

The Committee's Deliberation On Market Practices

At the formation of the Singapore Foreign Exchange Market Committee, the Market Practices Sub-Committee was commissioned with the objective of fostering "healthy market competition based on participants adhering to accepted rules of conduct and practices". More specifically, it was to monitor developments in the local market and to identify problems and difficult areas and serve as a feedback unit to the main Committee. The Sub-Committee also took on the task of acting as a conduit to the main Committee for more self-regulation in areas pertaining to market practices. It was also entrusted with the task of updating the code of conduct relating to the ethics of the business.

For the Committee to effectively represent the Treasury fraternity, it was decided that an ongoing forum was needed. Hence, lunch meetings were held over a period of 6 months for Treasury and bank heads, and subsequent informal meetings were also arranged for the chief and senior dealers of respective banks and brokers. In addition, information pertaining to market developments was circulated by the Committee to highlight current issues facing the market place. These meetings enabled the Committee to assess, from the participants in the markets themselves, the problems relating to their Treasury activities.

The Committee also decided to tackle a number of issues which have affected the dealing and broking system since the start of Singapore's foreign exchange and money markets. They are encountered in daily operations and have tended to create inefficiencies in the market place. They are both time consuming and costly and, if left unchecked, could compromise Singapore's status as a major financial centre.

The major issues were:

- "Stuffing": (Committing the brokers to a transaction to which they have no counterparty.) The Committee felt that although there is no immediate solution to the problem, certain steps could be taken to minimise it. It was also felt that the dealer/broker relationship played a major role in compounding the situation. Improving this relationship could help to alleviate the problem.

As the unethical practice of habitual "stuffing" has been effectively curbed, it was agreed that "difference letters" need no longer be copied to the Authority. This move would help to eradicate associated abuses e.g. owing of points, name-switching and even brokers taking positions hoping to show "improvements" on future deals.

- Breach of confidentiality: Although exchanging information is a practice fundamental to the business, the Committee was concerned with unethical solicitation by dealers and the frivolous passing of unsolicited information by brokers, as a means to increase business. Confidentiality and anonymity are essential to the operation of a professional foreign exchange and money market and it must not be compromised.
- "Name switches": The Committee felt that this was a time consuming exercise that could be avoided if banks make an effort to increase their trading limits with other banks and brokers avoid closing deals between counterparties that have no dealing limit with each other. On this issue, dealers should be reminded that the onus is not always on the broker to switch names they cannot deal with.

- **Excessive Entertainment:** While the practice of market participants meeting over meals or drinks is useful from the viewpoint of fostering healthy business relationship, it could be open to abuse. Because of the nature of the foreign exchange and money markets and how business is conducted, close personal relationship may develop between professionals. This interaction can be constructive to the smooth functioning of the market, but the risk may exist that these ties may tempt a trader to assist a fellow practitioner at the expense of the employer. It is therefore essential for principals of broking firms and the management of banks to formulate suitable guide-lines against excessive entertainment.
- **Differences Payable:** Recent discussions with the brokers were encouraging as they revealed a reduction in differences paid out to banks, arising from a genuine interest on the banks' part in not committing brokers to transactions that they have missed. The situation can be improved further if there is better appreciation for each other's role and for the difficult environment they each operate in.

Foreign exchange units which initially operated as a service for the banks' customers are now major profit centres themselves. Accordingly, management is expanding its treasury operations and emphasising on the profitability from its units. With new entrants joining the industry, they bring with them different practices and perceptives. It is the task of management to ensure that they work within an accepted code of conduct of the industry.

The Committee will continue to foster healthy practices in the market and provide dialogue amongst market participants. This is to create an awareness of the problems in the market and also to facilitate a better understanding in the dealing room.