

# The Code of Conduct

For the Treasuries of Banks, DFIs and PDs

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Domestic Markets & Monetary Management Department

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State Bank of Pakistan

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## Definitions

**Broker:** An interbank broker accredited by Financial Market Association of Pakistan (FMAP).

**Brokerage House:** An entity which has been accredited by Financial Markets Association of Pakistan for conducting interbank brokerage business.

**Business Days:** a day on which the State Bank of Pakistan and banks in Pakistan are open for full scale banking business.

**Confirmation:** The information exchanged and agreed between the counterparties of a trade at the time of booking that details the financials of that transaction. The confirmation may, in addition, include the legal terms and settlement instructions. The confirmation process is fundamental in ensuring operational risk is minimized for both parties to the trade and that settlement may take place efficiently.

**Insider dealing:** Dealing in financial instruments based on confidential information about the issuer of such instruments or the instruments.

**Market disruption:** an event which was not foreseeable at the time the transaction was entered into and which is beyond the parties' control. These include capital controls, illegality or impossibility of performance, Acts of God, extreme weather, illiquidity, etc.

**Master Agreement:** A Master Agreement (or master contract) is a contract reached between parties, in which the parties agree to the terms that will govern future transactions or future agreements. A Master Agreement permits the parties to quickly negotiate future transactions or agreements, because they can rely on the terms of the Master Agreement, so that the same terms need not be negotiated for each subsequent trade.

**Name switching/substitution:** Where brokers will attempt to substitute a third name to stand between the two original counterparties to clear the transaction.

**Normal hours:** Timings announced by the State Bank of Pakistan for dealing by bank's treasuries

**Off premises:** any location other than the dealing room authorized to conduct business by the dealers.

**PD:** Primary Dealer of Government Securities appointed by State Bank of Pakistan annually.

**Standard Settlement Instructions (SSI):** The agreement between two financial institutions which defines the receiving agent bank details for the settlement of trades for a specific currency. These agreements allow a more efficient and controlled process in settling trades. Utilizing SSI may also lower the potential for fraud.

**Third party beneficiary:** Recipient of the payment different to the counterparty of the relevant trade.

**Unscheduled holidays:** New bank holidays or non-business/clearing days announced by the State Bank of Pakistan/Government of Pakistan as the case may be.

## **Chapter I: Business Hours and Market Disruption**

### **1. After-Hours/24-Hours and Off-Premises Dealing**

Deals transacted after normal hours or from off premises, either by mobile phone or any other equipment, should not be undertaken without the prior written approval of State Bank of Pakistan.

Management should also list the names of the dealers authorized to deal in off-premises or after-hours transactions and stipulate the procedure for the prompt reporting and recording thereof in case of BCP.

### **2. 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, the following procedures are accepted as market practice for adjusting the settlement date of outstanding currency transactions maturing on that date.

- (a) On Unscheduled Holidays, unless the bilateral agreements between the parties concerned specifically provides for such situation, it is market practice to extend contracts maturing on a non-business day to the next business day. If it is a month end, the settlement date will be 1 business day prior to the non-business day, unless, unavoidable circumstances lead to the next business day settlement.
- (b) Value dates in foreign exchange transactions will not be split other than in cases where both parties mutually agree.

### **3. Market Disruption**

There are instances where the parties are prevented from performing their obligation under a transaction due to an event, which was not foreseeable at the time the transaction was entered into and which is beyond the parties' control. These include: capital controls, illegality or impossibility of performance, acts of God, etc.

Market participants are encouraged to provide for these events in their contracts and adopt the appropriate provisions in order to avoid disputes as much as possible.

Where there are instances of general market disruption caused by sudden events such as extreme weather or other unforeseen developments, State Bank of Pakistan "(SBP)", may intervene with the publication of applicable procedures including interest rates to be implemented to cover interrupted settlement.

## **Chapter II: Ethics & Behavioral Standards**

### **1. Drugs and Abused Substances**

Dealing room staff is prohibited to carry on dealing under the influence of abused substances. Policies should be developed and clearly announced for dealing with individuals who are found to be substance abusers.

