



FMDA Dealers' Code of Conduct

May 2016

FMDA DEALERS' CODE OF CONDUCT

Table 1: Document Ownership and Creation Record

	Designation	Name	Signature	Date
Prepared by				
Approved by				
Approved by				

Table 2: Document Revision History

Document Version	Revised By	Revision Date	Modification Details
			Document Created

Notice and Warning

This document is solely for the use of Financial Markets Dealers Association (FMDA), Plot 1398B, Tiemiya Savage Street Victoria, Lagos. No part of it may be circulated, quoted or reproduced for distribution outside FMDA without prior written approval.

FMDA DEALERS' CODE OF CONDUCT

Table of Contents

1.0. Introduction	3
2.0. Code of Conduct	4
2.1. Principle 1	4
2.2. Principle 2	4
2.3. Principle 3	4
2.4. Principle 4	4
2.5. Principle 5	4
2.6. Principle 6	4
2.7. Principle 7	5
Practice Guidelines	6
A. General Practice Guidelines	7
1. Business Hours	7
I. After Hours and Off-Premises Dealing	7
II. New Holidays/Special Holidays/Market Disruption.....	7
III. Market Disruption.....	7
2. Personal Conduct Issues	9
I. Drugs and Abuse Substances.....	9
II. Entertainment and Gifts	9
III. Gambling/Betting between Market Participants.....	9
IV. Inappropriate Relationship with Brokers	10
V. Manipulation of Fixes	10
VI. Fraud	10
VII. Dealing for Personal Account.....	10
VIII. Confidentiality	11
IX. Misinformation and Speculations.....	11
X. Use of Confidential Information.....	11
3. Disputes, Differences, Mediation and Compliance	13
I. Disputes and Mediation	13
II. Differences between Counterparties.....	13
III. Compliance and Complaints.....	14
B. Peculiar Practice Guidelines	15
4. The Front Office	15
I. Dealing Practice	15
II. Dealing at Off-Market Rates.....	15
III. Stop-Loss Orders	15
IV. Position Parking.....	16
V. Dealing Room Security	16
5. The Middle Office	16
I. Trade Surveillance	17
II. Reconciliation	17
6. The Back Office	18
I. Back Office Location and Segregation of Duties / Reporting.....	18
II. Confirmation Procedure (Written or Electronic).....	18
III. Payment and Settlement Instructions	19

FMDA DEALERS' CODE OF CONDUCT

1.0. Introduction

Financial Markets Dealers Association (FMDA), formerly Money Market Association of Nigeria (MMAN) was established in 1976 and formally registered in 1989 as an Association of the Treasurers of licensed banks, merchant banks and discount houses in Nigeria under land (Perpetual Succession) Act of 1962 and registered later under the Incorporated Trustees on 11th March 2010 as FMDA; to develop financial market infrastructure, human capital and promote professional and ethical standards in treasury activities in Nigeria. Following the adoption of the Association's constitution, several market participants (i.e. corporate organisations as well as individuals) have been granted membership.

The FMDA in line with its commitment to promoting ethical standards by fostering entrenchment of global best practices in its segment of the financial markets, hereby establishes a set of guidelines (i.e. Code of Conduct) which should be followed by all individual members of FMDA (hereafter referred to as FMDA's Members).

The aim of this Code of Conduct "Code" is to assist FMDA's Members in adopting high standards of behaviour when conducting business with customers, counterparties and colleagues in the over-the-counter (OTC) and exchange-traded markets, and when providing financial services to retail and wholesale customers. The Code provides a guide to assist in making decisions and judgements where there is no clearly articulated rule or legal requirement, or where interpretations of principles-based laws or rules are required. The Code supports behaviours that put the interests of clients, the firm and the wider community ahead of personal or individual interests.

The Code should be read and applied in the context of each Member's business in the financial markets. It is the responsibility of Members to make themselves familiar with this Code, and at all times conduct themselves in a manner that reflects positively on the industry. In the event that a Member contravenes the Code, a complaint may be made against him/her under the FMDA's Disciplinary Rules and he/her may become liable disciplinary action in accordance with those rules.

