

The UK Money Markets Code

April 2017



BANK OF ENGLAND



Foreword

Voluntary codes of best practice can help to establish the basis on which financial markets function, ensuring trust between participants. This in turn creates an environment so that a fair, effective and transparent market can flourish and in which, by adhering to such codes, high standards of behaviour can be assured.

The UK Money Markets Code sets out the standards and best practice expected from participants in the deposit, repo and securities lending markets in the United Kingdom. It supersedes existing guidance for participants in these markets provided by the NIPs Code, the Gilt Repo Code and the Securities Borrowing and Lending Code. By bringing these together it will more clearly establish the framework for transacting in UK money markets.

The Code is endorsed by the Money Markets Committee (MMC), comprised of market participants from a wide range of banks, other financial and non-financial institutions, and chaired by myself on behalf of the Bank of England. A sub-group of those experienced market practitioners was formed to draw up the Code itself and will remain in place as a permanent Sub-Committee of the MMC to ensure that it remains relevant and up to date as markets evolve.

The new Code remains voluntary but I would encourage all market participants to follow its guidance. The high standards it promotes will build greater trust and certainty throughout these markets, bringing clear benefits for all involved. Our ambition is for the Code to be embedded widely by the beginning of 2018.

The Bank of England has been very pleased to support this market-led initiative over the last year. I would like to personally thank all those involved for giving up their time and employing their significant expertise to ensure that effective market standards are now clearly established by this Code.

Chris Salmon
Executive Director Markets
Bank of England

We would like to thank all of our colleagues from a broad range of institutions who have led this initiative and contributed to the production of the Code. We would also like to thank the Bank of England for their advice and support.

The objective has been to set out clear principles and standards for the deposit, repo and securities lending market in the United Kingdom. We believe that the UK Money Markets Code achieves this, and that the Code will ensure best practice becomes embedded across the market.

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Chapter 1: Background and Key Principles

1 What is the UK Money Markets Code?

1.1 The UK Money Markets Code ('the Code') has been developed to provide a common set of principles in order to promote the integrity and effective functioning of the UK money markets.

It is intended to promote a fair, effective and transparent market in which a diverse set of UK Market Participants, supported by resilient infrastructure, are able to confidently and effectively transact in a manner that is consistent with the highest standards of behaviour.

1.2 The Code will not impose legal obligations on UK Market Participants, nor will it be a substitute for regulation. It is a voluntary code setting out the expectations of all who participate in the UK Markets. The Code, however, is not intended to be a comprehensive guide to doing business.

It applies to:

- (a) the execution of transactions in the deposit markets, specifically in the sterling and foreign currency wholesale unsecured deposit market (including certificates of deposits and commercial paper⁽¹⁾) but not general transactional banking activity in, for example, call or evergreen bank accounts);
 - (b) the repo market; and
 - (c) securities lending transactions as transacted in the United Kingdom,
- which together constitute, for the purposes of this Code, the UK Market.

1.3 Global foreign exchange transactions are now covered where applicable by the FX Global Code⁽²⁾ and activities in the London Bullion market are covered by a code published by the London Bullion Market Association.⁽³⁾ It is the intention, as far as is appropriate, for this Code to be aligned in principle with the Global FX Code and the Precious Metals Code. The Code will also align, as far as is appropriate, in principle with other relevant codes, and it should be read in conjunction with the statements of best practice and market guidance given in such codes. Financial market associations and trade bodies⁽⁴⁾ may also wish to align their own codes with this Code.

1.4 The Code has been developed and written by UK Market Participants working as a Sub-Committee of the Bank of England's Money Market Committee (MMC). It reflects what the participants believe to be best practice in the markets that it covers. Technical advice, support and secretariat facilities are provided by the Bank of England.⁽⁵⁾

(1) The Commercial Paper (CP) market operates in accordance with the underlying issuer programmes and specific regulatory requirements not covered in this Code that are applicable to markets in financial instruments.

(2) FX Global Code published by the Foreign Exchange Working Group of the Bank for International Settlements.

(3) The Precious Metals Code.

(4) Annex 4.

(5) Annex 5.

2 Overriding Principle

Above all the Code's underpinning principles, there should be a commitment by all UK Market Participants that adherence to the Code primarily includes an undertaking to abide by the Code's overriding principle. That principle is 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.

2.1 The Code is based on six underpinning principles in order to promote an open, fair and effective market:

- **Ethics:**
 - UK Market Participants are expected to behave in an appropriate and professional manner.
- **Governance and Risk Management:**
 - UK Market Participants should have an applicable framework that facilitates responsible participation in the UK Markets and provides for comprehensive oversight of such activity at an appropriately senior level of management. There should be clear and defined internal escalation routes.
 - UK Market Participants are expected to maintain a control environment to effectively manage the risks associated with their engagement in the UK Market.
- **Information Sharing, Confidentiality and Communications:**
 - UK Market Participants are expected to be clear and accurate in their communications, and to protect relevant information to support effective communication.
- **Execution, Surveillance, Confirmations and Settlement:**
 - UK Market Participants are expected to exercise appropriate care when negotiating and executing transactions.
 - UK Market Participants are expected to put in place effective and efficient processes to promote the secure, smooth, and timely settlement of transactions.

2.2 The Code therefore establishes high-level principles of appropriate standards in the UK Markets. These principles are fundamental and central to all aspects of behaviour. The Code will continue to evolve, as required, as the UK Markets evolve.

2.3 Proportionality is a fundamental principle throughout the Code. However, this is not intended to lower the bar for market standards and best practice.

The Code recognises the diversity of roles within the UK Market; certain aspects of the Code will not be relevant to all participants but there is an undoubted benefit to all in aspiring to adopt the best practices where relevant. It is however recognised that less complex and generally smaller UK Market Participants may need to exercise judgement in assessing whether it is appropriate and practical for them to adopt all the specific practices set out here. The Code should be read in that context and wherever best practice is described, it is understood that the smaller, less complex UK Market Participants may have sound, practical reasons for a different approach. The Explanatory Note accompanying the Code also provides an indication of the key sections that are most relevant and applicable for this type of UK Market Participant.

UK Market Participants must be aware of, and comply with, the laws and regulations applicable to the UK Markets (Applicable Law). UK Market Participants remain responsible for having internal policies and procedures designed to comply with the laws and regulations applicable to them and to the markets in which they conduct their business.

The content of this Code in no way supplants or modifies Applicable Law. Similarly, this Code does not represent the judgement nor is it intended to bind the discretion of any regulator, supervisor or other official sector entities with responsibility over the relevant markets or UK Market Participants, and it does not provide a defence to a violation of Applicable Law.

This Code should serve as a useful reference for UK Market Participants when conducting business in the UK Markets and when developing and reviewing internal procedures.

Certain terms used in this Code may have specific existing definitions or meanings under the Applicable Law, which may imply certain duties or obligations. For the avoidance of doubt, terms used in this Code should be read according to their commonly accepted meaning as terms of market practice in the UK Markets and no specific legal or regulatory meaning should be imputed or ascribed to them.

Existing legal documentation may refer to the Non-Investment Products Code (2011) (previously the 'Grey Book'), the Gilt Repo Code (2008) and the Securities Borrowing and Lending Code (2009). Where appropriate, this Code should be regarded as being the successor to those documents.

It is the responsibility of UK Market Participants to be aware of their responsibilities under all applicable competition laws.

3 Who will the Code apply to?

3.1 The UK Markets feature a broad range of participants who engage both directly and indirectly in the market in different ways and across various products. The Code is expected to apply to all UK Markets Participants including, but not limited to, entities that are commonly described as, or are involved in:

- (a) sell-side, eg banks and large building societies;
- (b) buy-side, eg asset managers, smaller building societies, insurance companies, pension funds, corporates, local authorities, educational establishments;
- (c) trading houses, eg market makers, matched principal traders, hedge funds, high frequency and proprietary traders;
- (d) agents, eg a bank who acts under a legal agreement for one party to a transaction;
- (e) brokers, eg prime brokers and money brokers;
- (f) infrastructure providers, eg central counterparties; and
- (g) custodians, eg a financial institution that holds customers' securities for safekeeping and which provides management services.

The Code is intended to establish a common set of good practices for responsible participation in these UK Markets.

For the purposes of this Code, a 'UK Market Participant' is a person or organisation (regardless of legal form) that is regularly active in the wholesale financial markets and in one or more of the following:

- (a) the placing or receiving of unsecured money market deposits in the UK Markets (or in buying, selling or issuing equivalent unsecured certificates of deposit or commercial paper);
- (b) purchasing and selling securities under repurchase agreements; or
- (c) borrowing and lending securities;

and is either a professional client or eligible counterparty in accordance with the definition of such in both the PRA and FCA Handbooks.

3.2 The Code also applies to the Bank of England as a UK Market Participant. However, in certain circumstances including, but not limited to, policy setting and implementation, market intelligence gathering, and liquidity insurance, the Bank or HM Treasury and any agents thereof, may need to operate outside of the full expectations of the Code in order to appropriately undertake its responsibilities and activities. The use of non-standard legal documentation may also be necessary for the Bank or HM Treasury or any agent thereof.

4 How is the Code expected to apply?

4.1 Adherence

4.1.1 There are three elements that characterise the overall scope of the approach to adherence: comprehensive, proportionate and transparent.

- (a) **Comprehensive** — This Code of best practice and market standards should apply to all UK Markets Participants, including those that are not financially regulated such as, but not limited to, corporates, local authorities, charities, educational establishments, and non-government organisations. The application should be based according to the type and scale of the activities that each UK Market Participant undertakes within the wholesale financial markets.
- (b) **Proportionate** — UK Market Participants may demonstrate their adherence, or their intention to adhere to the Code, in a proportionate and appropriate way according to the type of participant, the type and the scale of transactions they undertake within the UK markets, and the specific market in which they participate. The form of that demonstration is likely to be different and more extensive for a major international bank compared to a smaller corporate that participates in one part of the market infrequently.
- (c) **Transparent** — Adherence, or the intention to achieve adherence as soon as practical, should be transparent to ensure that market discipline is both visible and sustainable. Such transparency is beneficial to all participants in the market; it can be achieved in a way most appropriate to the UK Market Participant itself according to the type and scale of their market activities. Transparency can take a variety of forms including, by way of example, but not limited to, statements within internal policies, statements on websites, or the standard Statement of Commitment⁽¹⁾ provided as and when requested. But in all cases it should be simple and unequivocal.

