የኢትዮጵያ ብሔራዊ ባንክ
NATIONAL BANK OF ETHIOPIA

FOREIGN EXCHANGE OPERATION MARKET CODE OF CONDUCT

1. Background

The current foreign exchange market operation is guided by ''Inter-Bank Foreign Exchange Market Operation Code of Conduct No. IBFEM Guide Line/001/01'' which is applicable to all authorized commercial banks that have engaged themselves in buying and selling of foreign currency from the market. However, this code of conduct has not been reviewed in response to the dynamic nature of forex market, economic & financial changes and emerging risks. In addition, the code of conduct has focused only on inter-bank forex market transaction but not applied to the retail forex market where a significant amount of foreign currency is transacted and serves as the source of forex liquidity to the inter-bank forex market. Moreover, it has been limited with a few provisions compared to international standards and the practices of other African peer countries such as Kenya, Tanzania, Ghana and Mauritius.

Hence, the existing forex market operation code of conduct has been revised and aligned with 45 principles of the Global FX Code[1] which are globally acceptable standards and fosters good practice in the foreign exchange market and has been adopted in 54 countries in Europe, Africa, Asia and the Americas. In Africa, Kenya and Tanzania aligned their forex market code of conduct with 52 principles of the Global FX Code while Ghana, South Africa, Mauritius and Angola have developed and partly aligned with the Global FX Code to their forex market code of conduct.

[1] The Global FX Code has been generally organized in to six leading principles, consisting of a total of 55 principles. It is a set of guidelines to ensure a well-functioning foreign exchange market that is effective and promotes market integrity. The Global FX Code is intended to foster a high standard of conduct and good market practices, ensure equitable and healthy relationships between market participants and facilitate market efficiency.

The purpose of revising the existing forex market code of conduct is to holistically strengthen and promote a well-functioning forex market that could respond to emerging challenges; address the dynamic nature of the financial market and setting standards to strengthen and promote the integrity of the forex market in Ethiopia.

1.1. Application

This code of conduct shall be applied to all foreign exchange market participants.

1.2. Interpretation

Applicable Law shall mean with respect to a market participant, the laws, rules, and regulations applicable to it and the FX Market in which it does business.

Customer refers to a person or an organization having foreign currency earnings from different foreign sources and also demanding foreign currency from market participants to make different authorized/permitted foreign payments.

Counterpart refers a market participant requesting forex trading from other market participants.

Foreign Exchange Market is a forex market where a spot foreign currency transaction is conducted among authorized banks.

Market Color refers a view shared by market participants on the general state of, and trends in, the market.

Market Participant shall mean authorized banks and licensed foreign exchange bureaus.

National Bank refers the National Bank of Ethiopia (NBE).

Personnel refer to a person who conducts foreign currency transaction on behalf of a market participant.

Retail foreign exchange market refers to a forex market where a spot foreign currency transaction is conducted among market participants and their customers.

Spot transaction means a currency transaction where settlement for both party is made with in two working days (T + 2) after confirmation of transaction.

Wholesale foreign exchange market shall mean inter-bank foreign exchange market where spot foreign exchange transactions are conducted among authorized banks.

1.3. Enforcement Mechanisms

The NBE may take appropriate enforcement and other administrative action including monetary penalties in accordance with Article 26(1) of the National Bank of Ethiopia Establishment Proclamation No. 591/2008 (as amended), against any market participant that fails to comply with the standards set forth in this code of conduct.

1.4. Purpose

This code of conduct sets out the manner and the sprit in which forex business should fairly be conducted in order that the foreign exchange market and its participants in Ethiopia may enjoy a reputation through ensuring ethical behavior, effective governance, robust dealing practice, risk management, accurate information sharing and efficient confirmation and settlement processes of the forex market. This code of conduct is therefore applied not only to personnel but also to the management of market participants, together with relevant support staff and should be well understood by each of them.