### **2. Entertainment, Gifts and Favors**

Management or employees must neither offer inducements to conduct business, nor 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. Any gift or entertainment valuing PKR 15,000 during a calendar year could be termed as excessive. Management of banks should

- (a) monitor the form, frequency and cost of entertainment/gifts that the dealers receive,
- (b) have a clearly articulated policy towards the giving/receipt thereof, ensuring it is properly observed,
- (c) establish procedures for dealing with gifts judged to be excessive but which cannot be declined without causing offence
- (d) ensure the transparency of all entertainment received or provided.

Entertainment should neither be offered nor accepted where it is underwritten but not attended by the host. Dealers should notify their management when they are offered unusual favors. Dealers in Banks/DFIs/PDs should follow the internal gifts policy prevalent in their organization.

### **3. Gambling/Betting between Market Participants**

Making or arranging bets or wagers between market participants is strictly forbidden and strong management involvement in its control is recommended.

### **4. Fraud**

Strong administrative controls are recommended to prevent the occurrence of fraud. As there are several ways in which an institution can be defrauded, great vigilance is required by management and staff, particularly so when calls are received on an ordinary telephone line (usually in principal to principal transactions).

As a precautionary measure, it is strongly recommended that the details of all telephone deals which do not include pre-agreed standard settlement instructions should be confirmed by telex or similar means by the recipient seeking an answer-back to ensure the deal is genuine. Particular care should be taken in checking authenticity where the beneficiary is a third party or other than the transaction counterparty. In the event of any suspicious circumstances staff must notify management without delay.

### **5. Dealing for Personal Account**

The practice of dealing for personal account either in-house or externally has several implications including credit risk and potential conflict of interest. Clear written management policies and controls to prevent abuse or insider dealing in any form should be in place. These safeguards should also reflect the need to maintain confidentiality with respect to non-public price sensitive information and to ensure that no action is taken by employees which might adversely affect the interests of the institution's clients or

counterparties. There should be a full disclosure and transparency requirement ensuring that the traders give their full attention to their institution's business without being distracted by personal financial concerns. Traders should recognize that they too have a responsibility to identify and avoid conflicts of interest. There shouldn't be any personal account dealing with brokers on approved panel of the institution in any product class.

## **6. Market Conduct**

All Dealers must observe proper standards of market conduct at all times. Banks/DFIs/PDs should implement internal policies and procedures which prohibit all forms of market misconduct.

Dealers should exercise skill, care and diligence, and act in good faith, and in the best interests of clients. Dealers shall not engage in manipulative or deceptive conduct or any form of conduct which would give other users of the market a false or misleading impression as to prevailing market conditions, including but not limited to price, supply or demand, etc.

Dealers should not enter into any transaction which may conflict with a duty of care owed to a customer, unless such conflict is disclosed to the customer and the customer consents to the transaction. In particular where market participants are handling customer orders, these orders should be handled appropriately and with due regard to the best interests of the customer.

Dealers must exercise extreme care when in possession of material non-public, price sensitive information in relation to the financial instruments. Subject to applicable laws and internal policies and procedures, when in possession of such information Dealers must ensure that they do not deal for their own account or the account of the institution which they represent, or induce another party to so deal, on the basis of such information. For the avoidance of doubt if a Dealer is working a pending order from a client and which could have a significant impact on the price of that instrument, the knowledge of that order would constitute material non-public, price sensitive information for the purposes of this code of conduct.

Dealers must not willfully spread rumors or disseminate false or misleading information. In addition, care must be exercised when handling unsubstantiated market information. Client communications in particular should have a reasonable basis, be fair and balanced, and not contain any inaccurate or misleading information.

## **7. Confidentiality**

Confidentiality and customer anonymity are essential for preserving a reputable and efficient market place. Dealers and brokers must preserve, and aid in preserving, confidentiality in all matters including information on customers and dealing counterparties coming to their knowledge in the performance of their duties. They share an equal responsibility for preserving the integrity of the market through the proper maintenance of confidentiality. Management is responsible for ensuring that their staff have been trained to identify and to treat information that is sensitive and to deal appropriately with situations that require anonymity and discretion. Also, managers must not condone staff utilizing confidential material for personal benefit.