4.2 Application

4.2.1 Adherence itself, taking into account the proportionality comments above, may be seen as a process through which UK Market Participants:

- (a) Implement the necessary and appropriate policies, procedures and systems to ensure that the technical aspects of the Code, and the underpinning principles, are reflected in the relevant business practices and integrated into their internal systems and controls where appropriate (**Embedding**).
 - (i) It is expected that UK Market Participants update, and keep updated, all relevant internal policies and procedures to incorporate and highlight applicable aspects of the Code, where such policies and procedures exist. If they do not exist consideration might be given to their introduction as best practice.
 - (ii) The policies should be supplemented by specific education and training to ensure both new and existing staff fully understand the Code and its implications. This will help the Code to become embedded within the UK Market Participant.
 - (iii) It is envisaged that relevant staff acting in the UK Markets should familiarise themselves with the standards set out in the Code prior to transacting in the market.
- (b) Establish proper processes to measure and verify adherence with regular review of how the underlying principles are embedded (**Monitoring**).
 - (i) Relevant senior management may wish to know whether and how the Code is being adhered to within their organisation. It is best practice therefore that, where relevant and appropriate, either compliance departments or internal audit functions regularly review whether the activities in relation to the UK Market are within the guidelines set out in the Code.
- (c) Confirm commitment to abide by, and intent to adhere to, the Code on an ongoing basis (**Demonstrating**).
 - (i) It is expected that each market participant would be able to make a statement in relation to its approach to adherence in its internal policies, or provide such a statement when requested. Such a statement would be in a standard format.⁽²⁾

⁽¹⁾ Annex 1.

⁽²⁾ Annex 1.

- (ii) Confirmation of adherence might be requested by persons transacting with the participant, for example other UK Market Participants, professional bodies and trade associations, or the Bank of England.

4.3 The Senior Managers and Certification Regime⁽¹⁾⁽²⁾

4.3.1 The Senior Managers and Certification Regime (the 'Regime') is of direct relevance to financially regulated firms to whom it applies when considering this Code. The Regime is aimed at supporting a change in culture and accountability at all levels in financially regulated firms through a clear identification and allocation of responsibilities to relevant senior individuals. As a matter of best practice, relevant firms should apply the Regime to the Code as it would other rules and requirements. The Regime may also be useful for all other UK Market Participants as an outline of how senior management, where relevant and applicable, might engage with the Code.

5 Ethics

UK Market Participants are expected to behave in an ethical and professional manner to promote the fairness and integrity of the UK Markets.

5.1 UK Market Participants should strive for the highest ethical standards

5.1.1 The ethical and professional behaviour of UK Market Participants underpins the fairness and integrity of the market. It is not possible for a set of principles on ethics to cover questions of behaviour exhaustively. Applying judgement is fundamental to acting ethically and professionally, and both firms and individuals acting as UK Market Participants should be guided by the high-level principles below, both when applying the specific guidance in the Code and at all times when participating in the UK Markets.

5.1.2 UK Market Participants should:

- act honestly in dealings with other UK Market Participants;
- act in a consistent and appropriately transparent manner when dealing with other UK Market Participants; and
- act with integrity, by not participating in, and if encountered confronting, questionable practices and behaviours.

5.1.3 Maintaining high standards of behaviour is the responsibility of:

- (a) firms, who should promote ethical values and behaviour within the firm, support efforts to promote high ethical standards in the UK Market, and encourage involvement by personnel in such efforts;
- (b) senior and front-line management, who should be pro-active in embedding and supporting the practice of ethical values within the firm's culture and be prepared to give appropriate advice to personnel; and
- (c) individuals, who when dealing in the UK Markets should expect to be held accountable for unethical behaviour, and, if in any doubt, should seek advice where appropriate. Such individuals at UK Market Participants should, having regard to the overriding principle of this Code, report and/or escalate issues of concern to appropriate parties internally or externally to an appropriate body, having regard to the circumstances.

5.2 UK Market Participants should strive for the highest professional standards

5.2.1 All UK Market Participants (both firms and their staff) share a common interest in maintaining the highest degree of professionalism and the highest standards of business conduct in the UK Markets.

5.2.2 High standards of conduct are assured by, but not limited to:

- (a) having sufficient knowledge of, and complying with, Applicable Law;
- (b) having sufficient relevant experience, technical knowledge, and training;
- (c) acting with competence and skill; and

(1) <http://www.bankofengland.co.uk/prd/Documents/authorisations/smr/prasmrinternal20160708.pdf>.

(2) <http://www.fca.org.uk/your-fca/documents/reports/applying-the-principles-of-the-smr-to-the-fca>.

- (d) applying professional judgement in following the firm's guidelines and operating procedures including, but not limited to, methods of execution, record keeping, and ethical behaviour.

5.3 UK Market Participants should identify and address conflicts of interest

5.3.1 UK Market Participants should have internal policies and controls in place to identify and manage actual and potential conflicts of interest in relation to their participation in the UK Markets. It is expected that such policies will highlight and mitigate such conflicts and, thereby, effectively manage them so as to promote fair treatment of other UK Market Participants.

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

6 Governance and Risk Management

Market Participants should have an applicable governance framework that facilitates responsible participation in the UK Markets and provides for comprehensive oversight of such activity at an appropriately senior level of management. There should be clear and defined escalation routes.

Governance and Culture Framework

6.1 Senior management is ultimately responsible for establishing, embedding and monitoring the effectiveness of an appropriate, and where applicable local, governance framework for participation in the UK Markets.

6.2 The senior management of a UK Market Participant should embed and demonstrate a strong culture of ethical conduct and standards within the firm.

6.3 The body that has overall responsibility for a UK Market Participant should enable appropriate local management, if different, to devote sufficient time and attention to provide for:

- effective management
- appropriate skills and experience
- independent challenge
- a framework for accountability and reporting in its UK Market activities.

6.4 Primary responsibility rests with senior management in setting this 'tone from the top' as a strong and sustained priority. A UK Market Participant's business or, as appropriate, treasury model should positively promote good conduct and the business or treasury strategy should not conflict with this aim. In practice, senior management should apply standards so that:

- (i) the embedding of best practice, values, conduct and behaviours receives regular and appropriate review and oversight;
- (ii) there is sufficient challenge posed to the appropriate senior management team on market best practice, values and behaviours; and
- (iii) they are highly visible in demonstrating and championing the positive benefits of embedding the desired practices, values and behaviours.

Accountability and Responsibility Framework

6.5 Market Participants should establish a framework that clearly allocates accountability, responsibility and duties with regard to their activities in the UK Markets.

6.6 All staff participating in such activities should have a responsibility to adhere to best practice.

6.7 Senior management should take primary responsibility for defining whether or not behaviour is in line with best practice as set out in this Code, and in line with the firm's own internal policies.

- (i) Senior management are responsible for reducing instances of poor practice which are not in keeping with the overriding principle of this Code.
- (ii) For relevant regulated financial firms, the Senior Managers and Certification Regime (as outlined in Section 4.3) establishes the expected level of accountability and responsibility in embedding such appropriate culture and standards. It also forms a useful guide and standard for all other firms.
- (iii) UK Market Participants should allocate to an appropriate function (most usually the Compliance and/or Risk Function) clear responsibility for checking and challenging the effectiveness of the framework, and for subsequent monitoring.
- (iv) Senior management should enable, if appropriate, the internal audit function to examine adherence standards, to have operational independence from the business line in this regard, and to be staffed, skilled and resourced for this purpose.

Best Practice and Ethical Standards Framework

6.8 Senior Management should deploy staff to their activities in the UK Markets who have sufficient skills, competence and expertise for their duties.

6.9 As guidance, factors that may be considered in assessing whether staff are suitable for the assigned work duties are, but not necessarily limited to:

- (i) knowledge of relevant products, markets, applicable law and regulatory requirements;
- (ii) practical experience;
- (iii) professional qualifications; and
- (iv) knowledge and understanding of appropriate and applicable elements of this Code.

6.10 UK Market Participants should provide access to continuing appropriate training for their staff engaging in UK Markets, such that they remain competent to perform their roles.

6.11 UK Market Participants should regularly reinforce such staff's and senior management's awareness of ethical standards and conduct matters.

6.12 UK Market Participants should provide regular communications to impacted staff on such standards, together with periodic dissemination of both this Code and other internal and external codes of best practice. The effectiveness of such communication should be reviewed appropriately.

6.13 Remuneration systems and promotion arrangements for staff engaging in UK Markets should encourage the very best market practices and behaviours. Such arrangements should not encourage or incentivise inappropriate or poor market practices or behaviours.

Know your Counterparty and Dealing Relationships

6.14 All participants in the UK Market should 'know their counterparty'. It is necessary for the participants' own risk control and the need to meet their legal obligations (eg on money laundering) that detailed counterparty checks are undertaken before dealing in the UK Markets.

6.15 Careful assessment should be undertaken of the information available to UK Market Participants upon which they will base their judgement as to whether or not to open/extend a dealing relationship with a particular counterparty.

6.16 Before agreeing to establish a dealing relationship in any of the products covered by this Code, UK Market Participants should be aware of any credit and reputational risks that might arise as a result. In order to minimise the risks, UK Market Participants should have in place a clearly articulated approval process for their staff to follow before dealing with counterparties for the first time. This process should apply both when granting an initial dealing line for a product, and subsequently if changing or extending it to other UK Market products.

6.17 Once a customer dealing relationship has been established in one or more product(s), it is strongly recommended that it is reviewed periodically by management of both parties.

6.18 Dealing mandates can help to clarify the nature of the counterparty relationship. A mandate might, for example, clarify whether the relationship is between an agent, broker or principal, and can set out the confirmation and the Standard Settlement Instructions (SSIs). Such mandates, if they exist as described, should always be negotiated and explicitly agreed between the parties concerned.

6.19 Notwithstanding the above, a dealing mandate does not lessen the responsibility of UK Market Participants for the actions of their own staff; it is the responsibility of a UK Market Participant to ensure that any member of its own staff who commits it to a deal has the necessary authority to do so. Nor should a dealing mandate attempt to transfer or outsource such responsibilities to a counterparty. Any failure on the part of a counterparty or their representative to adhere to their own internal guidelines should have no bearing on the binding nature of any transaction entered into by the two parties.

Framework for Handling Alleged Misconduct or Unethical Practices

6.20 UK Market Participants should make available channels for their staff to internally escalate concerns about misconduct or unethical practices without fear of reprisal.

- (i) UK Market Participants should empower their staff engaged in activities in the UK Markets to report concerns about misconduct, suspicious transactions or bad and unethical practices; it is the individual's responsibility to make such reports.
- (ii) UK Market Participants should clearly inform their relevant staff about where and how they could escalate concerns about misconduct or unethical practices in such a way that escalation will protect their identity and not be to their detriment.
- (iii) Serious issues that are escalated should be appropriately investigated, within a reasonable period of time, by independent staff who have sufficient skills, experience, and resources. Where appropriate, senior management should be informed of the escalation.
- (iv) The results of any investigation should be brought to the attention of senior management and if appropriate the relevant regulatory or legal authorities.

