



LEADING TREASURY
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BRIEFING NOTE:

UK MONEY MARKETS CODE

GUIDANCE FOR CORPORATES

JULY 2017



**LEADING TREASURY
PROFESSIONALS**

Briefing note

UK MONEY MARKETS CODE: GUIDANCE FOR CORPORATES

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The Association of Corporate Treasurers

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This briefing note is written in general terms and draws extensively on materials published by various working groups involved in the development of this Code. It does not constitute advice, whether investment or otherwise. Readers should therefore seek professional advice before taking any steps in relation to the subject matter of this briefing note, and this briefing note should not be relied upon as a substitute for such advice. Although the ACT has taken all reasonable care in the preparation of this briefing note, no responsibility is accepted by the ACT for any loss, however caused, suffered by any person in reliance on it.



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Executive Summary

This Briefing Note is written with corporates in mind and therefore highlights those points of the UK Money Markets Code particularly relevant to them.

The ACT recommends that all readers of this Briefing Note review Chapter 1 of The UK Money Markets Code and those chapter(s) relevant to their money market activities when deciding the most appropriate response for their organisation. They may also find relevant parts of The UK Money Markets Code Explanatory Notes useful.

What is the UK Money Markets Code?

The UK Money Markets Code (UK MM Code) is a voluntary code setting out principles of good practice in the wholesale UK unsecured deposit, repo and securities lending markets. The purpose of the UK Money Markets Code is to establish a fair, effective and open market for all.

Why was it developed?

The unsecured deposit elements of the Code were originally included within the now redundant Non-Investment Products (NIPs) Code. They were extracted and updated when the foreign exchange sections of the old NIPs Code were removed to be included within new FX Global Code (published May 2017 – refer http://www.globalfx.org/docs/fx_global.pdf). Similarly, the repo and securities lending elements of the Code were also updated resulting in the UK Money Markets Code superseding the NIPS Code, the Gilt Repo Code and the Securities Borrowing and Lending Code.

Who does it apply to?

The UK MM Code applies to UK Market Participants and the Code uses the Eligible and Professional Counterparties Criteria from the Financial Conduct Authority (FCA) Handbook. A UK Market Participant is defined as an organisation or individual who is regularly active in the unsecured deposit, repo or securities lending markets. Application of the Code is intended to be appropriate and proportionate. UK Market Participants who are both less complex and smaller may exercise judgment in how they apply the Code.

What products are within the scope of the Code?

The Code covers the UK sterling and foreign currency wholesale unsecured deposit market, (including CDs, CP and bank deposits but excluding call accounts and transactional banking); repos; and securities lending. Only those aspects of the Code in which a UK Market Participant operates are relevant.

How is it structured?

Chapter 1 of the Code outlines the key principles to promote the integrity and effective functioning of the UK money markets. Chapters 2, 3 & 4 cover each of the unsecured money markets, repo and securities lending markets respectively.

The process of adoption

Although voluntary, the Bank of England and UK financial regulators are taking a close interest in the implementation and statements of commitment to this Code. Financially regulated firms, such as banks, will be expected to apply The Senior Managers and Certification Regime to the Code.

Firms that are not financially regulated, such as corporates, should be familiar with the UK MM Code, how it might be relevant to them and their counterparties, and consider how they can adopt the UK MM Code in a proportionate manner.

Proportionality is embedded in the Code and adherence to the principles of the Code can be affirmed by a standard Statement of Commitment using a pro forma template set out in Appendix 1.

What does it mean for corporates?

The UK MM Code imposes a series of Rights and Expectations on all UK Market Participants, including corporates:

- Expectation: adoption of the UK MM Code (as appropriate) to embed good practice in the day to day activities of the organisation
- Rights: an expectation that counterparties in the UK money markets have adopted the standards of good practice and behaviours expected under the UK MM Code

All UK Market Participants have a role to play in promoting and upholding good practices in the market as a whole. This can be partly achieved through leading by example, but can also be supported by having similar expectations of counterparties and other Market Participants and helping to raise awareness of the UK MM Code in their market interactions. The adherence to a voluntary UK MM Code will only come about if firms judge it to be in their interest and take the practical steps to ensure the UK MM Code is sufficiently embedded in their practices.