Brokers shall not reveal the identity of their Principals to any deal unless when appropriate under the accepted terms of disclosing names or when expressly authorized to do so by the Principals. Dealers shall ensure that the identity of customers and counterparties is always kept confidential.

Banks' names should never be disclosed until the deal is closed. Brokers should not divulge the names of Principals or counterparties prematurely. Names should be revealed only when the broker is satisfied that both sides seriously intend to transact.

A dealer should not, in any way, pressure a broker by inducement, threat or promise, for information, which would be improper for the latter to divulge. Pressure includes any statement to the effect, or which could be construed as implying, that a failure to cooperate would lead to a reduction in the business given by the dealer or other dealers to the broker. Dealers should similarly resist any pressure from their clients to divulge confidential information and should report any such incidents to their management.

Market participants should not visit each other's dealing rooms except with the specific permission of their respective senior managements. No deals should be concluded by dealers in brokers' dealing rooms.

The use of loudspeaker equipment to channel confidential information to third parties is improper and should not be allowed. If loudspeaker equipment must be used such device should be carefully managed to prevent any breach of confidentiality, inadvertent or otherwise.

Communications tools – including email and instant messaging tools can benefit business communications but can also be abused to inappropriately share proprietary, confidential or material non-public information, or for inappropriate or non-business related communications. Controls implemented should include prohibition on non-approved tools, restriction on sharing of login IDs and passwords, restriction on use of such tools for business only, and implementation of measures to enhance integrity of the information trail for monitoring or investigation.

## **8. Misinformation/ Misrepresentation, and Rumors**

Financial markets are generally responsive to news on related developments. Dealers 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 refrain from passing on any information which they know to be untrue.

## **9. Customer Relationship, Advice and Liability**

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

- (a) the customer understands the terms, conditions and risks of that transaction;
- (b) the customer made its own assessment and independent decision to enter into such transaction and is entering into the transaction at its own risk and account;
- (c) the customer understands that any information, explanation or other communication by



the other party shall not be construed as an investment advice or recommendation to enter into that transaction;

- (d) no advisory or fiduciary relationship exists between the parties except where laws, rules and regulations would qualify the service provided by the financial market professional to the customer as an advisory or fiduciary relationship.

These should be clearly set out at the onset of the trading relationship in writing such as in a master agreement. In addition, depending on the size, tenor and/or sophistication of the relevant transaction, the Bank/DFI/PD may wish to consider reiterating these in the relevant document relating to that transaction such as a confirmation.

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

The Bank/DFI/PD should be familiar with applicable laws, rules and regulations in the jurisdictions in which it conducts business. It should seek advice of its legal counsel in each jurisdiction wherever appropriate or prudent to do so. It may wish to consider incorporating such legal advice into its own internal policies and/or procedures.

#### **10. Use of Confidential Information**

In the normal course of business, dealers and sales staff are often entrusted with proprietary and materially price-sensitive information by their management, clients and counterparties. To disclose such confidential information to unrelated parties - and, in some cases, to related parties - without consent before it becomes public is unethical and a breach of confidentiality. Dealing in financial instruments based on confidential information about the issuer of such instruments or the instruments themselves constitutes 'insider dealing' and possibly 'market abuse'.

Dealers and sales staff should not, with intent, profit or seek to profit from confidential information, nor assist anyone with such information to make a profit for their firm or clients. Dealers should refrain from trading against confidential information, and they should never reveal such information outside their institution, even after they have changed employment.

Banks/DFIs/PDs must have in place clearly documented policies and procedures, and strong systems and controls, to manage confidential information within the dealing environment and other areas of the institution which may obtain such information. This should include, where appropriate, 'Chinese walls' to restrict the internal distribution of confidential information to those who need to know in order to be able to execute orders for customers or for compliance purposes. Appropriate sanctions should be available to and used by management against staff who do not comply with policy or procedures, or breach controls. In the event of a breach of controls, management should act promptly to investigate the breach and should take appropriate steps to rectify the weaknesses that allowed the breach to occur and prevent any recurrence. Management has a responsibility to inform dealers of

the requirements of relevant legislation and regulations.

### **11. Professional Knowledge**

It is important to maintain a consistently high level of awareness and understanding of market practices and conduct among dealers and brokers so as to reinforce the foundation for strengthening overall professional standards of the dealing community. Therefore, market participants must ensure that their professional knowledge is competently maintained so that the interests of their customers are protected and the reputation of the markets preserved.