Risk Management

Market Participants are expected to maintain a vigorous control environment to effectively identify measure, monitor, manage, and report on the risks associated with their engagement in the UK Market.

6.21 Market Participants should have in place policies to manage risk associated with their activities in the UK market.

6.22 The mitigation and control of risk is an important constituent in ensuring that markets function in a fair and effective way.

6.23 Sound risk management is therefore a fundamental pre-requisite to participation in UK Markets. The risks involved in transacting in the UK Markets should be fully understood.

6.24 An appropriate risk management framework might include, but is not limited to, mitigation of some or all of the following risks:

- (a) Credit
- (b) Market
- (c) Funding and liquidity
- (d) Operational
- (e) Conduct

6.25 Appropriate reporting procedures should be established to identify and highlight such risks.

6.26 The extent of the exposure to a particular risk should be visible and identifiable to facilitate an appropriate understanding of the risk position by senior management.

6.27 The level of risk should be monitored and appropriate reporting arrangements should be in place to provide visibility to senior management, who have a responsibility to control market risk within agreed limits.

6.28 UK Market Participants should, where appropriate, establish an effective risk management model.

Business Continuity

6.29 UK Market participants should have in place effective plans to deal with any risk of interruption to business continuity, to ensure that they are able to continue to undertake market transactions and related confirmation and settlement processes.

7 Information Sharing and Confidentiality

UK Market Participants are expected to be clear and accurate in their communications and to protect relevant information to support effective communication and promote an open, fair, and transparent market.

7.1 UK Market participants should be clear on how they handle trading, proprietary and confidential information.

7.1.1 **Trading Information** (which is likely to also be **Confidential Information**). Information relating to the past, present, and future trading activity or to positions of the UK Market Participant itself or of its Clients, including related information that is sensitive and is received or produced in the course of such activity, should be handled appropriately and subject to suitable access controls.

7.1.2 **Proprietary Information** UK Market Participants may agree to a higher standard of non-disclosure with respect to confidential, proprietary, and other information, which may be formalised in a written non-disclosure or a similar confidentiality agreement.

7.1.3 **Confidential Information** (which may include **Trading Information**). UK Market Participants should appropriately manage access to and protect Confidential Information.

- (i) Personnel should not disclose Confidential Information except to those individuals who have a valid reason for receiving such information, such as to meet internal risk management, legal, and compliance needs.
- (ii) Confidential Information obtained from a Client, prospective Client, or other third party is to be used only for the specific purpose for which it was given.
- (iii) Confidential Information must not be misused by personnel for their own purposes.

7.2 Market Participants should disclose Confidential Information only under certain circumstances.

7.2.1 These may include but are not limited to disclosure:

- (a) to agents, brokers, electronic venues or other UK Market Participants to the extent necessary for executing, processing, clearing, novating, or settling a transaction;
- (b) with the consent, or at the request, of the counterparty;
- (c) required to be publically disclosed under Applicable Law, or as otherwise requested by a relevant regulatory, tax or public authority;
- (d) as requested by a central bank acting for policy purposes; and
- (e) to advisors or consultants on the basis that the recipient protects the Confidential Information in the same manner as the UK Market Participant that is disclosing the Confidential Information to them.

7.3 When determining whether to release Confidential Information, UK Market Participants should take into account Applicable Law, as well as any agreed-to restrictions, for example a confidentiality agreement, or non-disclosure agreement that may limit the release. This is also applicable to information gathered by electronic trading platforms; the use of such information externally should be governed by the contractual agreement governing the relationship between the parties.

7.4 While principals and brokers share equal responsibility for maintaining confidentiality, brokers must exercise particular care. They should ensure that the identities of parties to a transaction are disclosed only after execution, which may be on a conditional basis (subject to the prospective counterparty being one with whom the participant can deal), and then only to the parties involved.

7.5 Principals or brokers should not, without explicit permission, disclose or discuss, or apply pressure on others to disclose or discuss, any information relating to transactions, except disclosure to, or discussions with, the parties directly involved (and, if necessary, their advisers) or where disclosure is required by law or to comply with the requirements of a supervisory body.

7.6 Where confidential or market sensitive information is routinely shared by a UK based firm with other branches/subsidiaries within its group, it should be shared in accordance with established procedures. UK management should be responsible for how such information is subsequently controlled.

7.7 A principal should not place an order with a broker with the intention of ascertaining the name of counterparty in order to make direct contact to conclude the deal; neither should direct contact be made to increase the amount of a completed trade arranged through a broker.

8 Communications

Communications should be clear, accurate, professional, not misleading and should not compromise Confidential Information.

8.1 Staff at UK 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, such staff should consider:

- (a) attributing information derived from a third party to that third party (eg a news service);
- (b) identifying opinions clearly as opinions; and
- (c) exercising judgement when discussing rumours that may be driving price movements.

Staff should be required where obliged by applicable law and regulation to:

- (d) not provide misleading information;
- (e) not communicate false information; and
- (f) not start rumours with the intention of moving markets or deceiving other UK Market Participants.

The application of such best practice and required standards in relation to communications applies to all UK Market Participants.

8.2 UK Market Participants should be mindful that their communications reflect on the UK Market Participant they represent, as well as on the UK Money Markets more broadly.

8.3 UK Market Participants should not solicit Confidential Information.

8.4 The communication of information between UK Market Participants relating to specific transactions can be misinterpreted, misleading, unclear, and against the principles for handling Confidential Information. Market colour in relation to specific transactions should not therefore be shared, and should not be used to solicit business.

8.5 Any communication given on general market background should be restricted to information that is effectively aggregated, anonymised, and in such a manner that protects Confidential Information.

8.6 UK Market Participants should communicate with other UK Market Participants via approved methods of communication which allow for traceability, auditing, record-keeping and access control.

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

8.8 Where possible, UK Market Participants should maintain a list of approved modes of communication and it is recommended that communication channels be recorded.

8.9 UK Market Participants should give consideration, in their policies and procedures, under certain rare and exceptional circumstances (for example in an emergency and for business continuity purposes), as to whether they would allow the use of other communication channels including unrecorded lines and provide guidance to personnel regarding the use of such unrecorded lines or devices.

9 Execution, Surveillance, Confirmations and Settlement

UK Market Participants are expected to exercise appropriate care when negotiating, executing and settling transactions in order to promote an open fair, effective and transparent UK Market.

9.1 Execution

9.1.1 All UK Market Participants, regardless of their role in the execution of transactions, should behave with integrity to support the effective functioning of the UK Markets.

9.1.2 There should be clarity about the roles and relationships and duties of principals, brokers and agents in all transactions.

9.1.3 In negotiating such transactions, participants should be clear as to whether prices are firm or indicative, and should have provided all relevant disclosures and information, including if necessary the time frame within which the transaction should be completed.

9.1.4 Market participants should execute transactions with appropriate transparency.

9.2 Recording and Surveillance

9.2.1 The use of recorded communication lines in the offices of principals, agents and brokers to record conversations by UK Market Participants is regarded as best practice. Such recording of lines of communication between settlement staff may also be useful where practical and applicable. The term 'recorded' covers both the recording of voice-based execution and settlement, and the retention of electronic communications most usually but not exclusively initiated through e-mail and messaging services.

9.2.2 Recording can assist in the:

- (a) speedy and effective resolution of differences and disputes; and
- (b) identification through surveillance of instances of inappropriate behaviour, either on the part of its staff or those of its counterparties.

9.2.3 Recording can be relied on by both parties, even if only one party has recorded the relevant communication, subject to the requirements of any relevant provisions of any privacy legislation in force.

9.2.4 UK Market Participants which have installed or plan to install recording equipment, should take steps to inform their customers that communication channels and transactions will be recorded, and to comply with the requirements of any relevant provisions of any privacy legislation in force.

9.2.5 UK Market Participants should take account of regulatory conduct requirements in the formation and implementation of their internal policies with regard to such recording.

9.2.6 UK Market Participants should make and implement a policy about the period of time for which recordings are kept. The longer recordings are retained the greater the chances are that any subsequent disputes over transactions can be resolved satisfactorily. Recordings that cover any relevant aspects of a transaction about which there is a dispute should be retained until the problem has been resolved.

9.2.7 Management should seek to ensure that it has the ability to access all recordings promptly and that access to recording equipment is strictly controlled so that such recordings cannot be tampered with.

9.3 Use of mobile phones or other similar portable devices for transacting business

9.3.1 The use of non-recorded mobile phones and other similar portable devices for official business is not good practice. All official business should be conducted using the controlled trading environment, including making use of recorded communication lines where appropriate. An exception on proportionality grounds can be made if specifically approved by senior management.

9.3.2 Management should have a clear policy regarding the use of mobile devices for business purposes by sales, trading and settlement staff.

9.3.3 Where, in exceptional circumstances such as disaster recovery, the use of mobile or similar devices for business is approved by senior management, procedures should still allow for an end-to-end audit trail as appropriate to the nature of the business conducted in this way.

9.4 Confirmations

9.4.1 UK Market Participants are expected to put in place efficient settlement processes to promote the secure, smooth, and timely settlement of transactions. All trades should be confirmed without undue delay. The form of communication may include the agreed use of automated systems that produce the equivalent of a confirmation.

9.4.2 Counterparties should ensure that they have appropriate procedures in place to permit the prompt exchange and processing of confirmations where appropriate as soon as possible after a transaction is executed. It is best practice for at least one party to a transaction to send a confirmation or use electronic matching systems.

9.4.3 The issue and checking of confirmations is a back-office responsibility which should be carried out independently from the front office. There should be appropriate segregation between the front office and those involved in the confirmation and settlement of transactions. This is particularly important in the money markets where settlements involve cash payments to counterparties rather than through custodians.

9.4.4 An effective and independent confirmations process can identify errors at an early stage of the trade cycle and provide an important defence against potential loss. The careful use of confirmations enables counterparties, whether dealing direct or through a broker, to minimise rogue trader risks, better manage trading/dealing exposure risks and ensure smooth settlement.

9.4.5 If there has been a misunderstanding or mistake between counterparties as to the terms of a transaction, proper and prompt review of confirmations that are exchanged between the two counterparties will expedite the identification of discrepancies. In rectifying any error, a lack of response by one party should not be considered acceptance by any other party, and every attempt should be made if possible to elicit a response to agree any amendment.

9.4.6 Acknowledgement of a cancelled trade should be made as soon as possible after such cancellation by each party. Failure to issue a cancellation can result in confusion between parties and increases the risk of settlement issues. Cancelled and amended confirmations can result from an early termination or unwind of an existing trade; therefore care should be taken to avoid confusion. An appropriate audit trail should be established for cancelled or amended transactions.