2. Ethics

2.1. Market participants should strive for the highest ethical standards

i. Market participants should conduct their activities ethically, transparently and professionally to ensure fairness and integrity of the foreign exchange market.

ii. Market participants should act honestly and fairly in dealing with counterpart.

iii. Market participants should also act with integrity in all their forex dealings or activities.

NATIONAL BANK OF ETHIOPIA
የኢትዮጵያ ብሔራዊ ባንክ

2.2.Market participants should strive for the highest professional standards.

i. Market participants should share a common interest in maintaining the highest degree of professionalism and the highest standards of business conduct in the foreign exchange market. High standards of conduct are underpinned by:

a) having sufficient knowledge of, and complying with, applicable law;

b) having sufficient relevant experience, technical knowledge, and qualifications;

c) acting with competence and skill;

d) applying professional judgement in following the market participant's guidelines and operating procedures and

e) engaging in efforts to strive for the highest standards of professionalism in the forex market.

ii. Market participants should ensure that their dealing personnel are adequately qualified to deal with foreign exchange transactions.

2.3.Market participants should identify and address conflicts of interest

i. Market participants should:

a) Identify actual and potential conflicts of interest that may compromise or be perceived to compromise the ethical or professional judgment of market participants.

b) Eliminate these conflicts or, if this is not reasonably possible, effectively manage them.

ii. Personnel should be aware of the potential for conflicts of interest to arise and comply with their firm's policies in these areas.

iii. Contexts in which conflicts may arise include, but are not limited to:

a) situations where personal or firm interests may conflict with those of a customer or other market participant, or where such a conflict arises for the market participant because the interests of one customer may conflict with those of another;

b) personal relationships;

c) gifts and corporate entertainment; and

d) Personal Dealing.

iv. Market participants should put in place appropriate and effective arrangements to eliminate or manage conflicts of interest. This could include:

a) segregation of duties and/or reporting lines;

b) establishing information barriers (for example, physical segregation of certain departments and/or electronic segregation);

c) altering the duties of personnel when such duties are likely to give rise to conflicts of interest;

d) providing training to relevant personnel to enable them to identify and handle conflicts of interest;

e) establishing declaration policies and/or records for identified conflicts of interest and personal relationships, as well as for gifts and corporate entertainment received; and

f) having policies and controls on Personal Dealing.

v. Conclude that a specific conflict of interest cannot reasonably be avoided or effectively managed (including by ceasing to undertake the relevant service or activity), market participants should disclose sufficient details of the conflict to enable the affected counterpart/customer to decide beforehand whether or not they wish to proceed with the transaction.

NATIONAL BANK OF ETHIOPIA
የኢትዮጵያ ብሔራዊ ባንክ

3. Governance

Market participants are expected to have a sound and effective governance framework to provide for clear responsibility for and comprehensive oversight of their forex market activity and to promote responsible engagement in the forex market.

3.1. The responsible body of market participant i.e. ultimately responsible for the market participant's forex business strategy and financial soundness, should put in place adequate and effective structures and mechanisms to provide for appropriate oversight, supervision and controls with regard to the market participant's forex market activity.

i. The responsible body of market participant should put in place:

a) an operational structure with clearly defined and transparent lines of responsibility for the market participant's FX market activity;

b) effective oversight of the market participant's FX market activity based on appropriate management information;

c) an environment that encourages effective challenge to senior management charged with day-to-day responsibility for the market participant's forex market activity; and

d) Independent control functions and mechanisms to assess whether the market participant's forex market activities are conducted in a manner that reflects the market participant's operational risk and conduct requirements.

3.2. Market participants should embed a strong culture of ethical and professional conduct with regard to their FX market activities.

i. Market participants should, among other things:

a) expect senior management to be highly visible to relevant personnel of the market participant in articulating and modelling the desired practices, values, and conduct;

b) take appropriate steps to promote and reinforce all relevant personnel's awareness and understanding of (1) the values and the ethical and conduct standards that should be adhered to in their engagement in the FX Market; and (2) Applicable Law that is relevant to them (see principle 6.2); and

c) make all relevant personnel (including senior management) aware that disciplinary or other actions may result from unacceptable behaviors and transgressions of the Market Participant's policies.