## **Chapter III: Dealing Practice**

### **1. Dealing at Non-current Rates and Rollovers**

Deals at non-market rates should be avoided, particularly for extension or rollover of a maturing forward contract, as such practices may result in concealment of a profit or loss; in the perpetration of a fraud, tax evasion or the giving of an unauthorized extension of credit. When setting the rates for the swap to extend the maturity, the spot rate should be fixed immediately within the current spread, to reflect current rates at the time the transaction was done.

In order to avoid misunderstandings it is recommended that the 'big figure' be included in all outright and spot FX quotations. However, it is common practice in markets for market makers to omit the 'big figure' in their quote for the sake of brevity and efficiency. This is done confidently, secure in the knowledge that the true or correct 'big figure' is understood by both parties and, if necessary, verifiable from official market data. Where disputes arise in quotations, it is highly unethical for one party to hold another to an erroneously agreed rate where the quotation is demonstrably and verifiably a big figure or more away from the prevailing market rate. If, however, high volatility at the time of the trade was such that there was reasonable doubt as to the correct big figure documented by authentic market records, then the rate agreed at the time of the trade should prevail as long as it was within the authenticated wider market spread at the time of the deal.

### **2. Rate Setting**

All market participants contributing in benchmark rates related to exchange rate and interest rate, should do so in a timely and honest manner. They must also make the necessary organizational arrangements to ensure that contribution of the rates is possible on a permanent basis without interruption due to human or technical failure. Management should ensure that employees are fully aware of the relevant laws and consequences involved with rate setting.

### **3. Stop-Loss Orders**

A clear understanding of all the conditions and ramifications should be reached between both parties before a stop-loss order is placed and accepted. Where a dispute arises as to whether the market reached the level required to trigger the execution of the order, it should be borne in mind that whichever source is used to verify the market range, a totally accurate definitive record may be difficult to obtain. Any one source such as an individual brokering company that may be asked to indicate market highs and lows may not always have the full trading range for the day and can only indicate the highs and lows which it has seen. All recognized significant market sources (Bloomberg, Reuters etc) should therefore be canvassed. The resulting information should be treated with discretion and professional caution.

### **4. Position Parking**

Position Parking is the practice whereby two counterparties agree a deal, usually on the understanding that the contract will be reversed at a specified same or later date, at or near the original contract rate irrespective of the interim market rate change. The consequence of such an agreement is that for a period of time, the obligations of an institution are excluded from its books of account and management or regulatory oversight.

These transactions could be undertaken either on the initiative of dealer to mask risk positions (usually in FX) thereby misleading management or on the initiative of banks to disguise speculative positions from authorities on or during reporting period. There could also be tax avoidance implications.

Under no circumstances should market participants engage with any counterparty in artificial transactions for the purpose of concealing positions or transferring profits and losses, sometimes referred to as points or position parking with any counterparty.

### **5. Consummation of a Deal**

Dealers should regard themselves as bound to a deal once the price and any other key commercial terms have been agreed. However, holding brokers unreasonably to a price is viewed as unprofessional and should be discouraged by management.

Where prices quoted are qualified as being subject to negotiation of commercial terms, dealers should normally treat them as bound to deal at the point where the terms have been agreed without qualification.

Verbal agreements are considered binding and the subsequent confirmation is regarded as evidence of the deal, but should not override terms agreed verbally. The practice of making a transaction subject to documentation is not regarded as good practice. In order to 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 thereafter.

Where voice brokers are involved, it is their responsibility to ensure the principal providing the price or rate is made aware immediately it has been dealt upon. Under no circumstances should brokerage firms inform dealer that a deal has been concluded when in fact it has not.

### **6. Dealing Quotations, Firmness, Qualification and Reference**

The obligation to trade at a quoted price and the procedure for qualifying quotes should be fully understood by both dealers and brokers.

All market participants, whether acting as principal, agent or broker, 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), is bound to deal at that price (or rate) in a marketable amount provided the counterparty name is acceptable. When dealing in fast-moving markets a dealer has to assume that a price given to a voice 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. 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 firm. If the principal has reached its credit limit for a particular counterparty, principal can 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.