The Code is hereby presented in two (2) parts for ease of reference:

1. Code of Conduct - These Principles are inter-related and several may apply in a single situation
2. Practice Guidelines - The Guidelines provides further guidance to Members on the application of the Principles.

While steps have been taken to ensure that the Code of Conduct is as comprehensive as possible, this Code is not exhaustive. It is our hope that both the letter and the spirit of the Code will be adhered to.

FMDA DEALERS' CODE OF CONDUCT

2.0. Code of Conduct

The Principles outlined in the document are described in a statement of values, reflecting the fundamental beliefs that should guide the ethical reasoning, decision-making and behaviour of all FMDA Members. All Members are expected to act in accordance with the principles outlined in this document.

2.1. Principle 1

Responsibility and Accountability

All Members are aware of their ethical, legal and professional responsibilities incumbent to the specific communities in which they work and also to FMDA. Members should avoid any misconduct that might bring FMDA or the reputation of the profession into disrepute.

2.2. Principle 2

Integrity and Honesty

Members should act with integrity, competence, diligence, respect and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.

2.3. Principle 3

Professionalism

Members should use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.

2.4. Principle 4

Respect and Fairness

Members must not discriminate against others on the basis of: ethnicity, gender, age, religion, disability, sexual orientation, social background, political beliefs, personal history or any other aspects of personal identity. All members should promote equal opportunity, celebrate diversity and encourage an environment free of discrimination.

2.5. Principle 5

Privacy and Confidentiality

Members must respect the individual and collective rights to privacy and maintain confidentiality in compliance with Nigerian and International law and regulations.

2.6. Principle 6

Self-Development

FMDA DEALERS' CODE OF CONDUCT

Members should maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

2.7. Principle 7

Conflicts of Interest

Members should declare any competing professional or personal interests that may be pertinent to their activities within their employer organisation. Any activities undertaken in the organisation's interest must be consistent with its vision, mission and strategic objectives. Any competing interests can make it difficult to fulfil the duties impartially and steps should be taken to eliminate any potential conflicts of interest that may arise.

FMDA

FMDA DEALERS' CODE OF CONDUCT

Practice Guidelines

The FMDA code of conduct practice guidelines binding market participants are arranged as follows:

- A. General Practice Guidelines
 - 1. Business Hours
 - 2. Personal Conduct Issues
 - 3. Disputes, Differences, Mediation and Compliance
- B. Peculiar Practice Guidelines
 - 1. The Front Office
 - 2. The Middle Office
 - 3. The Back Office

General

Business Hours

**Personal
Conduct Issues**

**Disputes,
Differences,
Mediation and
Compliance**

Peculiar

The Front Office

**The Middle
Office**

The Back Office

FMDA DEALERS' CODE OF CONDUCT

A. General Practice Guidelines

1. Business Hours

I. After Hours and Off-Premises Dealing

The financial market officially opens at 8:00 A.M and closes at 4:00 P.M Nigerian time every business day of the year.

Given the official end of day for the financial market is 4:00 P.M, transactions consummated after this time or from off-premises, either by mobile phone or any other equipment or device should only be undertaken with the approval of Management. Members must adhere strictly to all written guidelines issued to staff on the kinds of deals which are permitted, the limits applicable to such transactions and their specified normal financial markets hours. Any transaction done after this time should be marked for the next business day.

II. New Holidays/Special Holidays/Market Disruption

New holidays or non-business/clearing days ("Unscheduled Holiday") may be announced by the authorities of the Federal Government of Nigeria. Such announcements of Unscheduled Holidays may be made within a very short time period preceding the originally agreed settlement date for a transaction. Members should adhere to clear market practice/procedures put in place by organisations in order to ensure smooth and efficient functioning of the market, bearing in mind that these holidays are unforeseen.