3.3. Market participants should have remuneration and promotion structures that promote market practices and behaviors that are consistent with the forex market participant's ethical and professional conduct expectations

i. Market participant should not incentivize personnel to engage in inappropriate behaviors or practices, or to take risks beyond the overall business risk parameters of the market participant.

3.4. Market participants should have appropriate policies and procedures to handle and respond to potentially improper practices and behaviors effectively.

i. Market participants should maintain policies and procedures to:

a) Provide confidential channels for personnel or external parties to raise concerns about potentially improper practices and behaviors. Specifically, they should be clear with relevant personnel and external parties about where and how to report concerns about potentially improper practices and behaviors confidentially and without fear of reprisal or retribution.

b) Investigate and respond to such concern as appropriate.

ii. Market participants should be clear with relevant personnel and external parties about where and how to report concerns about potentially improper practices and behaviors confidentially and without fear of reprisal or retribution.

iii. Reports of potentially improper practices or behavior of the relevant personnel should be investigated by independent unit. Such unit should possess sufficient skills and experience—and be given the necessary resources and access—to conduct the investigation.

iv. Market participant should complete the investigation and determine the appropriate outcome within a reasonable time frame, taking into account the nature and complexity of the matter in question.

v. The reports and results should be brought to the attention of the appropriate individuals within the market participant, and if appropriate, to the National Bank.

4. Execution

Market participants should exercise care when negotiating and executing transactions in order to promote a robust, fair, open, liquid, and appropriately transparent forex market.

4.1. Market participants should handle orders fairly and with transparency in line with the capacities in which they act

i. Market participants handling orders should:

a) have clear standards in place that strive for a fair and transparent outcome for the counterpart/customers;

b) be truthful in their statements;

c) use clear and unambiguous language;

d) make clear the rate they are quoting are firm;

e) not enter into transactions with the intention of disrupting the market.

NATIONAL BANK OF ETHIOPIA
የኢትዮጵያ ብሔራዊ ባንክ

ii. Market participants should make counterparty/customer aware of such factors as:

a) How orders are handled and transacted, including whether orders are aggregated or time prioritized;

b) the various factors that may affect the execution policy, which would typically include positioning, whether the market participant managing make counterparty/customer orders is itself taking on the associated risk or not, prevailing liquidity and market conditions, other make counterparty/customer orders, and/or a trading strategy that may affect the execution policy.

4.2. Market participants should handle orders fairly, with transparency, and in a manner consistent with the specific considerations relevant to different order types.

i. Market participants should be aware that different order types may have specific considerations for execution; and

ii. Market participants handling orders that have the potential to have sizable market impact should do so with particular care and attention.

4.3. Market participants should not request transactions or provide prices with the intent of disrupting market functioning or hindering the price discovery process.

i. Market participants should not engage in trading strategies or quote prices with the intent of hindering market functioning. Such strategies include:

a) those that may cause undue latency, artificial price movements, or delays in other market participants' transactions and result in a false impression of market price, depth, or liquidity;

b) Collusive and/or manipulative practices that create a false sense of market price, depth, or liquidity.

ii. Market participants providing quotations should always do so with a clear intent to trade.

iii. Transactions should be conducted at prices or rates based on the prevailing market conditions at the time of the transaction.

iv. Market participants handling counterpart/customer order may decline a transaction when there are grounds to believe that the intent is to disrupt or distort market functioning.

4.4. Market participants should identify and resolve trade discrepancies as soon as practicable to contribute to a well-functioning forex market.

i. Market participants should have effective policies and procedures designed to minimize the number of trade discrepancies arising from their forex market activities and should manage such discrepancies promptly.

5. Information Sharing

Market participants are expected to be clear and accurate in their communications and to protect confidential information to promote effective communication that supports a robust, fair, open, liquid, and appropriately transparent forex market.