9.5 Settlement

9.5.1 All UK Market Participants are expected to use Standard Settlement Instructions (SSIs). No trades should be completed until these are in place.

9.5.2 There should be appropriate systems and processes in place to reduce potential complications during the settlement process, and to reduce the risk of failed trades.

9.5.3 SSIs are particularly important in unsecured money market transactions, where cash settlement is made across a range of counterparties rather than just through a custodian. In the majority of instances SSIs should remove the need to exchange deal specific payment instructions and once in place are used for settlement of all specified transactions between the two counterparties. This contributes to reducing both the incidence and size of differences arising from the mistaken settlement of funds and can be beneficial in mitigating instances of fraud. It is good practice to include both parties' SSIs on trade confirmations as an additional cross-check before the movement of funds. Any changes to SSIs should be notified in good time before the change is effective. It should only be possible to change SSIs within a UK Market Participant's system using a suitably secured system, normally incorporating adequate segregation of duties to not allow front office personnel to amend SSIs, and requiring password access for approved staff. An appropriate audit trail for all changes should be established.

9.6 Failed Trades

No UK Market Participant should intentionally allow a trade to fail. All reasonable efforts should be made to settle a trade, and it is against best practice and the overriding principle of this Code to deliberately allow a trade to fail.

9.6.1 If, due to unavoidable circumstances, a participant becomes aware that a trade is likely to fail, reasonable efforts must be made to contact the counterparty and an explanation given. All efforts should continue to be made to settle the trade.

9.6.2 The party that fails should not benefit from the failed trade. It is best practice to compensate for a failed trade.

9.7 Post Trade

9.7.1 Any novations, amendments, and/or cancellations of transactions should be conducted in an appropriately controlled manner, with a clear record maintained of all such actions.

9.7.2 Confirmation and settlement discrepancies should be identified and resolved promptly.

9.7.3 Any compensation due should be agreed in a timely manner and paid as soon as possible.

Chapter 2: Unsecured Money Markets

1 Introduction

1.1 This section of the Code, in respect of UK Money Markets, applies to:

- (a) unsecured deposits in both sterling and other currencies but not general banking activity in, for example, call or evergreen bank accounts;
- (b) certificates of deposit in both sterling and other currencies; and
- (c) commercial paper in both sterling and other currencies.

1.2 Although (b) and (c) can be defined as 'financial instruments' and thus regulated under MiFiD, the principles of best practice that apply to the unsecured deposit market are equally applicable to these instruments, and are therefore regarded as within the scope of this Code.

1.3 For the avoidance of doubt, this Code sets out the best practice for transactions executed in the UK Markets, regardless of whether the assets underlying those trades are denominated in non-sterling currencies.

2 Role of Principals and Brokers

2.1 Principals are direct participants in the UK market, dealing on their own account. Types of principal include (but are not limited to) banks, building societies, insurance companies, asset and fund managers, corporates, local authorities, charities, educational establishments and non-government organisations. These principals may act in the market directly or as a customer of a broker.

2.2 The role of a broker is that of a UK Market Participant that negotiates or executes a trade on behalf of a customer. For the products outlined in paragraph 1.1 above the role of an agent acting on behalf of only one customer does not exist in executing transactions in the UK money markets; separate legal agreements cover those specific relationships.

2.3 Typically the role of the specialist wholesale market broking firms in the United Kingdom for the above products is to act as arrangers of deals. They:

- (a) bring together counterparties on mutually acceptable terms and give up names to facilitate the conclusion of a transaction;
- (b) receive payment for this service in the form of brokerage fees (except where a prior explicit agreement between the management of all parties to a deal provides otherwise); and
- (c) should not, even momentarily, act as principal in a deal, unless they are acting on behalf of their own firm as a principal. In such circumstances the role as a principal must be fully disclosed.

3 Role of Matched Principals

3.1 Some participants in the UK Market are described as a matched principal. In that capacity, although they are matching two transactions, they take no intended balance sheet position themselves; for the purposes of this Code their activity is regarded as that of a principal. Therefore all parts of the Code will apply to matched principals as though they are a principal and not a broker.

4 Role of Principals

4.1 Principals regularly transact with each other directly within the wholesale money market and such interactions are covered by the scope of the Code. However, principals may also interact with each other as part of a bank to customer relationship which could include, but is not limited to, the provision of current, call, evergreen and Nostro bank account and deposit services, loan facilities, custodial and settlement services, and other branch banking services. Such activities as part of customer banking services are not within the scope of the Code.

5 Standards

5.1 Preliminary negotiation of terms

5.1.1 UK Market Participants should clearly state at the outset, prior to a transaction being executed, any qualifying conditions to which it will be subject. Typical examples of qualifications include where a price is quoted subject to the necessary credit approval, finding a counterparty for matching deals or the ability to execute an associated transaction. It is important that participants complete deals as quickly as possible; the onus is on both sides to keep each other informed of progress or possible delays.

5.2 Firmness of quotation

5.2.1 All UK Market Participants, whether acting as principal or broker should make absolutely clear whether the prices they are quoting are firm or merely indicative. Prices quoted by brokers should be taken to be firm unless otherwise qualified, for example subject to credit lines and limits. At electronic trading venues such as those defined in regulations as a Multilateral Trading Facility (MTF), a Regulated Market (RM), or an Organised Trading Facility (OTF) prices are usually indicative.

5.2.2 A principal quoting a firm price (or rate), either through a broker or directly, is committed to deal at that price (or rate), provided the counterparty is acceptable for credit limit purposes for both parties. In order to minimise the scope for confusion, principals quoting a firm price (or rate) should indicate the length of time for which the quote is firm and should also specify any other conditions attached to the quote.

5.3 Concluding a deal

5.3.1 Principals are bound to a deal once the price and any other key commercial terms have been agreed, barring any breach of other contractual provisions. All forms of agreement, including both oral and via electronic messaging, are considered binding. However, holding UK Market Participants unreasonably to an erroneous price is viewed as unprofessional and against the over-arching principle of the Code.

5.3.2 Where quoted prices are qualified as being indicative or subject to negotiation of commercial terms, principals should normally consider themselves bound to a deal at the point where the terms have been agreed without qualification. Oral and electronic agreements are considered binding; the subsequent confirmation is evidence of the deal but should not override terms agreed orally or electronically. Transactions concluded via electronic trading venues are not considered to have been quoted firm unless held out as such. In order to minimise the likelihood of disputes arising once a confirmation is prepared, UK Market Participants should make every effort to agree all material points quickly during the oral or electronic negotiation of terms, and should include these on the confirmation.

5.3.3 It is the responsibility of all parties to a transaction to ensure that the terms of the transaction are agreed without delay, in particular when dealing via a broker. A deal should only be regarded as having been executed upon positive acknowledgement by both parties either in oral or electronic form.

5.4 Passing of names by brokers

5.4.1 Brokers should not divulge the names of principals prematurely, and certainly not until satisfied that both sides display a serious intention to transact. Principals and brokers should at all times treat the details of transactions as absolutely confidential to the parties involved.

5.4.2 Principals should give clear guidance to brokers with regard to specific categories of counterparty or types of transaction that they wish to complete. Brokers should take full account of the precise instructions of the principal for whom the broker is acting, including types or categories of counterparty or specific features with regard to maturity.

5.4.3 In some instruments, principals may also wish to give brokers guidance on the acceptable price for broad categories of counterparties. Where a broker is acting for a non-financial, non-regulated institution this fact should be disclosed as soon as possible; the degree and expectation of disclosure regarding the type of name and appropriate pricing required by the principal in such a case may be greater.

5.4.4 In the UK money markets, it is accepted that principals dealing through a broker may need to turn down the name of a counterparty wishing to take deposits, or wishing to issue a certificate of deposit or commercial paper, most usually because of counterparty limit restrictions; this may therefore frequently require pre-disclosure of the name before closing the transaction. Once a lender has asked for details of the potential counterparty, it is considered committed, in line with the over-arching principles of the Code, to do business at the price quoted with that name, or an alternative acceptable name if offered immediately. The name of a lender shall be disclosed only after the lender has accepted the borrower's name. If a principal has any restrictions on taking deposits from particular counterparties, the broker should be informed before a transaction is closed.

6 Terms and Documentation, including Brokers' Terms and Conditions

6.1 Standard documentation should be passed between principals and brokers, setting out the terms on which business shall be conducted.

7 Commission/brokerage

7.1 Where the services of a broker are used, it is traditional practice for an appropriate agreement of terms between the directors or senior management of the principal and broker to be documented. Any variation on a particular transaction from previously agreed brokerage arrangements should be expressly approved by both parties and clearly recorded on the subsequent documentation; this should be the exception rather than the rule.

7.2 Although brokers normally quote dealing prices excluding commission/brokerage charges, there may be circumstances when the broker and principal may agree on an acceptable net rate; if so it is important that the broker subsequently informs the principal how that rate is divided between payments to counterparties and upfront commission. In such cases all parties need to be clear that this division will be determined no later than the time at which the deal is struck, and that a record is kept. All such agreements must be open and transparent.

7.3 Transactions concluded by matched principals will most usually be at a net rate, with commission charges included in the price of the transaction agreed with each party. Such arrangements should be open and transparent to each party to the transaction.

8 Market conventions

8.1 Standard conventions for calculating the interest and proceeds in both the sterling and currency unsecured deposit markets are set out in Annex 2.

9 Electronic trading

9.1 For the purposes of this section of the Code no differentiation is made between execution via voice or using electronic venues. Both are regarded as methods of transacting, and all aspects of the Code apply equally to both methods.

10 Settlement of differences

10.1 In the money markets if a broker cannot fulfil a deal at an agreed price it should offer to close the deal at the next best price, and must then settle the difference by a payment to make good any loss. Differences may also occur due to errors in execution due to a misunderstanding regarding instrument, price, tenor or counterparty, or due to errors in settlement leading to a failed transaction.

10.2 It is best practice to compensate for a failed trade. Due care should be taken to resolve issues arising from a failed trade as quickly as possible. The compensation is calculated to reflect the cost in lost daily interest and other charges incurred. Evidence should be provided by the claimant if requested. Such charges must be reasonable and within parameters that both parties to the difference might expect. Claiming for excessive costs or disputing reasonable and well-evidenced costs would be regarded as outside the overriding principle of this Code.

10.3 It is best practice for a direct payment to be made in settlement rather than any differences as described above to be paid against future brokerage or in future transaction pricing.

Chapter 3: Repo

1 Introduction

1.1 This chapter of the Code sets out a summary of the basic procedures which participants in the repo market should observe as a matter of best practice.

1.2 The Code seeks to take account of developments in the repo market including the introduction of alternative trading systems and of developments in central counterparty services.

