GFXC confirms zero hold times in last look

Chair says checks can't be used to monitor client market impact – a "game changer" according to some

The Global Foreign Exchange Committee (GFXC) has clarified that no additional hold times should be applied to last look checks in electronic spot foreign exchange transactions. The move – hailed as a "game changer" by some market participants – may require some liquidity providers (LPs) to update their dealing practices.

Definitions differ, but last look broadly comprises two parts: a price validity and credit check; and an additional hold time, which some LPs apply to monitor whether a client's trading behaviour makes them unprofitable to deal with. The latter has **long been controversial**, and while guidance to the FX Global Code released in August by the GFXC appeared to stamp it out, some believe loopholes still existed.

But **speaking at an industry conference** on September 8, Guy Debelle, GFXC chair and deputy governor of the Reserve Bank of Australia, confirmed that the last look window cannot include a hold time to monitor a client's market impact.

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"We tried to make it clear that really there isn't any other reason for a delay beyond the credit check and the price validation," said Debelle.

"The price validation isn't waiting to see whether the price moves in the right direction … that's mostly about ensuring the price isn't stale. So we just don't see that there's any other reason for a delay," he added.

FX Markets subsequently confirmed with Debelle that the last look window cannot be used to monitor client market impact.

Debelle's comments are seen as highly significant by some market participants, as they appear to go further than previous guidance by stating that last look checks cannot be used to monitor changes in market prices.

While firms including HSBC, JP Morgan and XTX declare in their disclosures that they do not apply additional hold times to their last look checks, at least 20 LPs have said they do, meaning they may need to update their practices to comply.

Closing the window

All LPs apply a last look window between accepting and executing a trade, which is used to check clients' credit and to ensure prices have not gone stale – if the price moves too far from the agreed level in that period, it can be rejected by the LP. That check can take between 0 and 50 milliseconds depending on an LP's technology.

But some LPs also apply a buffer, or additional hold time – of up to 300 milliseconds, or 60 tick price updates – on top of that to monitor whether a client's trading behaviour leads to market movements against the LP, making it harder for the LP to lock in a profit. Critics however claim this leads to a **disproportionate number of trades** rejected when prices move in the client's favour, resulting in more profits for LPs and extra costs for clients when they resubmit their order at a worse price later on.

Principle 17 of the original version of the Global FX Code, released in May 2017, said last look should be used to verify validity and/or price. The validity check is to confirm the transaction details are correct and to conduct the credit check, while the price check was to confirm whether the requested price "remains consistent with the current price that would be available to the client".

However, this still allowed LPs to apply additional hold times – for instance, running it before conducting the price check, or including it as part of the price check.

The three-year review of the code looked to clarify the last look issue, and guidance was released in August reiterating that it should only be used for price and validity checks. But it also said LPs should apply the price and validity check "without delay and promptly make their decision to accept or reject a trade".

> **We welcome the additional clarity from the chair of the GFXC around the last look guidance**
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> **Zar Amrolia, XTX Markets**

In feedback given to the GFXC concerning a draft version of the guidance, however, firms such as the Investment Association, Westpac and XTX were concerned that using the word "promptly" **leaves open** ambiguities that would allow additional hold times to continue.

Some believe LPs could still include the additional hold time as part of an extended price check that is compared against a future price, not the current price. In other words, starting the check immediately but waiting until the additional hold time was complete before seeing the future price and making the decision whether to accept or reject, under the cover of "promptly". Bank compliance teams could in theory agree that taking a decision within 300 milliseconds was indeed prompt.

But Debelle's confirmation that no delays can be applied for the purposes of observing "whether the price moves in the right direction" is seen as the first time the group has explicitly said additional hold times are inconsistent with the code.

“We welcome the additional clarity from the chair of the GFXC around the last look guidance,” says Zar Amrolia, co-chief executive officer of XTX Markets, “and the fact the price check should be against the current price at the time of trade receipt, with no additional delay or hold time incorporated within the price check for the purpose of selecting trades based on their market impact or anything else.”


Zar Amrolia, XTX

“This is a real turning point, and we look forward to LPs changing their behaviour in line with the Code and this guidance, which will ultimately benefit end-clients with increased transparency around execution costs,” he adds.

Previous research from sister publication *Risk.net* into the last look practice of 50 liquidity providers, both bank and non-bank, found that 20 LPs may impose an additional hold time on a client’s trade request before conducting last look checks – with hold times varying among LPs between anything from zero to 300 milliseconds. These included large LPs such as Bank of America, Citi, Deutsche Bank, Goldman Sachs and UBS.

Bank of America and Citi declined to comment, while the other banks did not respond to a request for comment in time for publication.

The GFXC has previously stated that market participants will have a 12-month grace period to re-iterate their commitment to the updated version of the Code and update their trading policies where required.