In the event that an Unscheduled Holiday is declared which would prevent settlement of transactions on a specific date, it is market practice to extend contracts maturing on a non-business day to the next business day. There will be *no adjustments* to the prices on the outstanding contracts or transactions.

Members responsible for the operation, administration and/or Management of electronic trading/broking/trade support initiatives ("E-trading owners"), should adhere strictly to the rules issued by local regulators in instances of market disruption in order to maintain efficiency and avoid disputes.

In case such rules or procedures conflict with any provision of the existing written agreement, the parties should consult their local counsel as to the effect of such procedures. If the rule or procedure is not mandatory in nature, the parties shall consult with each other whether they wish to adhere to the terms of the agreement or to amend the terms of the transaction to follow the relevant procedure.

III. Market Disruption

There are instances where the parties are prevented from performing their obligations under a transaction due to an event, which was unforeseen at the time the transaction was entered into and which is beyond the parties' control.

Members should ensure that their organisations provide for these event(s) in their contracts. Various industry groups have developed standard languages to cover these types of events and

FMDA DEALERS' CODE OF CONDUCT

the consequences of such events to their contractual relationships. Appropriate provisions should be adopted in order to avoid disputes as much as possible.

In addition, even where parties have a written agreement in place, the FMDA may convene a meeting to form a market consensus in certain cases, where strict adherence to the market standard provisions is impracticable.

Although it is strongly encouraged that Organisations include a written agreement in its contracts to govern issues arising from market disruptions, where no agreements are in place the Code for best practice in Business hours (III) "new holidays/special holidays" shall be used where practicable.

FMDA

FMDA DEALERS' CODE OF CONDUCT

2. Personal Conduct Issues

Key personal conduct issues prohibited to all Members covered in this document include the following:

1. Drugs & abuse substances
2. Entertainment & gifts
3. Gambling and betting between market participants
4. Fraud
5. Dealing for personal account
6. Confidentiality issues
7. Misinformation and rumours
8. Inappropriate customer relationships, advice and liability
9. Use of Confidential Information

The Code's provisions in this section are in line with global best practice:

I. Drugs and Abuse Substances

Members should take all reasonable steps to educate themselves about possible signs and effects of the use of drugs including alcohol and other abuse substances. Members should not perform services for their clients if it is possible that their judgement may be impaired by illicit drugs or alcohol. Members should be alert to possible signs and effects of drug or alcohol abuse and offer support to their colleagues as considered appropriate.

II. Entertainment and Gifts

Gifts or entertainment can be offered in the normal course of most businesses. However, financial markets need to be particularly vigilant in the avoidance of excesses or abuse of this practice.

Members must neither offer inducements to conduct business, nor solicit them from the personnel of other institutions. However, it is recognised 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 and must be in accordance with laid down organisational policies and procedures.

III. Gambling/Betting between Market Participants

For many years, the practice of making personal bets or wagers between market participants has frequently been a cause for concern amongst management of financial institutions. The underlying topic or contest for the bet can be the publication of a financial indicator such as official market figures, a political event, or a sport.

Excesses or abuse of such gambling can become addictive and lead to extremely serious consequences, including conflict of interest and even personal financial ruin.

The Code strictly opposes this practice and for the avoidance of doubt, gambling or betting amongst market participants has obvious dangers and are prohibited.

FMDA DEALERS' CODE OF CONDUCT

IV. Inappropriate Relationship with Brokers

Dealing between brokers and dealers should be at arm's length. Transactions must be transparent without any hidden benefit to the any of the parties involved in the transactions. Inappropriate actions include, but are not limited to, churning to generate broker commissions, layering, collusion and the exchange of gifts in cash and kind to the detriment of other stakeholders.

V. Manipulation of Fixes

Trading and other actions done with the intent to influence the price of the fix should be clearly forbidden.

VI. Fraud

Members should be alert to matters which could give rise to fraud, deception, theft, forgery, corruption or other illegal activities. Whilst treasury staff are generally precluded from a direct role in any administrative procedures requiring special authentication such as making payments to a third party, instances of fraud have been known to occur, especially in collusion with operations staff.

