

Best Practice
RECOMMENDATIONS
on INFORMATION HANDLING
with ILLUSTRATIVE EXAMPLES

January 2018

INTRODUCTION

The Treasury Market Practices Group (TMPG) is issuing a set of recommended best practices related to the sharing and use of confidential information in the Treasury, agency debt, and agency MBS markets with the aim of promoting integrity and efficient market functioning in these TMPG-covered markets. This guidance is incorporated in the document [Best Practices for Treasury, Agency Debt, and Agency Mortgage-Backed Securities Markets \(Best Practices\)](#), which is intended for all market participants in the TMPG-covered markets.

Among these practices, the TMPG recommends that market participants identify and develop policies and procedures to address the handling of confidential information, and ensure that confidential information obtained or created is not shared or used with the intent to adversely affect the interests of other market participants or the integrity of the market. The TMPG also recommends that market participants should make their practices for handling confidential information available to their counterparties and should have the ability to engage with trading counterparties about how their own confidential information is handled. A firm does not need to disclose its internal policies and procedures on information handling, but should be able to provide at least a high level summary of its practices to its counterparties. A firm's familiarity with its counterparty's information handling practices should be consistent with the firm's needs and commensurate with the breadth and nature of the relationship with the counterparty. The TMPG also believes that it is essential that market participants communicate in a clear and truthful manner.

In recent years, there have been a number of serious cases of inappropriate and illegal conduct involving certain communication practices and the misuse of confidential information.¹ The misuse of confidential information adversely affects the integrity of the market by undermining trust and confidence and, moreover, may constitute illegal activity. Nevertheless, there are legitimate reasons for appropriately sharing and using confidential information in certain circumstances.

The best practice recommendations developed by the TMPG were informed by policy initiatives such as the Financial Stability Board's [Foreign Exchange Benchmarks](#), the Bank of England's [Fair and Effective Markets Review](#), and the [FX Global Code](#) developed by a partnership of central banks and market participants. This publication reflects feedback received during the public consultation period.

RECOMMENDED BEST PRACTICES

The TMPG has added the following best practice recommendations associated with communication and sharing and use of confidential information to the existing *Best Practices*. For purposes of the TMPG's current work, confidential information is described as follows:

Confidential information may include non-public information—received or created by a market participant or its counterparties—relating to the past, present, and future trading activity or positions of a market participant or its counterparties. If a market participant publicly releases its own confidential information, to satisfy regulatory requirements or through other public forums, such information would no longer be considered confidential. The nature and types of confidential information may vary across firms and may include, for example, the identity of market participants, their positions or trading strategies, details of their order book including the size and type of trades (limit, market, etc.) or axes.

- 1. Market participants should communicate in a manner that is clear and truthful.** Market participants also should not omit any material fact or qualification if the omission would cause the communications to be misleading.
- 2. Market participants should not share or use confidential information with the intent of adversely affecting the interests of other market participants or the integrity of the market.**
- 3. Market participants should limit sharing and use of confidential information.** Market participants should exercise care in disclosing confidential information, including own position information and information received from counterparties or third parties, whether internally or externally.

¹ See, for example, the May 20, 2015 guilty pleas by five major financial institutions to conspiring to manipulate the price of U.S. dollars and euros in the foreign currency exchange (FX) spot market and the several guilty pleas and deferred- or non-prosecution agreements related to major financial institutions' attempts to manipulate the London Interbank Offered Rate (LIBOR).