2 Coverage of the Code

2.1 This Code is intended to apply to the full range of activity in repo by all participants:

- (a) professional and eligible counterparties;
- (b) principals making markets and trading in repo;
- (c) brokers intermediating in the repo market;
- (d) end-users engaging in the repo of securities from their own portfolios, or undertaking reverse repos in appropriate collateral;
- (e) central counterparties/clearing houses involved in repo;
- (f) agents (such as fund managers and custodians) undertaking repo business on behalf of their customer;
- (g) security lenders acting in the repo market;
- (h) inter-dealer brokers; and
- (i) trading venues such as those defined in regulations as either a Multilateral Trading Facility (MTF), a Regulated Market (RM), or an Organised Trading Facility (OTF).

The Code applies to UK Market Participants even when a function has been outsourced, for example to a custodian or operator of a tri-party service.

2.2 This Code relates equally to repo transactions involving either individual securities or baskets of securities, and includes buy/sell-back transactions. For central counterparties it applies to all transactions that are economically equivalent to a repo transaction.

3 Standards

3.1 In order for the benefits from the repo market to accrue generally to participants in the UK Markets, it is essential that behaviour in the repo market, whether overnight or at longer maturities, does not distort the markets in these instruments (eg by limiting the availability of specific securities). UK Market Participants should therefore comply with the regulatory requirements on market abuse and on misleading statements and practices; they should also avoid any other actions or omissions which could cause any distortion in these markets, whether the collateral is a specific investment (eg a specific security) or a wider class of investment (eg a type of security in general), including general collateral or Delivery by Value (DBV).

3.2 UK Market Participants in the repo market have a general responsibility to ensure that their activities do not cause market disruption through fails which might lead to reputational damage to the market.

3.3 UK Market Participants should put in place for example, but not limited to, repo (or securities lending) facilities, and have reasonable knowledge of how they will access the securities, before they sell a security short,

to ensure that they will be able to fulfil their delivery obligations. Any regulatory restrictions on short selling that may be in force from time to time should also be complied with.⁽¹⁾

3.4 Every effort must be made to ensure that repo trades do not fail due to poor administration, and no trade should be intentionally allowed to fail. The principles in relation to failed trades as set out in Chapter 1, 9.6 of the Code should apply. The party that fails should not benefit from the failed trade. It is best practice to compensate for a failed trade in accordance with market standard documentation.

4 Authority and Capacity

4.1 Where relevant, UK Market Participants should ensure that they have appropriate prior legal authority to enter into any repo activity, and that they have appropriate capacity. Due diligence should be carried out where appropriate to confirm such authority and capacity to enter into the transaction. UK Market Participants should ensure that, if required, they have obtained any necessary permission from their regulatory authorities.

4.2 Where a custodian or appointed lending agent (eg fund manager) plans to repo customer securities, it is essential that it should have obtained the necessary appropriate delegated authority and capacity for this activity from the customer in a clear legal agreement. Such an agreement should set down the basis on which repo activity may be entered into and specify in a schedule the collateral that may be taken.

4.3 Before undertaking repo transactions with a new counterparty, UK Market Participants should ensure that they have agreed documentation, and have assured themselves of its effectiveness, particularly, for example, in respect of non-UK incorporated counterparties.

5 Agents

5.1 For the purposes of repo, an agent can be defined as a UK Market Participant that negotiates or executes a trade on behalf of a customer e.g. a global custodian or an asset manager acting on behalf of their customer. Tri-party agents also undertake specific duties in relation to repo transactions that are defined and agreed by the principals to the transaction.

5.2 UK Market Participants in a repo transaction should ensure that they are clear whether the capacity in which their counterparty is acting is as principal or an agent for one or more named principals.

5.3 Where a UK Market Participant is acting as an agent, there is an obligation to disclose the customer who is the principal to the counterparty before transacting. UK Market Participants should seek confirmation that agents are authorised to undertake repo business in that capacity and should have regard to the Agency Lending Disclosure Requirements and specific regulatory requirements governing the role of agents in this market.

5.4 Where a participant is acting as an agent for more than one principal, the agent must have an effective recording system. Each transaction that is entered into, and any substitution or mark-to-market adjustment of collateral that is made, must be visible on behalf of a particular principal whose identity has been distinctly determined and recorded.

6 Brokers

6.1 As well as dealing direct, participants may also wish to trade through broking intermediaries, colloquially known as 'voice' brokers.

6.2 There are two types of intermediary: (a) matched principals who are regarded for the purposes of this Code as acting in this capacity as principals; and (b) brokers. This section deals with those matters which are particularly relevant to repo business involving brokers.

(1) Regulation (EU) No 236/2012 on Short Selling: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32012R0236>.

6.3 Brokers in repo should:

- (a) not act as principal to a deal;
- (b) only quote firm prices substantiated by their customers;
- (c) only receive payment for successfully bringing counterparties together in the form of brokerage, which is freely negotiated; and
- (d) give-up the names at the point of trade.

6.4 A broker acts in an arranging role, distributing quotes to the UK Market Participants. Prior to trading the UK Market Participant's name remains anonymous; however UK Market Participants may make such reasonable enquiries as needed for credit, pricing and any other jurisdictional considerations (eg sanctions). At the point of trade the UK Market Participants' names are disclosed to one another and assuming each party has a credit line for the other, and there are no other barriers, the transaction is executed. The broker and the principals are responsible for submitting appropriate trade confirmations. At this stage the role of the broker ends unless there is a trade query.

6.5 UK Market Participants may also wish to deal via intermediaries who provide electronic trading venues which enable them to trade repo in an automated manner, placing bids and offers or executing trades via an electronic platform.

6.6 For those repo trades that are due to be submitted to be centrally cleared, details are sent to the central clearing counterparty and may additionally be confirmed bilaterally as a precaution. For those repo trades that are to be settled bilaterally, at the point of trade the parties to the trade are disclosed to one another and the participants have the right to accept or reject the transaction. A trade may only be rejected on credit or legal grounds. Upon execution, trades are sent to the settlement depository and are copied to each participant. At this stage the role of the trading venue ceases.

7 Legal Agreement

7.1 Repo transactions should be subject to a legal agreement between the two principal participants or agents acting on behalf of principals.

7.2 It is expected that all UK Market Participants in the repo market should ensure that the legal agreement used is relevant to the appropriate jurisdiction for all parties to the transaction.

7.3 The repo legal agreement should normally include, but is not limited to:

- (a) provision for the absolute transfer of title to securities (including any securities transferred through substitution or mark-to-market adjustment of collateral);
- (b) provision for daily or intraday marking-to-market of transactions;
- (c) provision for appropriate initial margin or 'haircut' and for the maintenance of margin whenever the mark-to-market reveals a material change of value;
- (d) clear specification of the events of default and the consequential rights and obligations of the counterparties;
- (e) provision for, in the event of default, close-out and full set-off of claims between the counterparties; and
- (f) provisions clarifying the rights of the parties regarding substitution of collateral and the treatment of coupon and interest payments in respect of securities subject to it, including, for example, the timing of any payments.

7.4 Participants that utilise brokers or agents should also ensure that they have suitable legal agreements with such parties which establish clearly their respective roles and responsibilities.

8 Margin

8.1 UK Market Participants in repo may negotiate suitable initial margin or haircut, reflecting both their assessment of their counterparty's creditworthiness and the market risks (eg duration of collateral) involved in the transaction.

8.2 Repo transactions should be marked-to-market on a daily basis (and participants may consider the need to do so intraday if appropriate as circumstances arise). Such valuations should include both interest accrued on the cash and coupon accrued on the securities outstanding; they should also take account of any coupon which becomes payable to the holder of collateral which passes its ex-dividend date during the life of the repo.

8.3 It is an essential protection for UK Market Participants in repo transactions that whenever a mark-to-market valuation reveals an additional material exposure to their counterparty, they should ensure cash and/or collateral is moved in order to eliminate the exposure and restore the initial position.

9 Custody

9.1 Appropriate arrangements should be established for the custody of collateral received under a repo transaction. This may involve the use of a custodian or tri-party agent.

10 Default and Close-out

10.1 A UK Market Participant should have processes in place to enable the prompt identification of circumstances which are events of default, or in which it would be entitled to give a default notice to the counterparty.

10.2 A UK Market Participant should have processes in place for decisions on whether to give a notice of default or on how to deal with events of default to be taken by staff of suitable seniority and authority. Senior management of any participant faced with this decision should weigh carefully whether the event which triggers the right requires such action, or is a technical problem which can be resolved in other ways. It is against the overriding principle of this Code and best market practice to use a technical breach, which can be rectified easily and quickly, to declare a default for the purposes of making a financial gain.

10.3 Once a decision to declare a default has been taken, it is important, in the interests of the participant, the defaulting party and the market, that the process be carried out with due care. In particular:

- (a) appropriate clear and transparent records must be maintained of all actions and consequential outcomes during the default process;
- (b) the non-defaulting party should try to ensure that the default market values used in the close-out calculations are, and can be proven to be, reflective of market value; and
- (c) if the non-defaulting party or their agent decides to buy or sell securities consequent to the close-out, it should try to do so without unnecessarily disrupting the market. Notwithstanding the principles of this Code in relation to confidentiality and information sharing, UK Market Participants may make such reasonable enquiries as are necessary in order to complete their assessment and form a price for the transaction.

11 Affirmation, Confirmation, Settlement and other issues

11.1 Affirmation, confirmation and settlement are important aspects for the repo market to ensure timely, accurate and complete books and records, regulatory reporting and settlement finality.

11.2 Responsibility for accurate and timely settlement of a repo transaction rests directly with the counterparties, independent from the services of a triparty agent or custodian. Due to the nature and size of the repo markets, failed transactions can possibly lead to considerable interest claims imposed upon a counterparty for failure. Failed transactions also have a considerable impact on the efficiency of the repo market.

11.3 Participants should make every effort to affirm trades on trade date basis. Trade verification is conducted between both clients manually or electronically throughout the transaction life cycle.

11.4 Trade affirmation occurs pre-settlement taking into account trade direction, cash value and SSI to ensure the successful matching of positions and reduction of economic fails

11.5 UK Market Participants should consider whether any life-cycle events relating to any securities which they intend to include in a repo transaction will occur during the life of the repo transaction. UK Market Participants should be aware that where such events occur during the life of a repo transaction, they may give rise to additional credit risks which need to be considered.

11.6 UK Market Participants should typically minimise daylight and settlement exposure where possible by settling repo transactions, including the substitution of collateral, through Delivery versus Payment (DvP) settlement systems.

Chapter 4: Securities Lending

1 Coverage of the Code

1.1 'Securities lending' or 'securities borrowing' is defined by Regulation⁽¹⁾ as a transaction by which a counterparty transfers securities subject to a commitment that the borrower will return equivalent securities on a future date or when requested to do so by the transferor, that transaction being considered as securities lending for the counterparty transferring the securities and being considered as securities borrowing for the counterparty to whom they are transferred.