Members must comply with controls which have been put in place to prevent the perpetration of fraud and other criminal activities. In the event of any suspicious transactions or circumstances employees must notify their employers without delay.

VII. 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. The Code advocates clear written management policies and controls.

Should dealing for personal account be allowed, Management must 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 who might adversely affect the interests of the institution's clients or counterparties.

In addition, there should be a clearly defined policy for personal transactions of staff including investment. Written procedures, including full disclosure and transparency requirements, should be in place to cover these transactions as well as "related party transactions".

Managers should be aware that a conflict of interest could arise if treasury staff are permitted to invest for themselves in those instruments or products closely related to the ones in which they invest for the institution and should stipulate clearly which ones, if any, the treasury staff can invest in for their own account.

Managers should also be aware of the unprofessional practice often referred to as 'front running'. This arises when an employee executes a personal deal in advance of a client or institutional order to benefit from an anticipated movement in the market price following the execution of a large transaction.

FMDA DEALERS' CODE OF CONDUCT

Treasury staff should recognise that they have a responsibility to identify and avoid conflicts of interest.

VIII. Confidentiality

Treasury staff are privy to highly confidential information. In order to preserve a reputable market, it is therefore essential that strict standards of confidentiality are maintained and that all treasury staff exercise great care during conversations especially because vital information can easily be overheard or read through modern communications systems or in the public domain.

Confidentiality is essential for the preservation of a reputable marketplace. Members share 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 transacted, or in the process of being arranged, except to or with the counterparties involved.

Treasury staff shall exercise great care where confidential issues are discussed in the public domain where there is danger that conversations may be overheard.

Treasury staff should neither ask nor in any way pressurise the counterparty for information which would be improper for the counterparty to divulge nor should the counterparty volunteer such information.

Pressure could include any statement to the effect, or which could be taken as implying, that failure to co-operate would lead to a reduction of the business given by treasury staff or other treasury staff to the counterparty.

Treasury staff shall resist any similar pressure from corporate clients or counterparties to divulge confidential information.

Any breach in confidentiality shall be investigated immediately according to proper documented procedure.

IX. Misinformation and Speculations

Financial markets are generally responsive to news on related developments. It is not surprising therefore that speculations and misinformation emanating from various sources are often relayed through the market telephone lines and screens.

These speculations can be quoted, or may even originate in the financial media. The Code requires that treasury staff and counterparties refrain from passing on any information which they know to be untrue, and should take great care when discussing unsubstantiated information which they suspect to be inaccurate and could be damaging to a third party.

X. Use of Confidential Information

In the course of consummating transactions, treasury and other 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, related parties without consent before it becomes public is unethical and a breach of confidentiality.

FMDA DEALERS' CODE OF CONDUCT

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'. Members should not, with intent or through negligence, profit or seek to profit from confidential information, nor assist anyone with such information to make a profit for their Organisation or its clients. Members should refrain from dealing against confidential information, and should never reveal such information outside their Organisations, even after they have changed employment.

Management must put in place clearly documented policies and procedures, and effective systems and controls to manage confidential information within the dealing environment and other areas of the organisation which may obtain such information. These should include, where appropriate, 'Chinese walls' to restrict the internal distribution of confidential information on a need to know basis for the execution of orders 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 take appropriate steps to rectify the weaknesses that allowed the breach to occur and prevent any recurrence.

Individual Members have the responsibility to protect the confidentiality and integrity of proprietary and materially price-sensitive information while Management provides clear guidelines on how to handle such information.

FMDA DEALERS' CODE OF CONDUCT

3. Disputes, Differences, Mediation and Compliance

The areas covered in this section include the following:

- I. Disputes and Mediation
- II. Differences between Dealers
- III. Compliance and Complaints

I. Disputes and Mediation

Where disputes arise, it is essential that the Management of Organisations and the other 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 settled by the parties concerned and where all normal channels have been exhausted, then the disputes between financial market participants should be referred to the FMDA Reference Allocation Committee.