### **7. Frivolous Quotes**

Dealers are strongly cautioned against making frivolous quotes which they have no intention of honoring and which are designed merely to mislead market participants.

Dealers should not engage in practices, which may realize immediate gain (or avoid loss) but may compromise their employers' or their own reputation. Dealers should promptly report to their management whenever they spot other brokers or dealers acting in a way that jeopardizes the interests or reputation of the treasury market, such as unsubstantiated "spoofing" (that is, a dealer putting quotes in the market and withdrawing almost immediately to avoid being hit as he does not intend to deal at that price).

### **8. Dealing with Unidentified/Unnamed Principals**

It is good practice for the Compliance, Legal and Credit functions within an institution to have full knowledge of the end principal's identity, prior to the execution of a transaction, in order that credit, "Know Your Customer", anti-money laundering and potential fraud issues can be addressed.

### **9. Deals using a 'Connected Broker'**

Complete disclosure is necessary where there is a shareholding or material connection between the broker and one of the principals. In order to avoid any potential conflict of interest and safeguard the independence of the broker / dealer, it is important that all the relevant information is disclosed and that the principals are fully aware of the situation.

Banks/DFIs/PDs should solicit information from all their front office personnel whether any of their close relatives are working in treasury of any Bank/DFI/PD or any one of FMAP accredited Foreign Exchange or Money Market interbank brokerage houses. Compliance Department of each Bank/DFI/PD will collect this information and will share the same with SBP in January & July every year.

Close relatives should include spouse, parents and parents-in-law, sons and daughters, brothers and sisters, brothers-in-law and sisters- in-law, niece and nephew, uncle and aunt and cousins.

## **Chapter IV: Disputes, Differences, Mediation and Compliance**

### **1. Disputes and Mediation**

Where disputes arise, it is essential that the management of the parties involved take prompt action to resolve or settle the issue quickly and fairly with a high degree of integrity and mutual respect.

In situations where the dispute cannot be resolved between the parties and where all normal channels have been exhausted, State Bank of Pakistan or its designated team will assist in resolving such disputes.

### **2. Differences between Principals**

Differences between principals frequently arise and when they occur every effort should be made to obtain a quick resolution with the early involvement of management.

All 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 payments have been made to wrong accounts, all parties involved, including those who are not counterparties in the trade, should co-operate to achieve a fair settlement.

### **3. Differences with Brokers and use of 'Points'**

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

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

- a) Differences should be routinely referred to senior management for resolution, thereby changing the dispute from an individual trader/broker issue to an inter-institutional issue. All compensation should take the form of a bank cheque or wire transfer in the name of the institution or adjustment to brokerage bills.
- b) All such transactions should be fully documented by each institution. 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.

#### **4. Compliance and Complaints**

It is important that all market participants understand that compliance with The Code of Conduct is essential to maintain a disciplined market with high ethical standards. To this end, SBP inspection team will check the compliance of Code of Conduct during regular inspection of Banks/DFIs/PDs.

#### **5. Money Laundering and Terrorist Financing**

Banks/DFIs/PDs must follow the instructions/regulations issued by State Bank of Pakistan regarding Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) from time to time and have clearly documented policies and procedures, and strong systems and controls, to avoid being exploited for money laundering or terrorist financing. Banks/DFIs/PDs must also ensure that, where any member of staff has any knowledge or suspicion of these activities or reasonable grounds for suspicion, this knowledge or suspicion is promptly reported by the institution to the responsible public authority. Measures must include effective training for staff in the front, middle and back offices. Training should ensure that staff are aware of the serious nature of these activities and the obligations on them to promptly report any knowledge or suspicions, while not revealing their knowledge or suspicions to the suspected criminal or terrorist. They should be trained to recognize an offence or form a suspicion where there are responsible grounds for doing so. They must also know to whom to report within their institution.

## **Chapter V: Authorization, Documentation and Telephone Taping**

### **1. Authorization and Responsibility for Dealing Activity**

The process of appointment or authorization of treasury dealers to trade has become an important and more formal function of control in recent years. This official recognition of individual dealers' roles and authority must be set out in writing by management so that there is no ambiguity as to the transactions, instruments, markets or trading platform in which the dealer is empowered to trade.