- **Internal sharing:** Confidential information should not be shared internally except on a need-to-know basis.
 - **External sharing:** Market participants should not disclose confidential information to other market participants that could reasonably enable those market participants to anticipate the flows of a specific counterparty, including flows or information related to transactions to be executed at a to-be-determined time or level. Confidential information about specific pending or executed trades may be shared externally only to the extent necessary to facilitate the execution, clearing, or settlement of a transaction (which may include arranging offsetting transactions).
 - › **Market color:** Market color should be shared in a manner that does not disclose any confidential information. For example, market color should not directly or indirectly reveal confidential information about specific (i) market participants' identity, (ii) times of execution, (iii) pending trading activity or orders (including entry and exit points), and (iv) position size.
 - › **Own position information:** Market participants should not disclose confidential information related to their own trading positions with the intent to influence market prices or negatively impact market functioning. Market participants should exercise particular care when sharing confidential information related to their own trading positions, especially when it is a large position relative to the floating supply. Confidential information related to trading positions may include, but is not limited to, individual trades, open orders, positions or investments, axes, and inventory. Confidential information related to one's own trading position may be shared externally only to the extent necessary to facilitate an executed or potential transaction or to obtain an independent valuation. Confidential information shared with third parties for the purpose of facilitating an executed or potential transaction or obtaining an independent valuation should be limited to that which is necessary for these activities.
- 4. Market participants should adopt written policies and procedures that identify and address the handling of confidential information, including limitations on the sharing and use of such information.** The policies may vary across firms and across business lines within firms and should address risks, where they exist, associated with:
- **Sharing of information:** The extent to which confidential information, including pre- and post-trade information, can be shared internally or externally. The policies should also address the extent to which confidential information should be aggregated or anonymized prior to sharing.
 - **Use of information:** The extent to which confidential information may be used, including, for example, in activities such as customer facilitation, investment decisions, trading and hedging.
- 5. All market participants should be aware of their counterparties' practices for handling confidential information; market participants should make available their practices for handling confidential information to their counterparties.** Such practices may be high-level summaries of internal policies and may include, but are not limited to, the handling of confidential information related to requests for quotes, requests for indicative prices, valuations, axes or other indications of trading interest, cover information, the placement of orders, inventory, and details of completed transactions.
- 6. Market participants should establish internal controls designed to ensure that confidential information is handled in a manner that complies with their established policies.** Such internal controls may include training of employees who have access to confidential information.

ILLUSTRATIVE EXAMPLES

The TMPG also developed a set of examples to illustrate situations when certain information handling best practices could apply. The examples are highly stylized and are not intended as, nor should be understood as, precise rules or prescriptive or comprehensive guidance. The examples are not intended to provide safe harbor, nor are they an exhaustive list of situations that can arise. In some examples, specific market participant roles are used to make the example more realistic, but the illustrated behavior should apply to all participants in the TMPG-covered markets. The examples are grouped with specific recommended best practices, although some examples may relate to more than one best practice. The examples provided are instructive, and market participants should exercise their own judgment in handling confidential information in a professional and responsible manner that is consistent with their information handling policies.

MARKET PARTICIPANTS SHOULD COMMUNICATE IN A MANNER THAT IS CLEAR AND TRUTHFUL.

Market participants also should not omit any material fact or qualification if the omission would cause the communications to be misleading.

- › A money manager is selling a security through a bid-wanted-in-competition (BWIC) and a dealer has the most competitive price. However, the money manager believes the price can be improved. The money manager may request that the dealer improve its price but should not claim that it has received a better bid from another dealer.
- › A dealer has done five large ten-year Treasury security trades in the past hour. Three large banks have been buyers while two large money managers have been sellers. The dealer calls another money manager that the dealer thinks may be looking to sell and tells it that there has been large selling this morning so it should not delay if it wants to sell. This communication would be misleading by omission, and hence inappropriate, because it describes only one side of the trade activity that the trader has witnessed.
- › A hedge fund has a large voice order that it decides to break into several small orders. While there is no obligation for the hedge fund to divulge its full order or trading strategy to potential counterparties, it would be misleading, when soliciting pricing for one of the small orders, if the hedge fund implied to prospective counterparties that one of the small orders was the full order.
- › A dealer intends to be a buyer of a certain security, but tells its counterparties that it is a seller of that security. That communication would be misleading as it does not reflect the dealer's actual intention.
- › A money manager has established a practice of disclosing covers to all of the dealers that provide bids for off-the-run Treasury Inflation Protected Securities (TIPS). On a recent sale, the cover was 10/32nds of a point. The money manager tells the dealer that purchased the TIPS security that the cover was "a few ticks." This communication would be inappropriate as it is misleading and untruthful.

MARKET PARTICIPANTS SHOULD NOT SHARE OR USE CONFIDENTIAL INFORMATION WITH THE INTENT OF ADVERSELY AFFECTING THE INTERESTS OF OTHER MARKET PARTICIPANTS OR THE INTEGRITY OF THE MARKET.

- › If a dealer receives an inquiry from a potential counterparty for a large block of securities, it should not advertise that there is a large block of securities that the counterparty is trying to trade without authorization from the counterparty. If the dealer shares this information with market participants that it expects may be interested and able to complete a related trade, the information shared should be limited to what is necessary to complete the transaction.
- › If a money manager were to provide several dealers with a list of MBS specified pools that the money manager wanted to sell through a BWIC, these dealers should not reveal the identity of the money manager that is conducting the BWIC, either explicitly or implicitly (for example, through the use of code words), in the absence of authorization from the money manager.

- › A dealer participates in a request-for-quote (RFQ) where there is no execution, or where the dealer did not transact. The dealer is likely still in possession of confidential information and should treat it as such.