The vast majority of disputes to be referred to the FMDA Reference Allocation Committee are disputes from:

- (a) failure by counterparties (members of FMDA) to use clear, unambiguous terminology resulting in the parties concerned having different ideas of the amount, the value date or period, or even who bought and who sold
- (b) failure by back office staff to promptly and accurately check counterparty's confirmation

II. Differences between Counterparties

Differences between counterparties frequently arise and when they occur, every effort should be made to obtain a quick resolution with the early involvement of management. When payments have been made to wrong accounts, the Code strongly recommends that all parties involved, including those who are not counterparties in the transaction, should co-operate to achieve a fair settlement. If the general controls and procedures recommended in this Code are adhered to, the incidence and size of differences should be reduced and those mistakes that do occur should be identified and corrected promptly.

Nevertheless, mistakes and disputes may arise from time to time. As stated in the introduction, disputes should be routinely referred to senior management for resolution, thereby transforming the dispute to an inter-institutional issue. When a dispute involves the amount, 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 an action should immediately be taken by one of the parties concerned (preferably with the agreement of the other) to square off or neutralise 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 differences in payments arise as a result of errors in the payment of funds, neither treasury officers nor other market participants should benefit from undue enrichment from the erroneous free use of 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 resolution to the problem.

III. Compliance and Complaints

It is important that all Members understand that compliance with the Code is essential to maintain a disciplined market with high ethical standards. To this end, the FMDA Reference Allocation Committee is fully prepared to investigate complaints concerning breaches of the Code and shall take appropriate action where necessary.

Management should ensure that all complaints involving transactions are fairly and independently investigated, whenever practicable, by employees or representatives of the institution who were not directly involved in the disputed transaction.

If an Organisation believes that a counterparty has breached the letter or spirit of the Code in respect of any transaction in which it is involved, it should seek to settle this amicably with the other party. If this is not possible, the institution which is subject to the complaint should make the complainant aware that it can bring the matter to the attention of FMDA who will go through the following process for possible resolution:

- (a) examine the complaint;
- (b) consult the FMDA Reference Allocation Committee and, where justified;
- (c) bring the matter to the attention of the appropriate regulatory body

B. Peculiar Practice Guidelines

4. The Front Office

- I. The key Front Office specific areas covered in this document include the following: Dealing Practice
- II. Dealing at Off-market Rates
- III. Stop-Loss Orders
- IV. Position Parking
- V. Dealing Room Security

I. Dealing Practice

Members shall avoid participating, for own account or on behalf of another person, in any practice which has created or is likely to have the effect of distorting prices and creating an artificial appearance of market activity (market manipulation).

In particular, no Member may be involved in approving or entering into a transaction:

- (a) to buy at successively higher prices or to sell at successively lower prices for the purpose of unduly influencing the market price
- (b) which involves no change in the ultimate beneficial ownership or with the knowledge that an opposite transaction(s) at substantially the same price has/have been or will be entered into by or for the same or different persons, with the intention of creating (i) a false or deceptive appearance of the trading activity in; or (ii) an artificial market price
- (c) to buy or sell in an auction and cancelling such order immediately prior the auction matching, for the purpose of creating a false or deceptive demand or supply appearance or an artificial price
- (d) effecting or assisting in effecting a market corner
- (e) maintaining an artificial transaction price

II. Dealing at Off-Market Rates

The Code strongly prohibits the practice of dealing at off-market rates. The practice can only be condoned by employers under stringent policies and procedures.

Dealing at off-market rates should be avoided as this practice may result in concealment of a profit or loss, in the perpetration of fraud, tax evasion or the giving of an unauthorised extension of credit. Where, however, the use of off-market rates may be necessary, they should only be entered into with the prior express permission of the Management of both parties to the deal in accordance with organisation policies and procedures. Furthermore, the cash flow implications of dealing at off-market rates should be taken into account in the pricing.