1.2 This section of the Code is intended to apply to the full range of UK domestic and international securities lending transactions between principals based in the UK or transacted in the UK Markets, ie

- (a) by principals making markets and trading;
- (b) beneficial owners lending securities from their own portfolio;
- (c) agents (such as fund managers and custodians) undertaking securities lending business on behalf of their principal customers; and
- (d) members of relevant clearing houses.

1.3 UK Market Participants in the securities lending market are professional or eligible counterparties, and generally transact under the market standard agreement or other such agreements as may be appropriate.

1.4 This Code is intended to apply to transactions in which securities are transferred under Applicable Law either by transfer of title and/or by pledge.

2 Standards

2.1 In order for the benefits from the securities borrowing and lending market to accrue generally to UK Market Participants, it is essential that securities lending activity is not intended to distort the market either in borrowing/lending or in the securities themselves. To this end, UK Market Participants in the securities lending market must not enter into transactions or holding arrangements where through such activity, it intentionally creates a false or distorted market in the underlying securities. In this connection, UK Market Participants should comply both with the overriding principle of this Code and with all relevant provisions on market abuse.

2.2 UK Market Participants in the securities borrowing and lending market have a general responsibility to ensure that their activities are not intended to cause market disruption through failed trades or lead to reputational damage to the market.

2.3 UK Market Participants should put in place, for example but not limited to, securities lending (or repo) facilities, and have reasonable knowledge of how they will access the securities, before selling a security short, to ensure that they will be able to fulfil their delivery obligations. Any regulatory restrictions that may be in force from time to time should also be complied with.⁽²⁾

3 Authority and Capacity

3.1 Beneficial owners should understand the full risks of permitting the lending of securities.

(1) Regulation (EU) 2015/2365: <http://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A32015R2365>.

(2) Regulation (EU) No. 236/2012 on Short Selling: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32012R0236>.

3.2 Where relevant, participants should ensure that they have appropriate prior legal authority for the securities to be lent from the beneficial owners of the securities, or from a party suitably authorised by the beneficial owners. Due diligence should be carried out where appropriate to confirm such authority and capacity to enter into the transaction, particularly to ensure that the lender may lend the relevant securities. There may be a need for mutual credit approval.

3.3 UK Market Participants in a securities lending transaction should disclose to their counterparty the capacity — principal or agent — in which they are acting and should also ensure that they are clear as to the capacity of their counterparty. Where the lender is an intermediary acting on behalf of multiple underlying principals, the appropriate arrangements for disclosing the identity of the principals with whom they have transacted should be established.

3.4 UK Market Participants should seek confirmation that agents are authorised to undertake securities lending business in that capacity and should have regard to the Agency Lending Disclosure Requirements and specific regulatory requirements governing the role of agents in this market. Beneficial owners may need to provide documentation confirming authority and capacity to enter into securities lending transactions as part of the disclosure process.

3.5 Participants should become familiar with the rules, procedures and conventions of this particular market and should be aware that differences in national market infrastructure can have significant implications for the business and its associated risks.

3.6 UK Market Participants should ensure that they have agreed documentation, and have assured themselves of its effectiveness, particularly, for example, in respect of non-UK incorporated counterparties. The agreed documentation should set out clearly the nature of the transaction, the counterparties and the applicable markets.

3.7 It is essential that any matters in regard to a trade not covered by, or specifically different from, the legal agreement and general market guidance, or which has non-standard features, are agreed between the parties prior to a trade.

4 Legal Agreement

4.1 All securities lending transactions should be subject to a written legal agreement between the parties concerned. Standard agreements, as supported by appropriate trade associations, should be used wherever possible. All participants are responsible for obtaining their own legal advice. Documentation should be established, retained and periodically updated so that it is adequate to cover the types of transactions that are to be undertaken.

4.2 It is strongly recommended that participants entering into a securities borrowing and lending relationship use the market standard documentation, although they may wish to vary some of its provisions to suit their particular circumstances. Agreements should include appropriate documentation of the relationship between the lending client and agent, the lending agent and borrower, and between principals.

4.3 The legal agreement should consider the inclusion of, but is not limited to, the following:

- (a) Legal arrangements between Lender and Agent including, but not limited to:
- legal title and capacity in which both parties are acting;
 - governing law for the agreement;
 - level of discretion afforded to the Agent / details of any restrictions imposed by the Lender;
 - agent's duties in respect of counterparty selection and approval, collateral management arrangements, record-keeping, and loan allocation methodology;
 - outsourcing and delegating permissions, including any resulting changes to the Agent's liability for the assets of the Lender;

- allocation of revenues and payment of fees; and
 - termination conditions and rights.
- (b) Legal arrangements between Agent and Trading Counterparty including, but not limited to:
- legal title and capacity in which both parties are acting, including confirmation that the Agent has received the appropriate authority from the Lender;
 - governing law for the agreement;
 - delivery and redelivery obligations;
 - all/any acceptable forms of collateral and expected margin/haircut requirement;
 - procedures for recalling lent securities and arrangements associated with a failure to deliver;
 - arrangements for the treatment of corporate actions, dividend payments and other rights in respect of securities exchanged;
 - voting rights;
 - netting rights and arrangements; and
 - events of default and expected rights and obligations of the parties after the event.

Further Principal and Agency annexes may be required, as well as separate jurisdictional language specific to lending arrangements in certain markets, and all necessary tax addenda.

5 Tax

5.1 UK Market Participants should ensure that they have established, and fully understand, their tax position in relation to securities lending transactions. Such transactions should be carried out in accordance with the relevant market and tax regulations.

5.2 There should be adequate systems to account, for tax purposes, for any manufactured payments in accordance with the relevant regulations. UK Market Participants need to be aware that, for certain types of securities or collateral, the tax rules of jurisdictions other than the United Kingdom may also be relevant for transactions completed in the UK securities lending market.

5.3 Agents should also inform the client that there may be tax consequences from entering into securities borrowing and lending transactions, in particular with regard to dividends and manufactured dividends, on which they might need to seek professional advice.

6 Voting Rights and Benefits

6.1 Where UK Market Participants will be borrowing securities from clients, whether as a final borrower, intermediary or agent, they should make it clear to the lender and beneficial owner that any voting rights will be transferred along with title to the securities and that the client is not therefore entitled to exercise any such rights until the securities are redelivered to it. Such a UK Market Participant should not be under any obligation to exercise any voting rights.

6.2 It is accepted good practice in the market that securities should not be borrowed solely for the purpose of exercising the voting rights at, for example, an AGM or EGM. Lenders should also consider their corporate governance responsibilities before lending stock over a period in which an AGM or an EGM is expected to be held.

6.3 If a beneficial owner wishes to exercise voting rights, a clear instruction should be provided to their lending agent in sufficient time for the securities to be recalled in time for voting rights to be exercised. If securities are not returned in time, beneficial owners may ask their lending agent to use reasonable efforts to pass on the voting instruction to the borrower of the securities.

6.4 Market intermediaries temporarily holding borrowed stock are expected not to exercise any associated voting rights unless instructed to do so, using commercially reasonable efforts, by the original beneficial owner.

6.5 The arrangements to be followed in the event of a rights issue or other corporate action should be clearly established by all parties before a security loan is made.

6.6 All UK Market Participants may also wish to consider explaining the client's entitlements in relation to any benefits on loaned securities.

7 Settlement, Systems and Controls for Securities Lending

7.1 UK Market Participants should be familiar with the settlement systems and functionalities that they use for the movement of securities and the associated payments.

7.2 UK Market Participants should ensure that they have adequate systems and controls for the business they intend to undertake and should adhere to the sections of this Code covering Governance, and Risk Management. Specifically for securities lending activities, these should include the following items:

- (a) Agents should maintain a list of those authorised to borrow securities and should make this list available to lenders on request.
- (b) Clear and timely records should be available to participants involved in securities lending and borrowing showing, inter alia, the value of securities borrowed/lent, collateral given/taken, classification of securities, and, where appropriate any fee income received.
- (c) UK Market Participants in securities lending transactions, including delegated collateral managers, should monitor their exposure to their counterparties on a regular basis. Appropriate exposure limits should be maintained for all counterparties and, should be reviewed on a regular basis.

7.3 The principles in relation to failed trades as set out in Chapter 1, paragraph 9.6 of the Code should apply. The party that fails should not benefit from the failed trade. It is best practice to compensate for a failed trade in accordance with market standard documentation.

7.4 UK Market Participants should ensure that they are aware of the procedures to be followed in the event of failed deals in all markets in which stock is lent: the rights and obligations of each party should be clearly established.

7.5 There should be explicit agreement between the parties on the arrangements to be followed if securities cannot be delivered. The UK Market Participants should also consider whether arrangements are necessary in order to deal with the possibility of securities or collateral being redelivered too late in the day to enable the recipient to meet an onward delivery obligation.

8 Agents

8.1 Agents should represent clearly the nature of the arrangements and the capacity in which they are acting. There should be a clear legal agreement, which may form part of the standard fund management or custody agreement, which:

- (a) authorises the agent to lend securities;
- (b) sets out the terms on which the securities may be lent;
- (c) specifies the collateral that may be taken; and
- (d) ensures that the full details of any fee-sharing arrangements are transparent to the beneficial owner.

8.2 An agent must obtain the necessary prior written authority from the beneficial owners of the securities, or from a party suitably authorised by the beneficial owners, to undertake securities lending.

8.3 An agent should clearly explain in the agreements and disclosures with their client the obligations and risks associated with the participation in a securities lending programme.

8.4 Where a lender is acting through an agent, there should be an agreed arrangement between agent and beneficial owner for the keeping of clear books and records, detailing lent positions, ensuring the safeguarding and identification of collateral, as well as the allocation of any earnings on that collateral. Where a UK Market Participant is acting as an agent for more than one principal, a clear system for determining which principals' securities are on loan should be established. There should also be a clear system for determining:

- (a) any allocation of collateral between the particular lenders;
- (b) an appropriate allocation of collateral to loan exposure;
- (c) the appropriate treatment of life cycle events; and
- (d) a fair allocation of loans across principals' portfolios where the agent is acting on behalf of multiple principals.

8.5 An agent in this market should make regular reports to clients, providing them with a full explanation of the securities lending activity carried out on their behalf, together with information about changes in the risk management environment and the market. In the event of a material change in the market occurring outside of the normal cycle of regular reporting, it is expected that the agent provides an early update to their client.

8.6 Agents should therefore draw up an execution policy setting out how they take all reasonable steps to obtain the best result for their clients, taking into account these 'execution factors'.

8.7 In markets where they operate, agents should be aware of the appropriate regulatory reporting standards.

9 Brokers

9.1 As well as dealing direct or through an agent, participants may also wish to trade through broking intermediaries including matched principals — participants acting in that capacity are acting as principals.