From a corporate perspective, encouraging counterparties to adhere to the UK MM Code raises the bar for good practice across the entire market, which can only be beneficial in the long term.

Key points:

- The UK MM Code applies to transactions concluded in the UK
- The UK MM Code is voluntary
- It applies to UK Market Participants who are 'regularly active' in either the unsecured deposit, repo and/or securities lending markets
- It is principles based – to encourage participants to actively think about what they are doing
- The UK MM Code is not designed to provide the answers to all your questions, but it should help you ask the right questions when thinking about good practice
- Proportionality is key – i.e. less complex and smaller UK Market Participants may exercise judgment in how they apply the Code
- Adoption of the UK MM Code is best achieved by embedding, monitoring and demonstrating adherence
- Overarching principle: "Market Participants should act in a way that promotes the integrity and effective functioning of the market."

What is the UK Money Markets Code? - chapter 1, sections 1 & 2 of the Code

The UK Money Markets Code (the Code) establishes a key over-riding principle, 'to always act in a manner to promote the integrity and effective functioning of the markets'. The Code is intended to promote an open, fair, effective and transparent market. Chapter 1 of the Code outlines six key under-pinning principles upon which best practice in the UK money markets is based:

- i. Ethics – behave ethically
- ii. Governance – have responsible governance
- iii. Risk management – have robust controls
- iv. Information sharing – protect confidential information
- v. Execution of transactions – take care when initiating and executing transactions
- vi. Confirmation and settlement of transactions – no trades should intentionally fail

Additionally, there are technical chapters for each of the three markets covered by the Code which each outline the basic procedures and good practices of each market:

- Unsecured deposits market – chapter 2
- Repos – chapter 3
- Securities lending – chapter 4

Background to the UK Money Markets Code

The unsecured deposit elements of the Code were originally included within the now redundant Non-Investment Products (NIPs) Code. They were extracted and updated when the foreign exchange sections of the old NIPs Code were removed to be included within new FX Global Code (published May 2017 – refer http://www.globalfx.org/docs/fx_global.pdf). Where appropriate, the UK Money Markets Code is aligned to the best practice principles of the FX Global Code.

It was also recognised that the Securities Borrowing and Lending Code and the Gilt Repo Code also needed updating. They were combined with the money market section of the old NIPs Code into one new code. Hence the UK Money Markets Code covers three markets: the unsecured deposit money market; the securities borrowing and lending market; and the repo market.

In addition to foreign exchange and money markets the old NIPs Code also covered Bullion which has now been integrated into the new Global Precious Metals Code (May 2017) <http://www.lbma.org.uk/assets/downloads/pmc.pdf>.

The ACT's involvement

The ACT was actively involved in the development of the NIPs code and was also one of the professional member associations the Bank of England consulted when periodically updating the NIPs code.

Similarly, the ACT has been involved in the development of the UK Money Markets Code. It has been represented on the Money Markets Liaison Committee (MMLC) by either an ACT member or Policy & Technical representative for many years. A sub-committee of the MMLC was formed to produce the UK MM code which included ACT representation on both the Money Market (i.e. unsecured deposits) and Adherence work streams.

Who is within the scope of the Code? - chapter 1, section 3 of the Code

The Code applies to all types of UK Market Participants including:

- Asset managers
- Banks
- Brokers
- Building societies
- Central banks, including the Bank of England
- Central Counterparty Clearing houses (CCPs)
- Charities
- Corporates
- Central government (DMO), Public sector and local government

Whilst the FX Global Code applies to all Market Participants the UK MM Code applies to UK Market Participants who are eligible and professional counterparties, as defined by the FCA – refer below.

UK Market Participants - chapter 1, section 3.1 of the Code

A UK Market Participant is defined as a principal, broker or agent who is regularly active in the unsecured deposit market, the repo market or the securities lending market.¹ Corporates are typically a principal in a transaction, being a counterparty who transacts for their own account.²

The Code is not intended to apply to any party that would not be a professional or eligible counterparty as defined by the FCA; that is broadly firms with net assets below £5m. The intention is that it applies to medium and larger undertakings.

A Professional client is defined as an undertaking meeting the requirement of FCA Handbook Conduct of Business Sourcebook (COBS) 3.5.1 including a body corporate above the threshold defined in the Handbook.