III. Stop-Loss Orders

The wide acceptance of technical concepts and controls in recent years has led to a substantial increase in the use of stop-loss orders. The Code emphasises the importance of clear, concise documentation and on-going lines of communication.

FMDA DEALERS' CODE OF CONDUCT

The various types of stop-loss orders can have different conditions for triggering the order. A clear understanding of these conditions and ramifications should be communicated by the Management before a stop-loss order is set and accepted.

These conditions should be explicitly identified; specifying any time validity or any other constraints agreed between the parties concerned and must be within Management criteria on such orders. There should be no room for misunderstanding between the parties as to the terms under which the order has been given and accepted.

Stop-loss orders should be documented in the risk management framework and must be clearly communicated so that all parties are aware of what is expected and required of them. Terminologies should also be clear and without any ambiguities.

IV. Position Parking

Position parking is the practice whereby two contract parties agree to a deal, usually on the understanding that the contract will be reversed at a specified 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. In other words, the true position/exposure of the organisation is not documented.

These transactions could be undertaken either on the initiative of dealers to mask risk positions thereby misleading Management or on the initiative of organisations to disguise speculative positions from the authorities on or during a reporting period. The Code's stipulation on this issue is unequivocal.

The 'parking' of deals or positions with any counterparty is therefore prohibited.

V. Dealing Room Security

The Code recommends a strict security policy covering access to the dealing room both for non-treasury staff and external visitors.

Notwithstanding the various security and operational risk control related provisions, management should be aware of the vulnerability of the dealing room to disruptive action or even acts of terrorism and sabotage.

In this respect, Management should have strict security measures in place covering treasury staff, treasury equipment and access to the treasury IT systems equipment and confidential information.

Members should be vigilant and immediately report to Management any suspicious activities or unusual requests for access to information on transactions or systems.

5. The Middle Office

The key Middle Office specific areas covered in this document include the following:

FMDA DEALERS' CODE OF CONDUCT

- I. Trade Surveillance
- II. Reconciliation

I. Trade Surveillance

The Code recommends that Organisations should implement a trade surveillance policy and system that is able to (i) evaluate all trades (ii) identify missing, failed, and erroneous entries (iii) identify people to be notified in the event of an error or potential violations of trading rules

Members shall direct any behaviour, pre-or post-trade, not compliant with the rules or firm's policies to relevant staff responsible for such compliance. Investigation should then ensue to determine whether the trading activity was a legitimate strategy or could be considered as market manipulation.

Procedures should be in place to have independent checking of the mark-to-market positions by an independent function (generally market risk) within the organisation; this area should be completely separate from the front office.

As much as possible, automation should be used in addition to manual monitoring procedures. Reports generated by alert systems should be made available for responsible staff and Management on the following trading day (at the latest) or according to the schedule set out in the Organisation's internal review procedure.

However, the Organisation's internal review system should take into account the different rules, regulations and risk management requirements in Nigeria.

II. Reconciliation

Account reconciliations should be done regularly to detect missing, failed or erroneous entries at an early stage and to provide counterparties or clients with prompt feedback of issues.

Appropriate segregation of duties is required and reconciliations should be carried out by employees who are not involved in processing of transactions that would affect the balances of accounts held with correspondent Banks.

The following settlement/payment discrepancies should be considered:

- (a) Non-receipt of funds
- (b) Late payment
- (c) Payment to an incorrect correspondent or counterparty
- (d) Payment of incorrect amount
- (e) Duplicate payment

Management should determine how the Organisation monitors, reports and notifies internal parties on these discrepancies. In order to obtain a quick resolution, the counterparty or correspondent should be informed at the earliest opportunity.

FMDA DEALERS' CODE OF CONDUCT

6. The Back Office

The key Back Office specific areas covered in this document include the following:

- I. Back Office Location & Segregation of Duties/Reporting
- II. Confirmation Procedure
- III. Payment & Settlement Instructions

I. Back Office Location and Segregation of Duties / Reporting

The Code strictly recommends a strict segregation of duties and reporting lines as well as independent risk management controls between front and back office staff. The issue of physical segregation or location of the two offices is a matter for the Management of Organisations to decide in light of essential controls and its internal policies.