9.2 UK Market Participants may use electronic trading venues, such as are defined in regulations as a Multilateral Trading Facility (MTF), a Regulated Market (RM), or an Organised Trading Facility (OTF).

10 Custody

10.1 The beneficial owners should discuss with their custodian(s) the level of support they are able to offer and the level of support required to support their securities lending activities. It is particularly important for the beneficial owners to understand this when the lending agent is a party other than the custodian to the assets (for example the Agent is a beneficial owner itself, a fund manager and/or another third party agent). Custodians typically provide a range of support services with varying degrees of complexity and cost to support the needs of beneficial owners.

10.2 UK Market Participants have an obligation to ensure that securities lending transactions are identified, where appropriate, to their custodian, particularly if there are specific requirements in any lending market for the identification of securities lending transactions. UK Market Participants should also understand and determine whether there are any specific segregation requirements either for the lent assets and /or any collateral received.

11 Collateral/margin

11.1 Where collateral is received it should be collateral acceptable to both the lender and the borrower of securities, as specified in the agreement or as specifically agreed by the parties prior to the loan. Collateral will typically be received on either a bilateral basis, or by a third party agent, or via a central counterparty.

11.2 Collateral can typically be received by the lender (or their Agent) in two ways:

- (i) Title Transfer collateral held by the lender, agent or custodian acting on behalf of the lender and/or a tri-party agent acting on behalf of one of these parties. Collateral should be appropriately segregated from the agents and/or custodians own assets;

- (ii) A security interest or pledge registered in collateral (rather than securities delivered via title transfer). Lenders and/or their Agents should understand how the legal right to the collateral is exercised to allow for full title to pass to the Lender in the event of insolvency of the borrower.

11.3 The collateral taken should normally include a margin over the value of the loan which should be specified in the legal agreement. The agreement should provide for the collateral to be adjusted whenever there is a material change in the value of the securities or currency involved in the transaction and for the original level of margin to be restored.

11.4 The exposure and the collateral should be marked-to-market on a daily basis, and more frequently if the need arises. It is good practice to have previously agreed the parameters that would apply for more frequent marking-to-market (for example intraday).

11.5 Unless agreed by the parties, collateral should be segregated from the assets belonging to the agent or party responsible for the securities lending activities.

11.6 Beneficial owners should understand that many securities lending programmes work in bulk form where a single market transaction may be applicable to multiple underlying clients and collateral may be delivered in bulk across multiple underlying loans and/or beneficial owners.

12 Default and Close-out

12.1 Parties to a transaction should seek to satisfy themselves that the legal agreement will, where applicable, allow their claims to be offset immediately against the claims of their counterparty in the event of default. In jurisdictions where such provisions are not widely used or may not be enforceable, UK Market Participants should consider whether it is possible to negotiate alternative arrangements to manage their credit exposures. UK Market Participants should be aware that in certain circumstances the provisions of some local laws or regulations may over-ride the legal agreement with respect to the treatment of assets upon insolvency. Agreements drafted under English law should, unless otherwise stated, be based on the close-out and netting clauses contained in the market standard documentation.

12.2 Consistent with operating a fair allocation methodology for loan initiation, where collateral is received and held in bulk for multiple underlying beneficial owners, lending agents should ensure there is fair allocation process for collateral in the event of a default.

Annex 1

Statement of Commitment to the UK Money Markets Code

[XX] ('Institution') hereby acknowledges that the UK Money Markets Code ('the Code') represents a set of principles generally recognised as good market practice in the UK Money Markets. The Institution confirms that it is a UK Market Participant as defined by the Code, and has committed to conducting its UK Money Market activities in adherence with the principles of the Code.

Specifically, in a manner that is commensurate with the size and nature of its UK Money Market activities, the Institution has established and implemented policies and procedures that accord with the Code (in so far as the content does not conflict with applicable law). Appropriately senior management will review these regularly to ensure their continued relevance and effectiveness.

Date:

[INSTITUTION NAME]

Signature:

[NAME]

[TITLE]

Annex 2

Usual Day Count Conventions for Interest Rate Calculations in major currencies for Unsecured Deposits up to 1 year

Currency	Usual day count convention
GBP	ACT/365
USD	ACT/360
EUR	ACT/360
JPY	ACT/360
CHF	ACT/360
AUD	ACT/360 (Non-domestic)
CAD	ACT/360 (Non-domestic)
DKK	ACT/360
INR	ACT/365
HKD	ACT/365
NOK	ACT/360
NZD	ACT/360 (Non-domestic)
PLN	ACT/365
SEK	ACT/360
SGD	ACT/365
ZAR	ACT/365
CNY	ACT/360

Care should be taken where the day count convention differs between domestic markets and non-domestic markets. The basis should be agreed in advance of execution.

The day count convention for all securities transactions will be stated in the prospectus for that security.

Annex 3

Glossary

This glossary covers market terms used throughout the Code and more widely. The definitions serve as general explanations of terms used in the UK Markets but are not intended as legal definitions.

Agent	A UK Market Participant that acts on behalf of a <i>customer</i> .
Agency Lending Disclosure (ALD)	Sometimes referred to as Agency Lending Disclosure Requirements. A securities lending market standard for agents and broker-dealers to exchange underlying principal level detailed information related to transactions executed.
All-in dividend	In securities lending, the sum of the <i>manufactured dividend</i> plus the fee to be paid by the borrower to the lender, expressed as a percentage of the dividend on the stock on loan.
Back Office	Often referred to as 'Operations'. The function at a principal that is responsible for the settlement and administration of transactions, including payment, re-payment, movement of securities, payment or receipt of interest, sending and receiving confirmations, and maintenance of records
Bearer securities	Securities that are not registered to a particular party on the books of the issuing company and hence are payable to the party that is in possession of them.
Beneficial Owner(s)	A party which is entitled to the rights of ownership of property. In the securities lending market the term usually refers to the owners of the securities that are lent.
Benefit	Any entitlement due as a result of purchasing or holding securities, including the right to any dividend, rights issue, scrip issue et alia made by the issuer. In the case of loaned securities or collateral, benefits are passed back to the lender or borrower (as appropriate), usually by way of a <i>manufactured dividend</i> or the return of <i>equivalent securities</i> or <i>collateral</i> .
Bid	In the money market this refers to a request to borrow or take a cash deposit. In the repo market this refers to bidding for collateral/offering cash, ie reverse repo.
Borrowing	Receiving cash or securities from a lender in return for a payment of interest or fee with an agreement to return the cash or equivalent securities at an agreed date.
Broker	An intermediary in the financial markets that acts to bring two principals together in a transaction.
Buy-in	The practice in the repo and securities lending markets whereby a lender of securities enters the open market to buy securities to replace those that have not been returned by a borrower
Certificate of Deposit	A short term marketable instrument that certifies the terms of an unsecured deposit usually issued for one year or less but can be issued for up to five years.
Closing leg	A repo involves a pair of trades in the same security — one on a start date, the other on an end date. The closing leg refers to the second of these. It is also called the off, far, second, or reverse leg. See also <i>opening leg</i> .
Close-out (and Netting)	An arrangement to settle all existing obligations to and claims on a counterparty falling under that arrangement by one single net payment, immediately upon the occurrence of a defined event of default

Collateral	<p>Assets provided as security against default in a wholesale financial market transaction.</p> <p>In the repo market it is a term used to cover any securities exchanged in a repo transaction both initially and subsequently during the period before the repo terminates. Under the market standard documentation or other bespoke agreement, full title to collateral passes from one party to the other, with the party obtaining title being obliged to deliver back equivalent securities. The term is used to cover both the purchased securities and any margin securities that are subsequently passed.</p> <p>In the securities lending market it refers to securities or cash delivered by a borrower to a lender to support a loan of securities.</p>
Commercial Paper	A promissory note issued by a large corporation or financial institution usually for a short period but cannot be issued for longer than 364 days.
Confidential Information	Private information that is not in the public domain, is only available to a principal and should not be shared with any other party except in specific and agreed circumstances.
Corporate Action	A corporate event in relation to which the holder of the security must or may make an election or take some other action in order to secure his entitlement or to secure it in a particular form (see also <i>Equivalent</i>).
Corporate Event	An event in relation to a security as a result of which the holder will be or may become entitled to: benefit (dividend, rights issue etc.) or securities other than those which he held prior to that event (takeover offer, scheme or arrangement, conversion, redemption etc.).
Custodian	An entity that holds securities of any type for investors, effects receipts and deliveries and supplies appropriate reporting
Customer	An individual or firm to whom services in the financial markets are provided.
Customer Dealing Relationship	The relationship between a customer and the principal who acts on the customer's behalf in the wholesale financial markets.
Confirmation	A record of the details of a transaction, including amount, instrument, interest rate/fee, collateral, deal date, start date, maturity date, payment and settlement instructions sent to a counterparty to a transaction.
Day Count	The convention used to calculate accrued interest on securities and interest on cash. The convention used will be that which applies for the currency used in the transaction and in the domain where the transaction occurred. There may be a different interest calculation on a security as opposed to the market convention used for unsecured deposits.
Daylight Exposure	The risk arising from the timing differences between the settlement of transactions during a business day.
Dealing Mandate	An agreement that sets out the basis (eg authorised personnel, deal size limits) on which a principal, broker or agent will act on behalf of a customer.
Dealing relationship	The relationship between principals directly and brokers indirectly who deal with each other in the wholesale markets.
Delivery versus payment (DVP)	The near simultaneous exchange of securities and cash.
DBV (delivery by value)	A mechanism in CREST which allows a member to specify the delivery of a basket of securities to a counterparty solely by cash settlement value. The member specifies the class of securities to be delivered (such as unstripped British government debt or equities in the FTSE100 index); the CREST system automatically selects the individual securities to be delivered within that class. As well as bilateral trades, DBV gilt repo trades can also be centrally cleared.