Refer <https://handbook.fca.org.uk/handbook/COBS/3/5.html>.

An Eligible Counterparty is defined in the FCA Handbook, COBS 3.6.1 and includes a pension fund and supranational organisations.

Refer <https://www.handbook.fca.org.uk/handbook/COBS/3/6.pdf>

Regularly Active defined

The UK Money Markets Code Explanatory Notes (April 2017) expands the above definition of UK Market Participant and states that the organisation or individual must be Regularly Active to be within the scope of the Code. Regularly Active is deliberately not quantified but judgement based. The Explanatory Notes state that it can be broadly understood to mean participation more regularly than on a very occasional basis. Hence if a corporate only invested their excess cash in a bank deposit on one or two occasions in a year then this would not be Regularly Active.

Coverage

Not all aspects of the Code are applicable to all participants. Hence if a corporate does not operate in the repo and securities lending markets then those sections of the Code are not relevant to them.

¹ Glossary in the UK Money Markets Code April 2017, combining definition of UK Market Participant and Market Participant.

² Glossary in the UK Money Markets Code April 2017

What products are within the scope of the Code?

Unsecured deposits - chapter 2 of the Code

The Code covers the execution of transactions in the deposit markets, specifically in the sterling and foreign currency wholesale unsecured deposit market.

Included:

- Certificates of deposits (CDs)
- Commercial paper (CP)
- Overnight and term bank deposits (sterling or foreign currency denominated)

Not included:

- General transactional banking activity, for example call accounts
- Money Market Funds (MMFs). Whilst a MMFs activities investing in the UK money markets is included but the relationship between the MMF and corporate is not wholesale and is covered by other regulations.

Repos - chapter 3 of the Code

Some corporates use the repo market to invest their excess cash in repos, receiving collateral as a form of security over the deposit. These transactions are within the scope of this Code.

Securities lending - chapter 4 of the Code

Securities lending is where a counterparty lends securities to another counterparty with the commitment that they or equivalent securities will be returned on a future date. Corporates don't typically lend their own securities (treasury shares) or others' securities.

Geographical reach

The UK MM Code applies to transactions where at least one side of the transaction is executed in the UK, irrespective of the domicile of the participants. The Explanatory Note to the Code provides some further guidance on this. FAQ2 defines the scope as transactions concluded in the UK. Example 9, although based on a repo transaction can be equally applied to a unsecured bank deposit transaction. If a corporate consolidates/pools its funds which are then deposited with a bank(s) by Group Treasury based in London, then the UK MM Code applies. However, if the pooled funds are deposited with a bank by their Regional Treasury function in Asia (with for example a Hong Kong bank) then the Code would not apply even though the transaction may be recorded by the Group Treasury function in London.

How does the Code apply to corporates?

Legal status

The Code is voluntary and does not override law or regulations. Whilst the Code is voluntary it does set out best practices, which all UK Market Participants should strive to adhere to in order to promote the integrity and functioning of the market.

Proportionality - chapter 1, section 2.3 of the Code

The Code recognises the principle of proportionality and allows for judgement to be made when applying certain aspects of the Code. The Code states that proportionality is a fundamental principle and, whilst not all aspects of the Code will be relevant, that all participants should aspire to adopt the best practices where relevant.

All participants should seek to follow best practice when dealing, confirming and settling trades otherwise trust will be lost, errors more easily made, and the market may become disrupted. The standards set out in the Code are not intended to be onerous and should help market functioning for all.

If a participant only uses one part of the money market, there is no need for it to consider how it will follow the standards for the other markets. For example, a corporate may only use the money markets to deposit money and not use the repo or securities lending markets. If a firm only undertakes a few transactions of a simple nature, the way it applies market standards can be appropriately simple.

Adherence - chapter 1, section 4.1 of the Code

The UK MM Code describes three elements of adherence:

- Comprehensive – the Code applies to all UK Market Participants, which includes corporates – refer section 2 above. The application should be based on the type (i.e. unsecured deposits, repos and/or securities lending) and scale of the activities (i.e. Regularly Active refer section 2 above).
- Proportionate - adherence should be demonstrated in a way that is proportionate to the type of participant, and the type and the scale of transactions they undertake. A FTSE100 corporate who operates in both the unsecured deposit and repo markets is likely to demonstrate adherence more extensively than a smaller corporate with a lower volume of transactions in just the unsecured deposit market.
- Transparent – adherence (or the intention to achieve adherence) should be transparent and can take a variety of forms. Corporates may wish to include a statement within:
 - internal treasury policy documents
 - annual financial statements
 - the relevant page on their websiteor providing the standard Statement of Commitment when requested - refer Appendix 1.

