateral electronic execution mechanisms where the platform operator typically takes on market risk pursuant to a transaction on the platform, do not constitute trading venues for the purposes of MiFID II. However, the operators of such platforms may

¹ Greenwich Associates Data (<https://Platform.greenwich.com/blog/covid-19-impact-ficc-markets>)

² This is because electronic platforms typically operate pursuant to non-discretionary rules and hence would not constitute OTFs pursuant to definition in Article 4(1)(23) MiFID and the ESMA Market Structure Q&A

separately be required to be ‘systematic internalisers’ in the products offered on the platform, and hence subject to specific regulatory requirements, where client orders in financial instruments are executed on own account by the operator on an organised, frequent, systematic and substantial basis or the operator otherwise elects to opt-in to the regime. Operators of bilateral electronic platforms for financial products outside the scope of MiFID II will not, in respect of such products, be subject to regulation as ‘systematic internalisers’, but should consider adopting best practices and guidance deriving from initiatives such as the FX Global Code.

The development of regulatory frameworks tailored to different platforms depending on interaction types and products is desirable given the varied characteristics of such platforms. However, in certain instances there are benefits to promoting consistent approaches across platforms. In particular, ensuring consistency of disclosures made by all Trading Platforms to their participants or prospective participants irrespective of their regulatory classification should both enhance market confidence and help minimise disputes between operators and participants. This SoGP seeks to achieve this through setting out a series of Good Practice Statements, applicable to all Trading Platforms, in order to promote transparency as to their operation, the rules governing interactions of buying and selling interests on such platforms and the obligations of platform participants.

Where Trading Platforms adopt these Good Practice Statements, participants executing transactions on such platforms will benefit from the clarity, transparency and comparability of information relating to the operation of such platforms and the obligations they place on participants.

This SoGP focusses on platforms where the majority of electronic trading in FICC instruments occurs and where increased transparency and harmonisation of disclosures is likely to be most beneficial to users. Trading platform operators are therefore expected to consider applying these Good Practice Statements in a way that is appropriate and proportionate taking into account the size and complexity of their offerings.

This SoGP draws extensively from existing European and UK regulatory requirements and initiatives, most notably MiFID II. MiFID II requirements are, in many instances, more detailed or extensive than the Good Practice Statements set out in this SoGP and, when within the regulatory perimeter, Trading Platform operators must ensure continued compliance with such requirements.

3. Scope and applicability

This SoGP applies to Trading Platforms with the following characteristics:

- Platforms on which clients are offered electronic execution through a central limit order book, request for stream, request for quote or similar electronic matching process; and
- Platforms on which prices are usually electronically delivered and trades are usually electronically executed.

Platforms primarily offering non-execution related services, such as FX payment services, or platforms for structured products are not within the scope of this SoGP.

Trading Platforms should apply the Good Practice Statements in a way that is appropriate and proportionate. In particular, platforms should have regard to both the size and complexity of their offerings and their continuing ability to innovate while maintaining adequate participant protections when applying these Good Practice Statements.

4. Definitions

For the purposes of this Statement of Good Practice, the following definitions shall apply:

Bilateral Trading Platforms - Bilateral matching systems or systems that bring about the electronic execution of orders and trades (regardless of the trading protocol or method of execution), where the operator of the platform is typically principal to orders or trades on the system.

Liquidity Provider - A firm which provides liquidity and makes markets in FICC instruments and typically acts as a principal.

MiFID II - Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments, Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and any associated secondary legislation or Level 3 guidance³.

Multilateral Trading Platforms - Exchanges and multilateral matching services in respect of buying and selling interests or systems that bring about the electronic execution of orders and trades (regardless of the trading protocol or method of execution), where the operator of the platform is not principal to any order or trade.

Off-Market Transaction - A transaction where the executed price is significantly different from the prevailing market price for the transaction at the time of execution.

Speedbump - A mechanism that may be implemented by a Trading Platform to delay the time between an order being submitted to the Trading Platform and it being made available for execution.

Trading Data - Data relating to individual transactions, trade requests, RFQs or input messages, including messages on submission, modification and cancellation that take place on, or are sent to, the Trading Platform, including where such Trading Data is aggregated and/or anonymised by the Trading Platform.

