



**FIMMDA Code of Fair practices for
Debt Markets
September, 2017**

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INTRODUCTION

The Fixed Income Money Market and Derivatives Association of India (FIMMDA) is an association of Banks, Primary Dealers, All Indian financial institutions, Small Finance Banks, Payment Banks and some Insurance Companies, established on 4th May 1998 and formally inaugurated by Dr. Y.V. Reddy, Deputy Governor, Reserve Bank of India on June 3, 1998.

The spirit of creation of FIMMDA was to enable the market participants in the Fixed Income and Money Market & Derivatives to form an organisation through which they could collectively express their views on market development. One of the main objects as mentioned in its Articles of Association and mission was to recommend and implement healthy business practices, ethical code of conduct, standard principles and practices to be followed by the members in their dealing of securities.

FIMMDA Code of Fair Practices

FIMMDA Code of Fair Practices (CFP) is developed to build a culture of professionalism and a common set of guidelines to promote the integrity and effective functioning of the Market. It is intended to strengthen the level of adherence to best practices in dealing, to promote competence and ethics in activities and products in financial markets, minimise the risk of manipulation and sharing confidential information, so as to enhance the transparency, efficiency and integrity of the markets.

The code is built on the foundations of four pivots namely:

- I. Personal /Professional ethics
- II. Governing principles
- III. Communication: Channels, disclosures and transparency
- IV. Execution standards

Each of these principles are explained below in detail:

II. Applicability of the CFP:

The code is applicable to all the transactions between market participants, who are members of FIMMDA. It is suggested that the principles, contained in the code of conduct may also be applied in letter and spirit in respect of transactions between market participants, who are not members of FIMMDA such as corporates, mutual funds, pension funds and individuals. While this code of fair practices covers the participants in the above markets in India, its provisions may extend beyond the Indian shores, for example where a domestic market participant deals with an overseas counterparty in debt instruments issued in India. Deals in Indian debt and derivatives markets done with overseas counterparties should confirm to the conventions followed in India.

III. Scope of the CFP:

The markets covered by this CFP are the Fixed Income securities, Money Markets and Derivatives markets. The general principles and procedures are applicable to any product that may be dealt within these markets.

Specific mentions of the major products that are currently dealt with in the above markets have been made in this CFP. These include:

- Call Money / Notice Money / Term money/ CBLO/ Inter-bank participation certificates/Other money market instruments
- Bill Rediscounting
- Commercial Paper / Certificate of Deposit
- Dated Government Security / Treasury Bill
- Bonds / Debentures
- Repo/Reverse Repo
- Securitised debt instruments
- Interest Rate Swap / Forward Rate Agreement
- Interest Rate Future / Options
- Credit Default Swap

In respect of the derivative market, only Interest Rate Swaps, Forward Rate Agreement, Interest Rate Future and Credit Default Swap have been covered. For the other derivative products, involving foreign currencies, like cross

currency interest rate swaps, currency options and currency futures, conventions as formulated by the FEDAI, may be followed. Products covered above are indicative and would include all other Fixed Income products already in place known by any other name or, new products as and when introduced.

Market participants should make themselves familiar with the code and if necessary, guidance may be sought for from their respective managements.

The Code of Fair Practices is indicative and not exhaustive and does not cover every business activity. Members' may have detailed requirements that are specific to the member's business activities.

IV. Review:

The code is subject to review at periodic intervals to include/delete/amend, as the markets develop.

All the market participants are subject to the overall control and regulations of the Regulator and their instructions will supersede anything that might be contained in the CFP.

Code of Fair Practices:

The FIMMDA Code is structured around four pivots.

1. Personal and professional ethics:

- i. All market participants shall maintain the highest ethical and professional standards to enhance the reputation of the markets.
- ii. All market participants must comply with the rules and regulations governing the market and keep themselves up-to-date with changes that may develop from time to time.
- iii. Market participants should not indulge in any unethical business activities or professional misconduct involving dishonesty, fraud or deceit or commit any act that could damage the reputation of the organisation or the industry.
- iv. Market Participants should identify existing/potential conflicts of interest as per their institutions policies and address the same.
- v. Dealers/ Brokers shall not make frivolous quotations with an intent to mislead the market participants either on any platform or in OTC segment.
- vi. Every individual who commits a transaction on behalf of the institution shall act within approved limits/instructions.
- vii. Dealing procedures and principles that are explained in chapter 4 of FIMMDA Handbook of market practices, binds all market participants for compliance.