Handling Confidential Information

5.1. Market participants should clearly and effectively identify and appropriately limit access to confidential information.

i. Market participants should identify confidential information. Confidential information includes the followings:

a) **Forex Trading Information**: This can take various forms, including information relating to the past, present, and future trading activity or positions of the market participant, as well as related information that is sensitive and is received or produced in the course of such activity.

b) **Designated Confidential Information**: Market participants may agree to a higher standard of non-disclosure with respect to confidential, proprietary, and other information, which may be formalized in a written non-disclosure or a similar confidentiality agreement.

ii. Identification of confidential information should be in line with any legal or contractual restrictions to which the market participant may be subject.

5.2.Market participants should not disclose confidential information to external parties, except under specific circumstances.

i. Market participants should disclose confidential information only under certain circumstances. These may include, but are not limited to, disclosure:

a) with the consent of the counterpart/customers;

b) required to be publicly disclosed under Applicable Law, or as otherwise requested by the National Bank;

c) as requested by the National Bank acting for policy purposes; and

d) to advisors or consultants on the condition that they protect the confidential information in the same manner as the market participant that is disclosing the confidential information to such advisors or consultants.

ii. Market participants may actively choose to share their own prior positions and/or trading activity so long as that information does not reveal any other counterpart's /customer's confidential information and the information is not shared in order to disrupt market function or hinder the price discovery process, or in furtherance of other manipulative or collusive practices.

iii. When determining whether to release confidential information, market participants should take into account Applicable Law, as well as any agreed-to restrictions that may limit the release.

Communications

5.3. Market participants should communicate in a manner that is clear, accurate, professional, and not misleading.

i. Communications should be easily understood by their intended recipient. Therefore, market participants should use terminology and language that is appropriate for the audience and should avoid using ambiguous terms. To support the accuracy and integrity of information, market participants should:

a) attribute information derived from a third party to that third party (for example, a news service);

b) identify opinions clearly as opinions;

c) not communicate false information;

d) exercise judgement when discussing rumors that may be driving price movements, identify rumors as rumors, and not spread or start rumors with the intention of moving markets or deceiving other market participants; and

e) Not provide misleading information in order to protect confidential information.

ii. Market participants should be mindful that communications by personnel reflect on the firm they represent as well as the industry more broadly.

5.4. Market participants should communicate market color appropriately and without compromising confidential information.

i. Market color is the collaborative effort to better understand the market.

ii. The timely dissemination of market color between market participants can contribute to an efficient, open, and transparent FX market through the exchange of information on the general state of the market, views, and anonymized and aggregated flow information.

iii. Market participants should give clear guidance to personnel on how to appropriately share market color. In particular, communications should be restricted to information that is effectively aggregated and anonymized.

5.5. Market participants should provide personnel with clear guidance on approved modes and channels of communication.

i. Market participants should communicate with counterpart/customer through approved methods of communication that allow for traceability, auditing, record keeping, and access control.

ii. Standards of information security should apply regardless of the specific mode of communication in use.

iii. Market participants should maintain a list of approved modes of communication and it is recommended that communication channels on sales and trading desks be recorded, particularly when being used to transact or share market color.

iv. Market participants should give consideration, under exceptional circumstances (for example, in an emergency and for business continuity purposes), to allowing the use of unrecorded lines but should provide guidance to personnel regarding any permitted use of such unrecorded lines or devices.

6. Risk Management and Compliance

i. Market participants are expected to promote and maintain a robust control and compliance environment to effectively identify, manage, and report on the risks associated with their engagement in the FX market.

ii. Appropriate risk management, compliance, and review structures should be in place to manage and mitigate the risks that arise from a counterpart's/customer's activities in the FX market.

iii. Periodic independent reviews of risk and compliance controls should also be undertaken, including a review of the qualitative and quantitative assumptions within the risk management system.

