

**A Review of 2001 by The
London Foreign Exchange
Joint Standing Committee**

Introduction and overview

The Foreign Exchange Joint Standing Committee (FXJSC) was established in 1973 under the auspices of the Bank of England, in the main part as a forum for banks and brokers to discuss broad market issues. The membership of the committee has grown over the past two years and now includes senior staff from many of the major banks operating in the foreign exchange market in London, as well as brokers, corporate users of the foreign exchange market and the Financial Services Authority (FSA). A full list of those who have served as members of the Committee during the course of the year is attached at the end of this review.

The FXJSC met six times in 2001¹. For most of the year the main focus of the Committee's work was the completion of the London Code of Conduct for Non-Investment Products. In the latter months of the year, the Committee considered the best means of dealing with operational market issues in London, and on more general discussions of contingency planning arrangements following the terrorist attacks of 11 September in the United States. The group also discussed the impact of e-commerce developments, which will be a recurring theme of discussions during 2002.

The Committee's work in 2001

Code of Conduct for Non-Investment Products

During the year the Committee, in conjunction with its sister committees in the London bullion and sterling deposit markets, completed the production of the Code for Non-Investment Products (NIPS), the successor to the part of the London Code of Conduct that related to non-investment products². The Code sets out standards of good market practice and guidance for market participants, although it has no statutory basis.

In November 2000 a draft of the Code had been published for public consultation and the Committee spent the early part of last year finalising the Code in the light of the comments received from a range of interested parties. A new version of the Code was placed on the Bank of England's website in August, in the main unchanged in content from the first draft

¹ The review of the FXJSC's work in 2000 was published in the Summer 2001 edition of the Bank of England Quarterly Bulletin, published in June 2001.

² That is transactions conducted in the sterling, foreign exchange and bullion wholesale deposit markets, and in the spot and forward foreign exchange and bullion markets.

but with a number of changes to its format and presentation. For example, a number of references were included to improve the read-across to the relevant publications produced by the FSA, in particular to the Inter-Professionals Conduct Chapter of the FSA Handbook and the FSA's Conduct of Business Sourcebook. Whilst the products covered by the NIPS Code are outside the scope of the FSA's remit, many of the institutions undertaking transactions in non-investment products have been authorised by the FSA for other parts of their business and thus it is important for relevant sections in the NIPS Code and the FSA's regulations to be consistent with one another.

The Code became operational at the end of November when the FSA assumed its full statutory powers under the Financial Services and Markets Act. As well as being made available on the Bank of England's website, 4,500 hard copies of the Code were distributed directly to market participants³. A number of trade organisations⁴ endorsed the Code, which reflected the market's involvement in and support for the development of the Code. Looking ahead the FXJSC, together with the other committees that co-ordinated the production of the Code, will maintain a watching brief to ensure that the Code is kept up to date to reflect market developments.

[The creation of an operations group for the foreign exchange market](#)

Since September, much of the Committee's time has been spent discussing whether the London market should form a group that focused specifically on operational issues in the foreign exchange market. The Committee had discussed this in the past but the terrorist attacks of 11 September in the United States led market participants to consider the question again.

In the United States the Operations Managers Working Group, a sub-group of the New York Foreign Exchange Committee (a sister committee of the FXJSC), has existed for a number of years and meets regularly to discuss a wide variety of operational foreign exchange issues. As a well-established market-led group that fostered regular communication between market participants, the sub-group was in a position to play an important role in facilitating the effective operation of the foreign exchange market in New

³ Further hard copies are available on request from the Secretary of the FXJSC on 020 7601 5976 or by email at nipscode@bankofengland.co.uk.

⁴ The trade organisations that endorsed the Code were the Association of Corporate Treasurers, British Bankers' Association, Building Societies Association, Chartered Institute of Public Finance and Accountancy, London Bullion Market Association, London Investment Banking Association and the Wholesale Market Brokers' Association.

York following the terrorist attacks on 11 September. The profile of the group outside the United States was significantly raised by its work over this period.

Within the London foreign exchange market, there has been widespread support for the creation of a group that would meet regularly to focus specifically on operational matters, based in part on the New York model. In principle the group would be comprised mainly of senior professionals currently active on the operational (rather than trading) side of the foreign exchange market. It might also include representation from the international money markets given the synergies between that market and foreign exchange. Such a group would need to maintain close liaison with groups covering the UK's domestic wholesale markets and trade organisations more widely, and also cooperate closely with those in the major overseas markets. If such a group became established in London then it might also be in a position to undertake a suitable role in times of market stress, for example in co-ordinating information flow and liaison with the financial authorities, although this would not be the group's primary function. Further discussions on this proposal will continue during 2002 and it is hoped that the first meeting of the operations group might take place in the first half of this year.