2. Governing principles:

- i. All institutions must ensure good corporate governance in order to promote responsible engagement in the Market.
- ii. All institutions must ensure that the staff concerned acting on their behalf are aware of the rules and regulations, conventions, practices and the markets in which they deal and have the required skills and resources to perform their job with professionalism and honesty.
- iii. All institutions must stand by the commitment made by an individual acting on their behalf, the principle being “My Word is my Bond”.
- iv. The management should put in place appropriate controls and procedures in respect of their dealings in the markets, covered by FIMMDA handbook. It should be ensured that the staff members who deal in the market and the other support staff follow the controls and procedures so laid down.
- v. All institutions should have appropriate policies to address any improper practices or unethical behaviour effectively.

3. Communication : Channels, disclosures and transparency:

- i. Market Participants should communicate through approved modes and channels of communication only.
- ii. Market Participants should always communicate in unambiguous, transparent, accurate and professional manner to promote effective communication that supports a transparent Market.
- iii. Market Participants should not disclose sensitive Information to external parties, and if required to do so, must gain necessary permissions/approvals as per their internal policies.
- iv. Protocols may be designed to minimize the access to the identifiable /price sensitive information at appropriate levels of operations.
- v. Participants may share a view on market colour, general state of Market or trends without disclosing designated confidential information.
- vi. Market participants should not intentionally disseminate false or misleading information with respect to the price or market for a security.
- vii. Market participants should maintain confidentiality with respect to client information and should not disclose/disseminate the same to others
- viii. Interaction/disclosures to any media should be done through an identifiable source.
- ix. A member of any committee (regulatory or otherwise) having some material non-public information should not disclose the same to others or use this for trading in market, till it is officially made public.

4. Execution Standards

- i. Market participants shall adopt fair and prompt deal execution practices, while acting as a principal or on behalf of their clients. The client orders should not be discriminated and dealt in the priority of receipt of the orders.
- ii. Market Participants are expected to be truthful and transparent when negotiating and executing transactions.
- iii. Market participants shall disclose market conditions prevailing in the market to the best of their knowledge so as to enable their clients to make an informed decision.
- iv. Market participants shall not enter/refrain from entering into transactions with the primary intent of disrupting the market, distorting the prices, or artificially inflating trading volumes.
- v. Market participants should promote liquidity and transparency to contribute to the efficiency of the secondary market.
- vi. All transactions, including with clients, should be handled in a reasonable and fair manner.
- vii. Dealing procedures and principles explained in the “Code of Conduct for Transacting in Government Securities Using RBI’s Negotiated Dealing System -Order Matching (NDS-OM)” should be abided. The same also applies to the OTC reported segment.
- viii. Client transaction should fall within the guidelines of the Suitability and Appropriateness policy as laid down by the institution concerned from time to time.
- ix. Market participants should not indulge in circular trading.

- x. Market participants should not indulge in simultaneously buying and selling the same securities at off mkt prices in order to create false or misleading signals regarding the supply of, demand for, or market price of securities
- xi. Market participants' should not deliberately try to manipulate the prices of infrequently traded securities at monthly/ quarterly /annual closing dates.
- xii. Market participants shall not enter into arrangements for sale or purchase of a Government security where there is no change in beneficial interests or market risk or where the transfer of beneficial interest or market risk is only between parties who are acting in concert or collusion.
- xiii. Market participants should not do a 'routing deal' i.e. purchasing a security at the instance of a third party who does not have funds to purchase the security, with an unwritten agreement to sell the same to the third party on a later date at a predetermined price which may not be market related.
- xiv. Market participants should not put misleading bids and offers outside the market range as defined by their institution without an intention to trade.
- xv. Market Participants should have framework for internal risk management and compliance. It will devise and observe proper standards of market conduct.

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Illustrative Examples

For the purpose of clarity we give below certain examples relating to the pivot of Execution standards. The examples are indicative and not exhaustive.