MARKET PARTICIPANTS SHOULD LIMIT SHARING AND USE OF CONFIDENTIAL INFORMATION. Market participants should exercise care in disclosing confidential information, including own position information and information received from counterparties or third parties, whether internally or externally.

- **Internal sharing:** Confidential information should not be shared internally except on a need-to-know basis.
- **External sharing:** Market participants should not disclose confidential information to other market participants that could reasonably enable those market participants to anticipate the flows of a specific counterparty, including flows or information related to transactions to be executed at a to-be-determined time or level. Confidential information about specific pending or executed trades may be shared externally only to the extent necessary to facilitate the execution, clearing, or settlement of a transaction (which may include arranging offsetting transactions).
 - › **Market color:** Market color should be shared in a manner that does not disclose any confidential information. For example, market color should not directly or indirectly reveal confidential information about specific (i) market participants' identity, (ii) times of execution, (iii) pending trading activity or orders (including entry and exit points), and (iv) position size.
 - › **Own position information:** Market participants should not disclose confidential information related to their own trading positions with the intent to influence market prices or negatively impact market functioning. Market participants should exercise particular care when sharing confidential information related to their own trading positions, especially when it is a large position relative to the floating supply. Confidential information related to trading positions may include, but is not limited to, individual trades, open orders, positions or investments, axes, and inventory. Confidential information related to one's own trading position may be shared externally only to the extent necessary to facilitate an executed or potential transaction or to obtain an independent valuation. Confidential information shared with third parties for the purpose of facilitating an executed or potential transaction or obtaining an independent valuation should be limited to that which is necessary for these activities.
 - › If a money manager is looking to sell a large MBS pool, a dealer MBS trader receiving that information through internal salesperson A should not tell internal salesperson B the name of the potential counterparty if salesperson B does not have a need to know.
 - › A dealer's repo desk shares confidential information with its Treasury trading desk about the securities a client is short. In the absence of the client's authorization, this would be inappropriate internal sharing of confidential information if the Treasury trading desk does not need to know the position and/or be involved in the repo transaction.
 - › A salesperson and a trader at a dealer should not communicate confidential information using a system that can be viewed or heard by a wide variety of employees that do not have a need to know such information. For example, using a "hoot" to communicate confidential information is likely to result in such information being shared with those that do not need to know.
 - › A market participant communicates confidential information through an instant messaging application or a chat room that contains multiple individuals across a firm. This is likely to be inappropriate behavior as the market participant may be disseminating the information too broadly and to individuals that may not have a need to know this information. Furthermore, extra care should be taken when a chat room contains individuals from different firms to make sure that no confidential information about specific pending or executed trades is shared unless it is necessary to facilitate the execution, clearing, or settlement of a transaction.

- › A market participant's dealer desk provides its affiliated asset management trader with confidential information about the strategies another asset manager is executing. This would be inconsistent with best practices because the asset management affiliate is not involved in the facilitation of trades for the market participant's clients. A market participant should treat an affiliated asset manager as it would treat any other external market participant when considering the appropriate handling of confidential information. A dealer's back office is having problems recognizing or settling a transaction with a particular customer and reaches out with confidential information to a wide range of individuals on the trading desk. This would be inappropriate because a dealer back office should not broadly share this confidential customer clearing information with trading desk personnel who do not have a need to know this information because they are not assisting in the clearing or settlement of the trade.
- › At a dealer's widely attended internal general market update meetings, the sales team, traders, strategists, and managers discuss recent market activity. At these general market update meetings, information explicitly describing the confidential trading activity of a specific client should not be discussed, because there is no need for this broad group to know such confidential information.
- › A dealer has both a market making desk and a separate investing arm or proprietary trading desk. The Treasury trader on the separate arm or desk should not be privy to the confidential customer information flow on the Treasury market making desk, since the Treasury trader on the separate arm or desk does not have a need to know. When considering the appropriate handling of confidential information, a dealer's market making desk should treat the traders on its separate investing arm or proprietary trading desk as it would treat traders at an external market participant.
- › A hedge fund sends a group request to a number of dealers and asks them to provide a valuation for certain specified positions to be used for marking its books at the end of a period. The hedge fund then discloses one dealer's valuation to another dealer. This would likely be inconsistent with best practice as this may adversely affect the interests of the dealer or the integrity of the market. If the hedge fund were to share the valuation with a pricing service, and it had not made this practice available to the dealer, this would also be inconsistent with best practice.
- › A money manager sends its entire portfolio, including position sizes, to a dealer to provide valuations. This would be inconsistent with best practices as the sizes of the positions are not needed to provide valuations for the securities.
- › A money manager provides a dealer with another dealer's axes or inventory. This is inconsistent with best practice because information about a dealer's axes or inventory is confidential and is not intended to be shared with competitors.
- › A trader at Firm A used to work with a trader at Firm B, and the two have remained friends even though they now work at different firms. The traders should exercise extra care when discussing markets, and because they are not facilitating a transaction, they should not discuss confidential information such as their own trading positions. In addition, as agreements to unreasonably restrain competition are illegal, traders from competing firms should be especially mindful that the sharing of confidential information can create an inference that such an unlawful agreement has been reached.
- › It would not be consistent with best practice for a market participant to say that there had been significant buying of Treasury securities by a large French bank or significant selling of agency MBS by a large REIT because it would likely reveal confidential information since "a large French bank" or "large REIT" may only refer to one of a few potential counterparties in each case.
- › If the Trade Reporting and Compliance Engine (TRACE) provided public information that a specific mortgage TBA security traded at a specific price with a reported par amount of \$25 million+, the actual size of the trade and the name of the counterparties would be considered confidential information and should be treated as such.