E-commerce

During 2000 the Committee discussed developments in e-commerce and their potential impact on the foreign exchange market. The development of internet-based trading platforms had been identified as a possible driver of structural change in the foreign exchange industry and, whilst these developments were still at a relatively early stage, they were evolving rapidly and were expected to have a significant impact on the market.

During the year, the Committee set up a sub-group to give some initial consideration to the impact of e-commerce developments on the foreign exchange market and to examine whether the NIPS code needed to be updated to reflect these developments. The initial conclusion of the sub-group was that it was still early to assess precisely what impact e-commerce would be likely to have on the market, or to set out detailed guidance on market practice tailored specifically to the new trading platforms. Some minor drafting changes were nevertheless incorporated into the NIPS code in order to emphasise that the code encompassed all transactions in non-investment products irrespective of the means of execution. A number of issues were identified for further discussion, such as the way in which the relationship between a bank and its customers might change and the security implications of electronic trading. The Committee agreed that the sub-group would

reconvene in 2002, once developments were further established, to undertake a more detailed review of e-commerce developments and the impact (actual or potential) on market practice.

Other issues discussed in 2001

The Committee discussed a number of other issues during the year. These included:

- The results of the latest BIS triennial survey of activity in the foreign exchange and derivative markets, which was undertaken in April 2001 and the results of which were published in October⁵. The results were broadly in line with the Committee's expectations.
- Whether confirmations are still necessary where foreign exchange trades are executed through electronic systems.
- The development of the Continuous Linked Settlement Bank (CLSB) and the implications for market practice.

Looking forward to 2002

Looking ahead to the Committee's work in 2002, most of the themes discussed during 2001 will continue to be active issues in the coming year. The Committee will aim to progress further the work developing the operations working group and continue to liaise closely on this initiative with relevant parties in the foreign exchange and other markets, both in London and overseas. As noted previously, the e-commerce sub-group will reconvene to consider further how these developments have impacted on the foreign exchange market. This too is an area that lends itself to global co-operation and the results of the sub-group's work will therefore be shared with the FXJSC's sister committees abroad. The Committee will continue to monitor any other issues that arise in the foreign exchange market during 2002, including any necessary changes to the NIPS Code, including those arising from the development of the CLSB.

⁵ A discussion of the results for the United Kingdom can be found in the Winter 2001 edition of the Bank of England Quarterly Bulletin, published in December 2001, whilst the global results are available from the BIS website www.bis.org.

**MEMBERS OF THE LONDON FOREIGN EXCHANGE JOINT STANDING
COMMITTEE (as at 31 December 2001)**

Name	Firm/Organisation	Phone number	E-mail address
Conor Dufficy	Bank of America	020 7634 4358	Conor.dufficy@bankofamerica.com
Jim Cameron	Banco di Napoli	020 7726 9500	Jim.Cameron@bancodinapoli.co.uk
Geoff Grant	Goldman Sachs International	020 7774 2680	Geoff.grant@gs.com
Adam Kreysar	UBS Warburg	020 7567 2261	Adam.kreysar@ubsw.com
Jack Jeffery	Citibank	020 7986 1852	jonathan.jeffery@citi.com
Rob Loewy	HSBC Bank Plc	020 7336 3745	rob.d.loewy@hscbgroup.com
Peter Murray	Morgan Stanley & Co International Limited	020 7677 7555	Peter.murray@msdw.com
John Newman	Deutsche Bank AG	020 7545 2066	john.newman@db.com
Robert Standing	JP Morgan	020 7777 4002	Robert.standing@chase.com
Michael Brown	Tullett & Tokyo Liberty Plc	020 7827 2261	mbrown@tullib.com
Mike Plant	Harlow (London) Ltd	020 7578 1322	mike.plant@g-icap.com
Simon Hills	British Bankers' Association	020 7216 8861	simon.hills@bba.org.uk
Mike Beales	Wholesale Market Brokers' Association	020 7827 2800	wmba@wmba.org.uk
Andy Murfin	The Financial Services Authority	020 7676 5890	andy.murfin@fsa.gov.uk
Brian Welch	The Association of Corporate Treasurers c/o The UserCare Treasury Consultancy Ltd	01962 882910	brian.welch@lineone.net
Clifford Smout (Chairman)	Bank of England	020 7601 3348	clifford.smout@bankofengland.co.uk
Mark Menary (Secretary)	Bank of England	020 7601 5976	mark.menary@bankofengland.co.uk

The following also served as members of the Committee during the year: Stephan Harris (Royal Bank of Scotland), David Britton (Merita Bank), Jim Bradley (National Australia Bank), Simon Jagot (UBS), Paul Thrush (Barclays Capital) and Peter Bartko (EBS).