6.1. Market participants should have frameworks for risk management and compliance.

6.1.1. The common components of these two frameworks may include:

i. Effective oversight by the responsible body or individual(s) including support for the stature and independence of risk management and compliance. In particular:

a) The responsible body or individual(s) should make strategic decisions on the risk appetite of the FX business.

b) The responsible body or individual(s) should be responsible for the establishment, communication, enforcement, and regular review of a risk management and compliance framework that clearly specifies authorities, limits, and policies.

c) Risks should be managed prudently and responsibly in accordance with established principles of risk management and Applicable Law.

ii. The provision of concise, timely, accurate, and understandable risk and compliance related information to the senior body or individual(s).

iii. The appropriate segregation of duties and independent reporting lines, including the segregation of trading from risk management and compliance and from deal processing, accounting, and settlement.

iv. Adequate resources and employees with clearly specified roles, responsibilities, and authority, including appropriate access to information and systems. These personnel should have appropriate knowledge, experience, and training.

6.2. Market participants should familiarize themselves with, and abide by, Applicable Law that are relevant to their FX Market activities and should have an appropriate compliance framework in place.

i. An effective compliance framework should provide independent oversight and control and could comprise, but is not limited to:

a) identification of Applicable Law that apply to their FX Market activities;

b) appropriate processes designed to prevent and detect abusive, collusive, or manipulative practices, fraud, and financial crime, and to mitigate material risk that could arise in the general conduct of the FX market activities;

c) capturing and retaining adequate records to enable effective monitoring of compliance with Applicable Law;

d) Well-defined escalation procedures for issues identified.

ii. The periodic review and assessment of compliance functions and controls, including mechanisms to alert senior management about material gaps or failures in such functions and controls.

6.3. Market participants should maintain an appropriate risk management framework with systems and internal controls to identify and manage the FX risks they face.

i. Effective risk management starts with the identification and understanding by market participants of the various types of risks to which they are exposed and typically involves the establishment of risk limits and monitoring mechanisms, as well as the adoption of risk-mitigating and other prudent practices. An effective risk management framework could comprise, but is not limited to:

a) an appropriate and well-documented approval process for setting of risk limits;

b) a comprehensive and well-documented strategy for the identification, measurement, aggregation, and monitoring of risks across the FX business;

c) documented policies, procedures, and controls, which are periodically reviewed and tested, to manage and mitigate risks;

NATIONAL BANK OF ETHIOPIA
የኢትዮጵያ ብሔራዊ ባንክ

d) the clear communication of risk management policies and controls within the institution to promote awareness and compliance, as well as processes and programs to facilitate understanding of such policies and controls by personnel;

e) information systems to facilitate the effective monitoring and timely reporting of risks;

f) robust incident management, including appropriate escalation, mitigating actions, and lessons learned;

g) sound accounting policies and practices encompassing prudent and consistent valuation methods and procedures; and

h) an appropriately robust risk control self-assessment process that includes processes to remediate identified gaps or weaknesses.

6.4.Market participants should have practices in place to limit, monitor, and control the risks related to their FX market trading activity.

i. These practices could comprise, but are not limited to:

a) The regular monitoring of trading activities, including the identification and internal escalation, as appropriate, of failed, cancelled, or erroneous trades.

b) Automated or manual monitoring systems to detect actual or attempted market misconduct and market manipulation;

c) Verification of the valuations used for risk management and accounting purposes, conducted by personnel independent of the business unit that owns the risk;

d) Independent reporting on a regular and timely basis of risk positions and trader profit/loss statements to the relevant risk management function or senior management, as appropriate, including a review of exceptional deviations of profit/loss from expected levels;

e) Transactions should be promptly and accurately captured so that risk positions can be calculated in an accurate and timely manner for monitoring purposes;

f) Regular reconciliations of front, middle, and back office systems, with differences identified and their resolution tracked by personnel independent of the business unit;

g) Timely reporting to a senior body or individual(s) when risk limits have been breached, including follow-up action to bring exposures within limits, and any appropriate measures to prevent a recurrence;

h) Appropriate controls around proper order and quote submission. These controls should be designed to prevent the entry or transmission of erroneous orders or quotes that exceed pre-set size and price parameters as well as financial exposure thresholds.

ii. Market participants should be aware of the risks associated with reliance on a single source of liquidity and incorporate contingency plans as appropriate.

