

foreign exchange committee



July 13, 2018

Dear Market Participant,

Member firms of the [Foreign Exchange Committee](#) (the “Committee”) have noted that participants in the foreign exchange market occasionally send to dealing firms notices, letters and other communications (“authorization letters”) that limit and/or restrict the authority of individuals to submit orders or instructions, trade, invest or authorize settlement-related instructions on the firm’s behalf. Such letters attempt to shift the burden of enforcing compliance with internal policies and controls from the participant to the dealing firm, and are generally inconsistent with good practices in the wholesale foreign exchange market.

With respect to trade entry, the limitations set forth in such authorization letters may take a number of forms including, but not limited to, restrictions on particular employees with respect to currency, amounts, tenors that may be traded, and/or types of instrument. In terms of authorizing settlement-related instructions, the letter may restrict the employees that are authorized to confirm trades or provide settlement instructions for particular products, currencies, or notional trade amounts. Such authorization letters may or may not require that the receiving firm indicate its acceptance of these limitations by returning a signed acknowledgment.

A dealing firm may require clients to validate that information or instructions received by it have originated from a known entity or individual (“authentication”). In the absence of (or in order to support) authenticated communication methods, firms may exchange names of persons authorized to transact or provide instructions on behalf of an entity, and/or institute requirements in accordance with applicable law, regulation or policy designed to manage risk and promote safe markets. Such requirements, however, should be intended to validate individuals or online users of a particular dealing environment, rather than to represent the authority of individuals to perform narrowly-defined tasks.

While authentication is a key component of effective market, operational, legal, and reputational risk management, each market participant is responsible for ensuring that its own staff adheres to internal guidelines and authorization restrictions. To send letters that request or would require that a firm monitor whether an individual has authority to act for an entity is contrary to common principles of dealing as principal in the foreign exchange market, and the spirit and intent of authentication. The Committee has consistently taken the position that wholesale foreign

exchange market participants are responsible for ensuring compliance with their own internal policies and procedures.

A market participant may wish to reply to such authorization letter or request, in the event that such participant has a policy and wishes to assert that policy, of not agreeing to such letters. These responses may take the form of a communication in which the participant affirms that its receipt of such authorization letter does not impose any duty on it to monitor compliance with the restrictions set forth in the letter or impose any liability if it fails to do so.

In sum, the Committee believes that authentication remains an important element of the management of risk. Market participants are encouraged to employ secure automation to the extent possible to facilitate authentication in order to mitigate the risk of fraud and to administer controls, particularly when dealing via online portals or platforms. Letters and other documentation that purport to unilaterally shift the burden of enforcing compliance with internal policies and limitations to a market counterparty, or that may have that effect, however, are generally inconsistent with good practices in the wholesale foreign exchange market and, as a matter of law, may raise serious issues regarding enforceability.

For more information regarding expectations of market participants when dealing in the foreign exchange market generally, please see the FX Global Code (as published by the Global FX Committee, May 2017, as may be amended from time to time) (www.globalfx.org).

By publication hereof, the Committee amends and updates in its entirety the version of this letter last updated and published July 14, 2005.

Very truly yours,

The Foreign Exchange Committee