The Adoption Framework - chapter 1, section 4.2 of the Code

Adherence to the Code is described as a three-step process:

- i. Embedding – implementing the necessary policies, procedures and systems to ensure that the technical aspects of the Code, and the underpinning principles, are integrated into the internal systems and controls
- ii. Monitoring – establishing proper processes to measure and verify adherence with regular reviews. Where relevant and appropriate, this may be a regular review by the internal audit function
- iii. Demonstrating – confirming commitment to abide by the Code on an ongoing basis

The FX Global Code has an accompanying Report on Adherence which provides additional guidance on the above three processes and equally applies to the UK MM Code. Given the corporate treasurer is responsible for both foreign exchange and deposit activities within a corporate, the adoption of both the FX Global Code and UK MM Code may often be considered and assessed at the same time. Relevant extracts on an effective adoption framework have been extracted from the Report on Adherence to the FX Global Code and included in Appendix 2.

For some UK Market Participants, for example, appropriate steps to embed the Code may include reviewing existing policies and procedures, and assessing the appropriate levels of senior management oversight; others may want to establish dedicated staff training on the UK MM Code or embed the principles within the UK MM Code into existing training. The approach of individual Market Participants will reflect the size and complexity of their deposit, repo and securities lending activities and the extent of their engagement in the UK money market.

Demonstrating adherence

Adherence can be affirmed by a standard statement of commitment using a universal template set out in Appendix 1. The Statement of Commitment does not need to be signed annually, however it is good practice to review principles and practices on a regular basis.

Who should sign it?

The Statement of Commitment should be signed by, “an appropriate senior manager on behalf of the UK Market Participant”. In a corporate this could be the Treasurer, Director of Treasury or possibly the FD/CFO.

Transition arrangements

It is expected that Market Participants will have adopted the Code and signed the Statement of Commitment by 1 January 2018.

Changes to the Code going forward

The sub-committee of the Bank of England’s Money Market Committee (MMC and formerly the Money Market Liaison Committee) that was responsible for drafting the Code will remain in place as a permanent sub-committee of the MMC to ensure that the Code remains relevant and up to date as markets evolve. Any changes to the Code will be published on the Bank of England’s website at

<http://www.bankofengland.co.uk/markets/Pages/sterlingoperations/ukmoneymarketscode.aspx>

What to do if I have a question?

Contact UKMoneyMarketsCode@bankofengland.co.uk

Alternatively, the ACT’s Policy & Technical team may be able to help technical@treasurers.org

What corporates should expect from their banks?

The UK MM Code defines how corporates should expect to be treated by their banks and other market participants such as brokers. It can be used as a tool to open a dialogue with your banks and challenge certain practices. For example, access to and protection of Confidential Information and the sharing of “market colour” is outlined in the Code; and recording can be relied on by both parties, even if only one party has recorded the relevant communication.

What should I do next?

		<i>Completed</i>
1	Read this briefing note for an overview	
2	Read through the UK Money Markets Code Explanatory Note for those areas where additional information is required. In addition to FAQs and examples applicable for all UK Market Participants, specific examples have been written for corporates on Risk Management (example 2) and Applicability of the Code to Corporates (example 8)	
3	Determine whether you are a UK Market Participant as defined by the criteria for being an eligible or professional counterparty according to the FCA definition – refer section 2 and hence within the scope of the Code	
4	The steps below apply to UK Market Participants: Read through chapter 1 (Background and Key Principles) and chapter 2 (Unsecured Money Markets) of the UK Money Markets Code	
5	Read through chapter 3 (Repo) and Chapter 4 (Securities Lending) of the UK Money Markets Code if these products are utilised	
6	Where applicable, inform senior management of the UK Money Markets Code and its applicability to corporates	
7	Undertake a Gap Analysis between existing policies and procedures and the principles/procedures set out in the UK MM Code	
8	Develop an implementation plan and timeline to share internally and with internal/external auditors, if appropriate	
9	Decide who is going to sign the Statement of Commitment	
10	Where appropriate, discuss with your counterparties how the UK MM Code will alter their behaviour	

Source Materials

This briefing note has drawn extensively on the following materials, effectively summarising those points of most relevance to the corporate audience.