6.5. Market participants should have processes in place to independently review the effectiveness of and adherence to the risk management and compliance functions.

i. Independent review should be performed regularly, with any review findings recorded and corrective action tracked.

ii. All material risk related to FX market activities should be covered, using an appropriate assessment methodology.

iii. A review team should be given the necessary mandate and support, including adequate personnel with requisite experience or expertise.

iv. Findings should be reported to an appropriately senior level for review and follow-up.

Market participants should take into account the following risks related to their FX market activity.

Credit/Counterparty Risk

6.6. Market participants should have adequate processes to manage counterparty credit risk exposure, including where appropriate, through the use of appropriate netting and collateral arrangements, such as legally enforceable master netting agreements and credit support arrangements.

Market Risk

6.7. Market participants should have processes to measure, monitor, report, and manage market risk in an accurate and timely way.

6.8. Market participants should have independent processes in place to mark-to-market trading positions to measure the size of their profit and loss and the market risk arising from trading positions.

Operational Risk

6.9. Market participants should have appropriate processes in place to identify and manage operational risks that may arise from human error, inadequate or failed systems or processes, or external events.

6.10. Market participants should have business continuity plans in place that are appropriate to the nature, scale, and complexity of their FX business and that can be implemented quickly and effectively in the event of large-scale disasters, loss of access to significant trading platforms, settlement, or other critical services, or other market disruptions.

Technology Risk

6.11. Market participants should have in place processes to address potential adverse outcomes arising from the use of or reliance on technological systems (hardware and software).

NATIONAL BANK OF ETHIOPIA
የኢትዮጵያ ብሔራዊ ባንክ

Settlement Risk

6.12. Market participants should reduce their Settlement Risk as much as practicable, including by settling FX transactions through services that provide payment-versus-payment settlement where available.

Compliance Risk

6.13. Market participants should keep a timely, consistent, and accurate record of their market activity to facilitate appropriate levels of transparency and auditability and have processes in place designed to prevent unauthorized transactions.

6.14. Market participants should perform "Know-Your-Customer" (KYC) checks on their counterparties to ascertain that their transactions are not used to facilitate money laundering, terrorist financing, or other criminal activities.

6.15. Market participants should have in place reasonable policies and procedures (or governance and controls) such that trading access, either direct or indirect, is limited to authorized personnel only.

6.16. Market participants should generate a timely and accurate record of transactions undertaken to enable effective monitoring and auditability.

Legal Risk

6.17. Market participants should have processes in place to identify and manage legal risks arising in relation to their FX Market activities.

7. Confirmation and Settlement

Market participants are expected to put in place robust, efficient, transparent, and risk-mitigating post-trade processes to promote the predictable, smooth, and timely settlement of transactions in the FX market.

Overarching Principles

7.1. Market participants should establish consistency between their operating practices & documentation and legal risk.

i. Operating practices (including processes for confirming and settling trades) should be consistent with legal and other documentation.

7.2. Market participants should institute a robust framework for monitoring and managing capacity in both normal and peak conditions.

i. Market participants should have sufficient technical and operational capability to support end-to-end FX processing in both normal and peak market conditions without undue impact on the processing timeline.

ii. Market participants should have defined mechanisms in place to respond to extreme changes in demand, as required and on a timely basis. Furthermore, clearly defined and documented capacity and performance management processes should be in place and reviewed regularly, including with external vendors.

7.3. Market participants should implement straight-through automatic transmission of trade data from their front office systems to their operations systems.

i. Trade data should be facilitated by means of secure interfaces where the transmitted trade data cannot be changed or deleted during transmission.

ii. When trade data cannot be transmitted automatically from the front office to the operations system, adequate controls should be in place so that trade data are captured completely and accurately in the operations system.