- › A group of portfolio managers and traders from several different firms are at an event together talking about general market conditions when one portfolio manager says that their favorite trade is to be long 10-year TIPS breakevens and she owns a specific off-the-run TIPS issue. This would be inconsistent with best practice as the portfolio manager is providing confidential information about its own position

MARKET PARTICIPANTS SHOULD ADOPT WRITTEN POLICIES AND PROCEDURES THAT IDENTIFY AND ADDRESS THE HANDLING OF CONFIDENTIAL INFORMATION, INCLUDING LIMITATIONS ON THE SHARING AND USE OF SUCH INFORMATION. The policies may vary across firms and across business lines within firms and should address risks, where they exist, associated with:

- **Sharing of information:** The extent to which confidential information, including pre- and post-trade information, can be shared internally or externally. The policies should also address the extent to which confidential information should be aggregated or anonymized prior to sharing.
 - **Use of information:** The extent to which confidential information may be used, including, for example, in activities such as customer facilitation, investment decisions, trading, and hedging.
- › A mortgage investor has adopted a policy on disclosing covers on all of its specified pool trades. If the mortgage investor deviates from its stated policy and decides to disclose cover information based on the outcome of a transaction, such as disclosing only when the cover is tight, this would not be consistent with best practices.

ALL MARKET PARTICIPANTS SHOULD BE AWARE OF THEIR COUNTERPARTIES' PRACTICES FOR HANDLING CONFIDENTIAL INFORMATION; MARKET PARTICIPANTS SHOULD MAKE AVAILABLE THEIR PRACTICES FOR HANDLING CONFIDENTIAL INFORMATION TO THEIR COUNTERPARTIES. Such practices may be high-level summaries of internal policies and may include, but are not limited to, the handling of confidential information related to requests for quotes, requests for indicative prices, valuations, axes or other indications of trading interest, cover information, the placement of orders, inventory, and details of completed transactions.

- › A money manager usually discloses covers to its counterparties following a transaction. In a particular transaction the counterparty does not receive a cover, prompting the counterparty to ask the money manager to reaffirm its prior understanding about the money manager's practice for handling confidential information. It would be inconsistent with best practices if the money manager refused to clarify its practices for handling confidential information.

MARKET PARTICIPANTS SHOULD ESTABLISH INTERNAL CONTROLS DESIGNED TO ENSURE THAT CONFIDENTIAL INFORMATION IS HANDLED IN A MANNER THAT COMPLIES WITH THEIR ESTABLISHED POLICIES. Such internal controls may include training of employees who have access to confidential information.

- › At a money manager, a newly hired trader or an internal transfer into a trading role does not receive adequate training about the firm's policies for the sharing and use of confidential information. This would be inconsistent with best practices as this trader will be unaware of how to handle confidential information in an appropriate manner.

The Treasury Market Practices Group (TMPG) is a group of market professionals committed to supporting the integrity and efficiency of the Treasury, agency debt, and agency mortgage-backed securities markets. The TMPG is composed of senior business managers and legal and compliance professionals from a variety of institutions—including securities dealers, banks, buy side firms, market utilities, and others—and is sponsored by the Federal Reserve Bank of New York. Like other Treasury Market Practices Group publications, this document represents the views of the private-sector members. The ex-officio members do not express a position on the matters herein. More information is available at www.newyorkfed.org/tmpg.