The UK Money Markets Code (April 2017)

<http://www.bankofengland.co.uk/markets/Documents/money/code/ukmoneymarketscode.pdf>

The UK Money Markets Code Explanatory Notes (April 2017)

<http://www.bankofengland.co.uk/markets/Documents/money/code/explanatorynotes.pdf>

Speech by Sarah John, Head of Sterling Markets, Bank of England given at a briefing on the financial markets code of practice to the Association of Corporate Treasurers, Bank of England (June 2017)

<http://www.bankofengland.co.uk/publications/Pages/speeches/2017/982.aspx>

Foreign Exchange Working Group: Report on Adherence to the FX Global Code (May 2017)

http://www.bis.org/mktc/fxwg/adherence_report.pdf

Appendix 1 - Statement of Commitment to the UK Money Markets Code

Institutions (which includes corporates) are asked to sign a simple Statement of Commitment to the principles of the Code. It should be noted that the wording in the Statement of Commitment (see below) refers to adherence to the principles and not the detailed text of the Code. By signing a standard expression of adherence there is a universal approach which is more effective than multiple differing forms of adherence requests between counterparties.

PRO FORMA STATEMENT OF COMMITMENT TO THE UK MONEY MARKETS CODE

Adherence can be affirmed by a standard statement of commitment using a universal template set out in Appendix 1. The Statement of Commitment does not need to be signed annually, however it is good practice to review principles and practices on a regular basis.

Date: _____

Institution name: _____

Signature: _____

Name: _____

Title: _____

Appendix 2 - extract from Report on Adherence to the FX Global Code

An effective framework:

It is the responsibility of Market Participants to take appropriate steps to adopt the Code in their day-to-day practices and culture. The Foreign Exchange Working Group – Bank for International Settlements (FXWG) has identified three key elements that it considers Market Participants will need to have regard to in order to establish an effective framework for adopting and adhering to the Code:

- How the Code is embedded in a Market Participant's practices;
- How a Market Participant will subsequently monitor its practices against the Code; and
- How a Market Participant might demonstrate its adherence to the Code.

EMBEDDING

It is important for Market Participants to embed the Code's guidance in their day-to-day operations and help create a strong culture, both within their organisation but also in the market as a whole, where good practices are promoted and fostered.

- In their own organisations, Market Participants will need to assess whether their practices are consistent with the guidance within the Code, for example, by undertaking a review of existing policies and procedures, and where necessary, taking appropriate and proportionate steps to align practices. Training and education of staff will be particularly important to effectively embed the principles of the Code.
- More broadly, Market Participants have an interest, and a role to play, in promoting and upholding good practices in the market as a whole. This can be partly achieved through leading by example, but can also be supported by having similar expectations of counterparties and other Market Participants and helping to raise awareness of the Code in interactions with such parties.

MONITORING

It is equally important that Market Participants that have embedded the Code's guidance into their practices establish appropriate mechanisms to monitor how effectively they have done so.

- In their own organisations, Market Participants may look to the text of the Code itself for some practical guidance on implementation but ultimately Market Participants will need to exercise their own judgement of what is appropriate having regard to the principle of proportionality. It can be expected that the action of individual Market Participants will reflect the size and complexity of their FX activities, and the nature of their engagement in the FX market.
- Beyond the level of the individual Market Participant, the FXWG believes it is important to monitor the FX market's progress in embedding the Code in practices and culture.

To facilitate this:

The Statement of Commitment will facilitate effective monitoring by individual Market Participants and the UK Money Markets' progress.

DEMONSTRATING

The FXWG believes that Market Participants, by demonstrating their own adherence to the Code, can raise awareness about, and increase the profile of the Code, and can provide other Market Participants with an accessible means for comparing potential counterparties and service providers.



THE ACT WELCOMES COMMENTS ON THIS REPORT

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