7.4. Market participants should conduct any novation, amendments, and/or cancellations of transactions in a carefully controlled manner.

i. Processes for novating, amending, or cancelling transactions should be clearly defined and should provide for the maintenance of appropriate segregation between operations and sales and trading personnel.

ii. Reporting on amendments and cancellations should be made available to management in these areas on a regular basis.

Confirmation Process

7.5. Market participants should confirm trades as soon as practicable, and in a secure and efficient manner.

i. Market participants should confirm forex trades as soon as practicable after execution, amendment, or cancellation.

ii. Market participants should implement operating practices that segregate responsibility for trade confirmation from trade execution.

iii. Confirmations should be transmitted in a secure manner whenever possible, and electronic and automated confirmations are encouraged.

iv. When available, standardized message types and industry-agreed templates should be used.

v. Open communication methods such as e-mail can significantly increase the risk of fraudulent correspondence or disclosure of confidential information to unauthorized parties. If confirmations are communicated via open communication methods, those methods should comply with information security standards.

7.6. Market participants should review, affirm, and allocate block transactions as soon as practicable.

i. Block transaction details should be reviewed and affirmed as soon as practicable following execution.

ii. Investment managers or others acting as Agent on behalf of multiple counterparties may undertake block transactions that are subsequently allocated to specific underlying counterparties. Each underlying counterparty in a block transaction should be an approved and existing counterparty of the dealer-counterparty prior to allocation.

7.7. Market participants should identify and resolve confirmation and settlement discrepancies as soon as practicable.

i. Market participants that identify discrepancies between received confirmations or alleged trades and their own trade records should investigate internally and inform their counterpart with the aim to resolve such discrepancies as soon as practicable.

ii. Escalation procedures should be established to resolve any unconfirmed or disputed terms as a matter of urgency, and processes should be in place to detect and report adverse trends that emerge in the discrepancies.

iii. Escalation procedures should also include notification to trading and other relevant internal parties so that they know which counterparties may have practices that do not align with best practices regarding confirmation of trades.

iv. The responsible body should receive regular information on the number and latency of unconfirmed deals so that they can evaluate the level of operational risk being introduced by maintaining dealing relationships with their firms' counterparties.

7.8. Market participants should be aware of the particular confirmation and processing features specific to life cycle events of each FX product.

i. Market participants should:

a) Establish clear policies and procedures for the confirmation, exercise, and settlement of all FX products in which they transact, including those with unique features.

b) Where applicable, familiarize personnel responsible for operations with the additional terms and conditions associated with various FX products and the protocols and processes around life cycle events in order to reduce operational risk.

c) Also be fully versed in the appropriate terminology, contract provisions, and market practices associated with FX products.

Netting and Settlement Processes

7.9. Market participants should properly measure, monitor and control their settlement risk equivalently to other counterpart of similar size and duration.

i. Where settlement amounts are to be netted, the initial confirmation of trades to be netted should be performed as it would be for any other forex transaction.

ii. All initial trades should be confirmed before they are included in a netting calculation.

iii. To avoid underestimating the size and duration of exposures, Market participants should recognize that Settlement Risk exposure to their counterpart begins when a payment order on the currency it sold can no longer be recalled or cancelled with certainty, which may be before the settlement date.

7.10. Market participants should utilize standing settlement instructions (SSIs).

i. SSIs should be in placed

a) Where practicable, for counterparties with whom market participant has a trading relationship;

b) Securely stored and provided to all relevant settlement systems so as to facilitate straight-through processing;

c) Set up with a defined start date and captured and amended (including audit trail recording) with the appropriate approvals, such as review by at least two individuals;

d) Settled in accordance with the SSIs in force on the value date.

7.11. Market participants should request direct payments.

i. Market participants should request direct payments when conducting forex transactions and recognize that Third-Party Payments may significantly increase operational risk and potentially expose all parties involved to money laundering or other fraudulent activity.