Deposit market	The market in which unsecured borrowing and lending transactions are arranged.
Distributions	Entitlements arising on securities that are loaned out, eg dividends, interest and non-cash distributions.
Eligible Counterparty	Counterparty as defined in the FCA Handbook, Conduct of Business Sourcebook (COBS) 3.6.1. ⁽¹⁾ This would include, for example, regulated financial institutions, central banks, national governments and supranational organisations.
Equivalent (securities or collateral)	A term used in the securities lending and repo markets meaning that the loaned securities or collateral returned must be of an identical type, nominal value, description and amount to those originally provided. If, during the term of a loan, there is a corporate action in relation to loaned securities or collateral, the appropriate party is normally entitled to specify at that time the form in which he wishes to receive equivalent securities or collateral on termination of the loan. The legal agreement will also specify the form in which equivalent securities or collateral are to be returned in the case of other corporate events.
Evergreen Account	Evergreen deposits are usually in the form of a short-term deposit that is routinely renewed leaving the principal remaining outstanding for the long term.
Execution	The point at which two principals, either directly or indirectly through an agent or broker, agree to a transaction.
Fail/failed Delivery	The failure to deliver cash or securities in time for the settlement of a transaction.
Firm Price	A price quoted in the market at which the party quoting it is obliged to transact.
Front office	The function at a principal that undertakes transactions by arranging deals in the wholesale financial markets and is usually located in a segregated area known as the dealing room.
General collateral (GC)	Securities, as opposed to <i>specific securities</i> , used as collateral against cash borrowing. These can be security specific, or provided as a basket of securities, neither of which are currently traded as <i>specific securities</i> .
Global Master Repurchase Agreement ('GMRA')	The current standard agreement for domestic and cross-border repo transactions in Europe and globally, it is also used in domestic markets
Global Master Securities Lending Agreements (GMSLA)	The current standard agreement for cross-border securities lending transactions in Europe and globally, it is also used in domestic markets. It also encompasses the Gilt Edged Securities Lending Agreement.
Haircut	The excess either of cash over the value of securities, or of the value of securities over cash in a repo transaction, at the time of execution. Any short fall will be rectified by margin calls. It may also be called the <i>initial margin</i> . Haircuts are also essential for Central Counterparty operations. In context of a Clearing House / Central Counterparty, 'initial margin' refers to the resources provided by the member to protect the Clearing House against credit and market risks assumed in clearing transactions.
Indicative price	A price quoted in the market which is subject to qualification.
Initial Margin	See <i>Haircut</i> .
Lending	Providing cash or securities to a borrower in return for a payment of interest or fee with an agreement to receive back the cash or securities at an agreed date.

(1) <https://www.handbook.fca.org.uk/handbook/COBS/3/6.html>.

London Bullion Market	The wholesale market for the trading of gold and silver between members of the London Bullion Market Association
Life Cycle	<p>The life-cycle of a securities lending transaction starts with the initial loan of the securities usually against the delivery of collateral. When the security is on loan there is on-going calculation and payment of fees and regular mark to market of both the loan and the collateral. If the securities are lent over an announced dividend or corporate action record date then the borrower will manufacture the dividend or corporate action back to the lender. Shares may be recalled from the borrower due to sale or voting activity throughout the life of a loan. The transaction is completed once the equivalent shares borrowed are returned to the lender and the collateral received, if any, is returned to the borrower.</p> <p>A repo transaction has a similar life cycle through initial transaction, management of coupon payments, recall or final maturity.</p>
Local Authorities	All Local Authorities in the UK, whatever their size, are covered by the Code, whether their status is retail, professional or eligible within MiFiD or the FCA Handbook.
Manufactured Dividend or Payment	A manufactured payment of dividends normally arises where the transaction crosses a dividend date and the stock lender does not receive the real dividend to which it would have been entitled had it not lent the shares. In such circumstances, the repo counterparty or stock borrower may be required to pay an amount equivalent to the real dividend to compensate the stock lender for not receiving the real dividend.
Margin call	A request, following a mark-to-market for the initial margin or haircut to be reinstated if there is a shortfall, or where no initial margin has been taken, to restore the cash/securities ratio to parity.
Mark-to-market	The act of valuing securities held or used in repo or securities lending transactions. Standard practice is to mark-to-market daily.
Market Participant	Principal, broker or agent who borrows or lends cash, enters into repurchase agreements, buys, sells or lends or borrows securities in the wholesale money markets.
Market value	The value of securities or collateral as determined using the latest available market pricing.
Middle Office	The function at a principal that monitors market positions exposures and risks, and manages dealing and settlement systems and controls.
Minimum threshold amount	The threshold, agreed between the parties to a repo transaction, below which the value of collateral may fluctuate without triggering a right to call for cash or securities to reinstate the margin or 'haircut' on the repo transaction.
Money Markets	The unsecured deposit market, including the issue of, and trading in, certificates of deposits and commercial paper.
Name Give-Up Brokers	Brokers who in bringing principals together to execute a transaction, give the name of the counterparty to each principal at the point when the terms are agreed, in order for the transaction to be completed.
Netting	The agreed interest rate or price for a transaction that includes a set-off for any other charges or outstanding costs. It can also refer to a set-off for counterparty exposures.
Offer	In the unsecured Money Market, an offer of a cash deposit or a loan, or an offer to sell securities such as commercial paper or a certificate of deposit. In the repo market this refers to offering of collateral /bidding for cash, ie 'repo'.
Opening leg	A repo involves a pair of trades in the same security — one for a start date, the other for an end date further into the future. The opening leg refers to the first of these. It is also called the starting, first, near, or onside leg. See also 'closing leg'.

Open repo	A repo trade with no fixed maturity date, with the possibility, daily, of terminating the repo or re-fixing its terms, or substituting collateral.
Over-collateralisation	The extent by which the collateral provided exceeds the agreed level of margin.
Pair-Off	The netting of consideration and securities in the settlement of two trades (one buy, one sell) in the same security for the same value date to allow settlement only of the net differences.
Partialling	Market practice between counterparties which allows parts of an order to be completed in different transactions.
Principal	Counterparty who transacts for their own account.
Professional client	An undertaking meeting the requirements of FCA Handbook COBS 3.5.1 including a body corporate above the threshold defined in the Handbook. ⁽¹⁾
Recall	Where the repo is an open transaction, a request to return the securities subject to the repo.
Repo	A transaction governed by an agreement by which a counterparty transfers securities subject to a commitment to repurchase them, being a repurchase agreement for the counterparty selling the securities and a reverse repurchase agreement for the counterparty buying them.
Repo rate	The return earned on a repo transaction expressed as an interest rate on the cash side of the transaction.
Repo (reverse to repo) to maturity	A repo or reverse repo where the security that is the collateral matures on the same day as the closing leg
Repricing	The act of eliminating differences between mark-to-market and original pricing.
Reverse repo	A reverse repo is a repo transaction as seen from the point of view of the party who is buying the securities. Thus, in a reverse repo transaction, one party buys securities from the other and, at the same time and as part of the same transaction, commits to resell equivalent securities on a specified date, or at call, at a specified price.
Right of substitution	The market practice which allows the substitution of similar collateral during the life of the repo. This is not usually a legal right set out in the market standard documentation.
Roll	To renew a trade at its maturity or end date.
Secured	The provision of collateral to a lender or investor to provide protection against default.
Securities Lending	A transaction by which a counterparty transfers securities subject to a commitment that the borrower will return equivalent securities on a future date or when requested to do so by the transferor, that transaction being considered as securities lending for the counterparty transferring the securities and being considered as securities borrowing for the counterparty to whom they are transferred.
Settlement	The process whereby payment for a transaction is made, securities moved as needed, and confirmations sent.
Standard Settlement Instructions (SSI's)	These are instructions sent by one principal to all counterparties that they might deal with, setting out who has authority to deal on their behalf, the banking and custodian settlement details and details of back office contacts

(1) <https://www.handbook.fca.org.uk/handbook/COBS/3/5.html>.

Specials (or specific securities)	Securities with a specific ISIN which are sought after in the repo market, thereby enabling cash to be borrowed at a lower rate than for General Collateral.
Substitution	See <i>right of substitution</i> .
Term repo	Repo trades (of a maturity over one day) with a fixed end or maturity date.
Term DBV repo	Before July 2011, it was only possible to settle DBV on an overnight basis, irrespective of the economic term of the underlying trade. In 2011 the Term DBV product was introduced to allow settlement to reflect the term of the underlying trade; this supports trades of any length between one night (overnight) and two years. The advantage of this product is that it does not unwind each day, reducing unnecessary cash flows, settlement risk and operational risk.
Triparty	The provision of collateral management services, including marking to market repricing and delivery, by a third party.
Tri-Party Agent	A third party to whom post-trade processing of collateral selection, payment, settlement, custody and management during the life of the transaction is outsourced by those entering a repo transaction.
Tri-party repo	Repos in which an independent agent oversees a standard two-party repo transaction. The responsibilities of the tri-party agent include maintaining acceptable and adequate collateral and overall maintenance of the outstanding repo trades.
UK Market Participants	A market participant who transacts in the UK markets
UK Markets	Unsecured money market, repo and securities lending transactions concluded in the United Kingdom (most usually but not exclusively in London) regardless of the domain of the Principal.
Unsecured	Deposit transaction without the provision of collateral.

Annex 4

List of Relevant Trade Associations

ACI (Association Cambiste Internationale).
Association of Corporate Treasurers.
Association for Financial Markets in Europe.
British Bankers Association.
Building Societies Association.
Chartered Institute of Public Finance and Accountancy.
Investment Association.
International Capital Market Association/European Repo and Collateral Council.
International Money Market Funds Association.
International Securities Lending Association.
London Money Market Association.
Wholesale Market Brokers Association.

Annex 5

Members of the UK Money Markets Code Sub-Committee and others who contributed to the initial composition of the UK Money Markets Code

Sub-Committee Member	Firm/Representation
Jennifer Gillespie	Legal & General Investment Management (Co-Chair)
Paul Wilson	JP Morgan (Co-Chair)
Terry Barton	Nationwide
Francois-Xavier Bouillet	Goldman Sachs
Mick Chadwick	Aviva Investors
Phil Chilvers	TPICAP
Alessandro Cozzani	Bank of America Merrill Lynch
Martin Curran	IMMFA
Andrew Dyson	International Securities Lending Association
Paul Elkins	LCH
Simon Gleeson	Clifford Chance
Andy Green	C. Hoare & Co/London Money Market Association
Jane Lowe	IMMFA
Gordon Lowson	Standard Life
Habib Motani	Clifford Chance
Tim McLeod	Blackrock
Allison Parent	Barclays
Michelle Price	Association of Corporate Treasurers
Jamie Smith	Lloyds Bank
Ned Taylor	HSBC
Mark Thomasson	RBS
Luke Webster	Greater London Authority/Chartered Institute of Public Finance and Accountancy
Alex Lawton	State Street
Matt Cheshum	Aberdeen Asset Management
Stephen Wagstaff	King & Shaxson
Hemant Bhatia	FCA (Observer)
Oliver Clarke	FICC Markets Standards Board (MTS) (Observer)
John Goldsmith	Debt Management Office (Observer)
Kyoko Oishi	FCA (Observer)
Jessica Pulay	Debt Management Office (Observer)
Anna Westbury	FICC Markets Standards Board (Tradeweb) (Observer)
Aakash Mankodi	Bank of England (Secretariat)
Jonathan Pyzer	Bank of England (Technical Adviser)
Iain Ramsay	Bank of England (Secretariat)