### **2. Terms and Documentation**

It is now common for OTC market deals to be subject to some form of legal documentation binding the two parties to certain standard conditions and undertakings. These can comprise either signed master agreements exchanged between the two parties or can take the form of standard terms.

Legal documentation covering instruments and transactions should be completed and exchanged as soon as possible after a deal is done, and the use, wherever possible, of standard terms and conditions to facilitate this process is recommended. When using such agreements, any proposed modifications or choices offered in the agreement must be clearly stated before dealing.

### **3. Qualifying and Preliminary Dealing Procedures**

Where quoted prices are subject to any qualifying conditions, these should be stated upfront or prior to quoting. These include: where a price is quoted subject to the necessary credit approval; finding counterparty for matching deals or the ability to execute an associated transaction.

### **4. Recording Telephone Conversations and Electronic Text Messages**

The use of recording equipment in banks/DFIs/PDs is mandatory. 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. Complete record of electronic communication modes used in the process of transacting business should be saved & stored properly.

When initially installing tape or other recording equipment, or taking on new clients or counterparties, Banks/DFIs/PDs should take steps to inform their counterparties and clients that conversations and messages will be recorded. The periods for which tapes and other records should be retained should reflect the way in which the terms and conditions of transactions have been agreed, duration of transactions and as per requirement of SBP if any.

There should be a clear written policy on whether and to what extent telephone conversations are taped and electronic text messages are recorded and how long tapes and other records are retained, explicitly taking into account legal and regulatory requirements. This policy should be reviewed regularly by management. It should also be ensured that all disputes are resolved before recorded data is discarded.

The policy on taping telephone conversations and recording electronic text messages



should impose controls to ensure taping and other recording is not deliberately or inadvertently interrupted. There should also be controls on access to tapes and electronic text message records, whether in use or in store, in order to prevent tampering.

However, dealers and other staff are reminded that, whether or not conversations are being taped or electronic text messages are being recorded, telephones and electronic text messaging systems in the institution are intended for business use and conversations and exchanges of text messages should be conducted in a professional manner.

#### **5. Use of Mobile Devices for Transacting Business**

The use of wireless communication devices (whether they are privately owned or company owned) to transact business can undermine the controlled environment in dealing rooms with fixed line telecommunication, tape recorded handsets and essential audit trails for all transactions.

Management should have clearly written guidelines to prohibit the use of these devices by trading, sales and settlement staff because it can be used to circumvent telephone recording and compromise confidentiality. Cell/smart phones are strictly prohibited within dealing room.

#### **6. Dealing Room Security**

Senior management should recognize the importance of strict security controls governing treasury personnel, access to the treasury area, dealing room equipment and systems. Specific and stringent access controls should be in place to cover treasury IT systems equipment and confidential information. Access to the dealing room by both non-treasury personnel and visitors should be limited in terms of frequency and duration. All staff should be vigilant and immediately report to senior management any suspicious activities or unusual requests for access to or information on treasury business or systems.

## **Chapter VI: Brokers and Brokerage**

### **1. The Role of Brokers and Dealer/Broker Relationship**

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

The role of brokers is to act only as intermediaries or arrangers of deals. In this capacity they should agree mutually acceptable terms between principals to facilitate the consummation of transactions. Senior Management should establish the terms under which brokerage service is to be rendered, agree that any aspect of the relationship can be reviewed by either party at any time, and be available to intercede in disputes as they arise. Management of both trading institutions and brokerage firms should ensure that their staffs are aware of and in compliance with internal policies governing the trader/broker relationship. The senior management should periodically monitor the patterns of broker usage and be alert to possible undue concentrations of business. If volume transacted through any broker exceeds 25% of the total business volume for that product, conducted through brokers, the same should be reported to ALCO where it should be discussed and recorded with rationale. The broker usage should be monitored separately for Money Market and FX market and approved list of accredited brokers should be reviewed/approved by ALCO on annual basis.