Account Reconciliation Processes

7.12. Market participants should perform timely account reconciliation processes.

i. Market participants should conduct a regular reconciliation process to reconcile expected cash flows against actual cash flows on a timely basis.

ii. Reconciliations should be carried out by personnel who are not involved in processing transactions that would affect the balances of accounts held with correspondent banks.

iii. Escalation procedures should be in place and initiated to deal with any unreconciled cash flows and/or unsettled trades.

7.13. Market participants should identify settlement discrepancies and submit compensation claims in a timely manner.

i. Market participants should establish procedures for detecting non-receipt of payments, late receipt of payments, incorrect amounts, duplicate payments, and stray payments and for notifying appropriate parties of these occurrences.

ii. Escalation procedures should be in place for liaising with counterparties that fail to make payments and more broadly for the resolution of any disputes.

iii. Escalation should also be aligned to the commercial risk resulting from fails and disputes.

iv. Market participants that have failed to make a payment on a value date or received a payment in error (for example, a stray payment or duplicate payment) should arrange for proper value to be applied or pay compensation costs in a timely manner.

v. All instances of non-receipt of payment should be reported immediately to the counter party's operations and/or trading units.

Mamo Esmelealem Mihretu
Governor

Appendix 1: The Relationship between NBE Forex Market Code of Conduct and Global FX Code

The Global FX Code is organized into six pillars which consist of a total of 55 principles. The revised FX market code of conduct has adopted 45 principles of the global FX code while excluding 10 principles of the global FX code by considering the development, nature and size of the Ethiopian FX market. For this reason, numbering of the principles in this code of conduct is not aligned with numbering of the principles in the Global FX Code. The rationales behind for excluding 10 principles of the global FX code are briefly explained as follow.

Global FX Code Principles	Statement of Global FX Code Principles	Reason for Exclusion of Global FX Code form Ethiopia FX Market Code of Conduct
Principle 8	Market participants should be clear about the capacities in which they act.	Principal-agent model is not a practice in the current Ethiopia FX market.
Principle 11	A market participant should only Pre-Hedge Client orders when acting as a principal, and should do so fairly and with transparency.	Principal-agent model is not a practice in the current Ethiopia FX market.
Principle 13	Market participants should understand how reference prices, including highs and lows, are established in Connection with their transactions and/or orders.	This is not practical in Ethiopian FX market. This is applied when brokerages are one actor of the FX market.
Principle 14	The Mark Up applied to Client transactions by Market Participants acting as Principal should be fair and reasonable.	Principal-agent model is not a practice in the current Ethiopia FX market.
Principle 16	Market participants acting as Voice Brokers should only employ name switching where there is	This is not practical in Ethiopian FX market.

Global FX Code Principles	Statement of Global FX Code Principles	Reason for Exclusion of Global FX Code form Ethiopia FX Market Code of Conduct
	insufficient credit between parties to the transaction.	
Principle 17	Market participants employing last look should be transparent regarding its use and provide appropriate disclosures to clients.	This is not practical in Ethiopian FX market. It is a practice utilized in Electronic Trading Activities whereby a Market Participant receiving a trade request has a final opportunity to accept or reject the request against its quoted price.
Principle 18	Market participants providing algorithmic trading or aggregation services to clients should provide adequate disclosure regarding how they operate.	This is not practical in Ethiopian FX market.
Principle 41	Prime brokerage participants should strive to monitor and control trading permissions and credit provision in Real Time at all stages of transactions in a manner consistent with the profile of their activity in the market to reduce risk to all parties.	This is not practical in Ethiopian FX market.
Principle 44	Market participants are encouraged to implement straight-through automatic transmission of trade data from their front office systems to their operations systems.	This is not applicable currently.

Global FX Code Principles	Statement of Global FX Code Principles	Reason for Exclusion of Global FX Code form Ethiopia FX Market Code of Conduct
Principle 53	Market participants should have adequate systems in place to allow them to project, monitor, and manage their intraday and end-of-day funding requirements to reduce potential complications during the settlement process.	This is not practical in Ethiopian FX market.