Trading Platforms - Refers to both Bilateral Trading Platforms and Multilateral Trading Platforms.⁴

³ This includes MiFID II as it forms part of UK law by virtue of the European Union (Withdrawal) Act 2018

⁴ The definition of Trading Platforms is relevant for the purposes of this paper only and does not imply any classification under MiFID II or any other regulatory requirement or policy initiative.

III Principles and commentary

1. Platform Arrangements and operation

Good Practice Statement 1: Firms operating a Trading Platform should make available to all participants clear information relating to the operation of their Trading Platform. Such information should allow participants to determine how their interests, orders or requests to trade will interact with other trading interests, when they can deem a transaction to be binding and the circumstances in which their interests, orders or requests to trade can be rejected or cancelled.

Trading Platform operators should make available to all participants clear information outlining how such Trading Platform operates and the obligations on participants so as to allow participants to make an informed choice on which Trading Platforms to use and how they transact. Key terms relating to the Trading Platform, or how it operates, should be clearly defined. Such information should be presented in a comprehensible manner and could take multiple forms, such as rules, agreements, policies and/or procedures (the “**Platform Arrangements**”).

Platform Arrangements should include, as applicable, the following information outlining how a participant will interact with the Trading Platform:

- A summary of the trading protocols (e.g., central limit order book, request for stream, request for quote) that apply to the Trading Platform, including:
 - A description of the different available order types
 - Any specific requirements or parameters for submission of orders and execution
 - Pre-trade controls on price, volume and value of orders or trade requests
 - Usage of the systems and post-trade controls on the trading activities of the participants
- A statement setting out whether:
 - The Trading Platform allows participants to remain anonymous pre-trade by name
 - The Trading Platform utilises tags⁵ and, if so, whether the tags are disclosed pre-trade, post-trade or on some other basis
 - Individual participants can tailor the liquidity that they are offered on the Trading Platform
- An explanation of how orders or trade requests are handled and transacted, including, but not limited to, whether orders or trade requests are aggregated or time prioritised
- Order or trade request throttling arrangements or Speedbumps, including a general description of their operation in the ordinary course of trading
- A statement regarding the point at which market risk may transfer including:
 - How the Trading Platform operator determines the validity of the quoted price at the point of receiving a request to execute against it
 - Whether the Liquidity Provider has a final opportunity to accept or reject a request against a quoted price⁶, and any requirements imposed by the Trading Platform on the Liquidity Provider to prevent mis-use of this opportunity

⁵ A tag is a unique alphanumeric identifier assigned to a user of a platform used in lieu of disclosing the identity of the counterparty (See [Global Foreign Exchange Committee Report: The role of disclosure and transparency on anonymous e-trading platforms](#), January 2020)

⁶ The process by which a market participant receiving a trade request has a final opportunity to accept or reject a request against its quoted price is commonly referred to as ‘Last Look’

- How information regarding a rejection will be communicated to the participant in the circumstances where the participant is not guaranteed execution of their request
- Whether the Trading Platform permits partial fills and any other applicable factors in determining a partial fill
- An explanation of how and when trade confirmations will be issued by the Trading Platform
- A description of the trade settlement and reconciliation process
- Measures to minimise erroneous trades
- Consequences (including any potential financial penalties or suspensions from the Trading Platform) for a participant breaching Platform Arrangements

Where appropriate, Trading Platforms should clearly outline any restrictions, or other requirements, that may apply to the use of the electronic quotations (including how any order or trade acceptance or rejection will be communicated to a participant in a timely manner), so that participants on the Trading Platform have all the relevant information that they need in order to determine how their order or trade request is handled and treated.

2. Handling of data

Good Practice Statement 2: Platform Arrangements should outline how Trading Data is disclosed.

Trading Platforms should make clear to their participants the general circumstances in which Trading Data may be disseminated to third parties. Trading Platforms utilising pre-trade or post-trade unique identifiers should communicate to participants how this information is disclosed and to whom.

3. Trade breaks and erroneous trades

Good Practice Statement 3: Platform Arrangements should outline the circumstances in which it is permissible for a trade to be cancelled, amended or how a dispute or discrepancy is handled.