The incentive and compensation plans for back and middle office personnel should not be directly related to the financial performance of the front office (i.e. treasury) staff.

II. Confirmation Procedure (Written or Electronic)

One of the essential risk controls available to institutions dealing in financial markets has been the independent confirmation of the details of a transaction between the back offices of the counterparties. Failure to ensure that confirmations are sent as well as the failure caused by the interception of confirmations by treasury staff has contributed to many of the most notorious incidents of deception by rogue treasury staff.

Confirmations continue to be an essential risk control in bilaterally negotiated and settled transactions. One of the essential risk controls available to Organisations is the prompt independent crosschecking of transactions reported by their treasury staff. This procedure helps to prevent settlement problems by promptly identifying discrepancies in instructions in advance of the settlement day. It also provides assurance to Management that treasury staff 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.

Cross-checking is implemented through the issuance or electronic copy of confirmations by one or both of the back offices of counterparties to a transaction. Organisations as a matter of policy should always have its back office issue a contract letter regardless of the type of counterparty to the transaction.

Its back offices should be independent of and segregated from front offices. It is imperative that front office staff should not be able to intercept confirmations. Confirmations should be sent out by an efficient and secure means of communication as quickly as possible after a transaction has been agreed and should be addressed to the back office of the counterparty.

Where transactions are executed under a master agreement, but that agreement has not been signed, unresolved differences over the detail of the agreement should not delay the exchange of confirmations.

The format and content of a confirmation will vary according to the transaction type. At a minimum, however, all confirmations should include the following information:

- (a) date of transaction
- (b) details of the security purchased or investment

FMDA DEALERS' CODE OF CONDUCT

- (c) name and location of counterparty
- (d) yield, price and consideration
- (e) type and size of deal
- (f) value date, maturity date and all other relevant dates (e.g. exercise date, etc.)
- (g) standard terms/conditions applicable
- (h) other important, relevant information (e.g. settlement instructions)

It is vital that Organisations checks the confirmations carefully and immediately upon receipt, so that discrepancies can be quickly revealed and corrected. If an incorrect confirmation is identified, an Organisation must immediately inform the counterparty. A new confirmation (or written agreement to a correction) should be requested from and provided by the counterparty.

It is not uncommon for only one of the parties to a transaction to send out confirmations. This practice is not recommended as it gives rise to operational and legal risks. If the Organisation acquiesces in the practice because of the insistence of counterparty, then Management of the counterparty should commit in advance and in writing to check confirmations promptly and respond in good time by agreeing/querying the terms of the transaction. It is also essential that Management puts in place procedures for chasing a response if one is not forthcoming within a few hours of the confirmation being sent.

If a counterparty does not respond to a confirmation, Management may need to consider what measures should be taken to protect the institution in the event of problems arising from the unconfirmed transactions. The precise method of confirmation and how discrepancies are resolved are the responsibility of Management.

III. Payment and Settlement Instructions

Payment and settlement instructions should be passed as quickly as possible to facilitate prompt settlement.

The use of Standardised Settlement Instructions (SSIs) between counterparties who regularly deal with each other is strongly recommended as their use can make a significant contribution to reducing both the incidence and size of differences arising from mistaken settlement of funds. SSIs should be established and strictly adhered to.

When dealing with counterparties, treasury staff should ensure that alterations to original payment instructions should be immediately notified to the counterparty. This notification should be supported by written, electronic or similar confirmation of the new instructions, receipt of which should be acknowledged by the counterparties concerned.

Where differences or costs occur resulting from counterparty's error on payment instructions, it should be recognised that once payments do go astray, the counterparty is limited in what action it can directly take to rectify the situation. It is therefore recommended that the counterparty's liability in the event of such an error should be limited accordingly.