### **2. Commission/Brokerage**

Any solicitation or offer of waiver from prescribed Brokerage Rates Schedule by Product by either dealers or brokers would also be construed as monetary inducements to conduct business. Hence, there should not be any instances, whereby waiver are given on brokerage fee from the prescribed Brokerage Rates Schedule as agreed to and circulated by FMAP. The only exception to this condition would be transactions that are executed purely for "Routing Purpose", i.e., name change due to credit limits constraints between counterparties after disclosure of names. Such deals should be clearly marked & periodically checked by Internal Audit and Compliance.

### **3. Passing of Names by Brokers**

Brokers should not divulge the names of principals prematurely, and at all times, treat the details of transactions as absolutely confidential to the parties involved, until satisfied that both sides display a serious intention to transact. 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).

In all transactions, brokers should aim to achieve a mutual and immediate exchange of names. However, this will not always be possible. There will be times when one principal's name proves unacceptable to another; and the broker will quite properly decline to divulge by whom it was refused. This may sometimes result in the principal, whose name has been rejected, feeling that the broker may have actually quoted a price or rate which it could not in fact substantiate.

In such cases, some neutral body (FMAP Technical Committee) 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.

#### **4. Name Substitution/Switching by Brokers**

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

Brokers typically do not reveal the names of counterparties until the amount and rate are agreed upon. It is therefore possible that, after these details are agreed, the name of one counterparty may prove unacceptable to the other due to the unavailability of a credit line. In these circumstances, it is accepted market practice that brokers will attempt to substitute a third name to stand between the two original counterparties to clear the transaction.

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

## **Chapter VII: Back Office, Payments and Confirmations**

### **1. Back /Front Office Segregation of Duties/Reporting**

Strict segregation of front and back office duties and reporting lines should be observed. Where the middle office has a control or administrative function a similar segregation of duties and reporting should apply. The incentive and compensation plans for back office and middle office personnel should not be directly related to the financial performance of the traders.

### **2. The Confirmation or Automatic Matching of Transactions**

Confirmation of the details of a transaction between the back offices of the counterparties should be independent. Confirmations should be sent out in writing by an efficient and secure means of communication as quickly as possible after a transaction has been agreed.

This procedure helps to prevent settlement problems by identifying discrepancies in instructions in advance of the settlement day. It also provides assurance to management that dealers are reporting their positions accurately and provides an audit trail for subsequent investigation. In the event of a dispute over the terms of a transaction, valid confirmations can be used as evidence of the terms of the contract.

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. At a minimum, however, all confirmations should include the following information:

- (a) Date of transaction
- (b) By which means effected (broker, phone, telex, dealing system, E-Bond etc.)
- (c) Name and location of counterparty
- (d) Rate, amount and currency
- (e) Type and side of deal
- (f) Value date, maturity date and all other relevant dates (e.g. exercise date, etc.)
- (g) Standard terms/conditions applicable (e.g. FRABBA, BBAIRS, ISDA, ICOM, etc.)
- (h) Other important, relevant information (e.g. settlement instructions).

Brokers should confirm all transactions to both counterparties immediately by an efficient and secure means of communication. All deal tickets and broker contracts should be time stamped.

If a counterparty's confirmation is considered incorrect, the counterparty must immediately be informed (preferably in writing or by electronic means). A new confirmation (or written agreement to a correction) should be requested from and provided by the counterparty whose original confirmation was incorrect.

If a counterparty or customer does not respond to confirmations within appropriate time, the senior management of the party issuing the confirmations may need to consider what measures should be taken to protect their institution in the event of problems arising from the unconfirmed transactions.

### **3. Payment and Settlement Instructions**

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

However, in foreign exchange and money markets, it is not customary for brokers to pass payment instructions, but the counterparties themselves must exchange instructions without delay.

Whether dealing direct or through a broker, principals should ensure that alterations to original standard payment instructions, including the paying agent where this has been specifically requested, should be immediately notified to the counterparty, and where a broker has been used and at least one of the principals is in another country, to the broker also. This notification should be supported by written, telex or similar confirmation of the new instructions, receipt of which should be acknowledged by the counterparty concerned. Failure to inform the broker of a change in instructions could clearly place the liability for any ensuing difference with the principal. Where the beneficiary of a transaction is a third party, it is management's responsibility to ensure that appropriate authentication controls are in place for the payment to be executed.