Platform Arrangements should outline, as applicable, the circumstances in which it is permissible for a trade to be cancelled, amended or how a dispute or discrepancy between participants and/or the Trading Platform on one or more parameters of an executed trade is handled, including:

- When, and within what time period, a Trading Platform or (if permitted by the Trading Platform) Liquidity Provider can unilaterally cancel or amend a trade (such as the result of a technological or operational issue leading to an erroneous trade or when a trade is deemed to be an Off-Market Transaction)
- Procedures and/or mechanics for cancelling or amending a trade
- Reporting and transparency obligations to govern how Off-Market Transactions or erroneous trades are amended, cancelled or re-booked including the right for participants to agree bilaterally, between themselves, how to rectify such trades
- Dispute resolution procedures and/or escalation processes in place to resolve potential trade disputes in a time-efficient manner
- Means of communicating a rejection or cancellation to the participant

4. Obligations of participants and access to the Trading Platform

Good Practice Statement 4: Platform Arrangements should disclose the obligations that participants are subject to when interacting with the Trading Platform and the consequences of such obligations not being met.

In particular, Platform Arrangements should, where appropriate, set out the following:

- The services and functionality that are available on the Trading Platform to a particular participant
- Any obligations on participants to put in place adequate and effective systems and risk controls including, but not limited to, being equipped to cancel unexecuted orders or trade requests as an emergency measure if unexpected circumstances arise
- Criteria and procedures for imposing limitations and/or denying access to a non-compliant participant. Those limitations may include suspension of access to the Trading Platform and permanent loss of access
- Obligations on participants to notify Trading Platforms of authorised trading personnel (and any changes thereto), authorised representatives of the firm and those authorised to change credit limits on the Trading Platform, and whether the required information includes the location /country of domicile of such personnel

Trading Platforms that allow participants to connect using an algorithm via an application programming interface ('API') should set out the following:

- A clear description of applicable pre-trade risk controls implemented by the Trading Platform (fill ratios, maximum order size etc.) together with rules around monitoring and configuring any such risk limits
- Requirements that ensure controlled deployment of a trading algorithm, with pre-defined limits on the number of financial instruments traded and the trading volumes, strategy positions and the number of Trading Platforms to which orders are sent
- Obligations on participants to notify Trading platforms of the authorised member of personnel (and any changes thereto) responsible for algorithmic trading who can be identified by the Trading Platform, and whether the required information includes the location /country of domicile of such personnel

Trading Platforms that allow participants to connect via an API should set out any applicable obligations on such participants to evidence that appropriate conformance testing has been undertaken prior to the deployment or update of the access to the Trading Platform's system.

Platform Arrangements for Multilateral Trading Platforms not subject to MiFID II requirements should:

1. Set out objective eligibility criteria for participants to trade on such Trading Platforms.
2. Make clear the rules and conditions pursuant to which participants may provide direct electronic access to their own clients on the Trading Platform
3. Notify participants that Trading Platforms can request information from any participant or user of direct electronic access on their organisational requirements, trading controls and contact information

5. Suspension of trading / volatility halts by the Trading Platform

Good Practice Statement 5: Platform Arrangements should disclose to participants the types of circumstances in which a Trading Platform may temporarily cease to process orders, execute transactions or broadcast trading interests.

Platform Arrangements should disclose to participants the types of circumstances in which a Trading Platform may temporarily cease to process orders, execute transactions or broadcast trading interests as a result of an outage, suspension or a circuit breaker applied by the Trading Platform triggering a trading halt as a result of market volatility.

Platform operators should, taking into account the rationale for the trading halt, consider the appropriateness of providing additional disclosures at the point of the trading halt relating to:

- When trading is expected to resume;
- The status of orders or quotes on resumption of trading; and
- Information regarding the cause of the trading cessation.

6. Incentives

Good Practice Statement 6: Participants should not be incentivised to place, modify or cancel orders or execute transactions in a way which contributes to disorderly trading conditions or market abuse.

Participants should not be incentivised to place, modify or cancel orders or execute transactions in a way which contributes to disorderly trading conditions, could constitute market abuse, or that could create or exacerbate conflicts of interest between the Trading Platform and its participants. Trading Platforms should seek to prevent or mitigate, the risks associated with creating incentives, such as execution fees, ancillary fees, spread reductions and any other form of rebate.