4(i) Acceptable

XYZ Bank received orders from several GILT account holders to buy 10 year Benchmark securities. The XYZ Bank has stated in its policy that orders are processed in the order in which they are received from Clients according to time-stamping. The XYZ banks fills orders in sequence in which it received.

- **Unacceptable**

XYZ Bank received orders from several GILT account holders to buy 10 year Benchmark securities. The XYZ Bank has stated in its policy that orders are processed in the order in which they are received from Clients according to time-stamping. The XYZ banks fills first an order of a major customer even though that order was received after other orders.

4 (ii) Acceptable: Client gives a buy order and if the dealer also intends to buy at the same level, it may be conveyed to the client while taking the order.

4(iii) Example 1

- **Acceptable:**

A GAH calls a ABC bank and informs them that they will need to buy a large amount of 2 year paper (illiquid paper) and wants the bank to act in a principal capacity. The bank buys smaller parcels of the said paper to limit the market impact.

- **Unacceptable:**

GAH calls a ABC bank and informs them that they will need to buy a large amount of 2 year paper (illiquid paper) and wants the bank to act in a principal capacity. The bank buys substantial amount of the said paper for their own position with the intent of profiting from the information, and fills the Client's order at a much higher level from its own position.

Example 2

- **Acceptable**

XYZ Bank has a constituent Co. by the name of PQR Pvt Ltd. XYZ Bank is looking to sell some illiquid bonds in his portfolio but is not getting a bid in the market. He calls up PQR Pvt. Ltd. and tells him that he wants to exit from the illiquid bonds and enquires whether he will be interested to buy the same. Based on XYZ Bank's offer, PQR Pvt. Ltd. decides to buy Rs. 300 crores worth of these bonds.

- **Unacceptable**

XYZ Bank has a constituent Co. by the name of PQR Pvt Ltd. XYZ Bank is looking to sell some illiquid bonds in his portfolio but is not getting a bid in the market. He calls up PQR Pvt Ltd. and tells him it is a good time to invest in these illiquid bonds as there is good demand for these securities. Based on XYZ Bank's bullish view, PQR Pvt. Ltd. decides to buy Rs. 300 crores worth of these bonds.

4 (iv) Acceptable

If a big client order is received which has potential to move the market significantly, the same should be allowed as it represents market reality.

If an institution's position demands a corrective action to be initiated the same should not be construed as market disruptive.

4 (v)

Acceptable

Mutual fund leaves an order with RST Bank to sell 2 year security at 101.60 on a stop-loss with instructions to execute the order once 101.60 trades. RST Bank starts executing the order once 101.60 trades in the market. RST Bank immediately notifies the Client that the stop-loss order has been executed and is filled at 101.59, which is in line with the Client's expectation based on the time of the day and the volume traded at the time the order is executed.

Unacceptable:

Example 1: XYZ Bank gives an offer to sell Rs. 100 crores of a particular CP of JKL Ltd. He finds a buyer to buy at his agreed level and they close the deal. After closing the deal, XYZ Bank says he can only sell Rs. 50 crores as he does not have a mandate to sell more than Rs. 50 crores. This is unprofessional and inconveniences the counterparty.

Example 2: XYZ Bank has a client Co. by the name of PQR Pvt. Ltd. PQR Ltd. wishes to buy marketable lot of 10 years State Development Loans (SDL's) at market level and sends

instructions to XYZ Bank for the same. The market is quoting a two-way quote of 7.30%-7.33% on these SDL's. XYZ Bank sells these securities from his own portfolio to PQR Pvt. Ltd. at 7.10%. This is not a reasonable dealing level and is an unfair practice.

Example 3: A GILT account holder asks a Market Participant to fill an order to sell 10 year benchmark securities at a price and to confirm the details at a later time period. The Market Participant fills the order further away from the actual executed rate, but within the day's trading range.

4 (vi) Client ABC gives an order to Bank XYZ to buy the 10Y bond at a said price

Acceptable: Dealer put the order on screen and upon execution immediately intimates the client of the successful execution of his order.

Unacceptable: Dealer puts the order on screen and upon execution does not communicate the client, instead puts a counter a different levels. If the market moves against the dealer, he gives the client order a fill or otherwise may covers his risk in the market.

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