

FOREIGN EXCHANGE JOINT STANDING COMMITTEE

Wednesday 14 March 2007

MINUTES

Attendees

Marcus Browning	Citi
Rob Loewy	Bank of China
Andrew Brown	HSBC
Paul Blain	Morgan Stanley
Darren Coote	UBS
Phil Weisberg	FXAll
Jack Jeffrey	EBS
Alex Merriman	BBA
David Clark	WMBA
Leigh Meyer	Citi, Chair Operations sub-group
Timothy Rowe	FSA
James Potter	Tullet Prebon
Marcus Nysten	SEB
Christiane Mandell	Bank of America
Kazuki Fukunaga	Bank of Tokyo Mitsubishi
Paul Fisher	Bank of England (Chair)
Sumita Ghosh	Bank of England (Secretariat)
Benedict King	Bank of England (Secretariat)
Jacqueline Joyston-Bechal	Bank of England (Legal sub-group)

Others

Topi Jokiranta	Cadburys Schweppes
Stewart Lloyd-Jones	WMBA
Heather Pilley	FSA
David Bloom	

Apologies

Ivan Ritossa	Barclays
Matthew Spicer	Credit Suisse
Henri Foch	BNP Paribas
Peter Nielsen	RBS
Michael Khan	State Street
Brian Welch	Association of Corporate Treasurers
Richard Gladwin	Lehman

1. Apologies for absence and welcome to the meeting

The chair thanked Tim Rowe, who was soon to be leaving the FSA, on behalf of the Committee for an outstanding contribution to its work and welcomed his successor, Heather Pilley. The chair also welcomed Topi Jokiranta from Cadburys Schweppes as guest speaker. David Bloom is standing down as chair of the legal sub-group after leaving HSBC and the Chair offered sincere thanks for David's contribution in setting up the legal sub-group and for its work on behalf of the committee.

2. Minutes of the 17 January 2007 meeting and matters arising

The minutes of the previous meeting held on the 17 January 2007 were agreed. The Chair reminded the committee that a group would be set up later in the year to review the Committee's bi-annual FX survey, and urged members to consider what areas of activity they would like it to cover in future.

3. Discussion: Review of recent market developments

The Committee discussed the recent turbulence in global financial markets. There was a general consensus that market movements were consistent with a carry trade unwind. Movements in those bilateral exchange rates of currencies that had been used to fund carry trades shown significant correlations with movements in certain asset prices, stock indices and credit spreads. Generally, trades where there had been a high yielding/ low yielding cross had been the most volatile.

In some other markets, such as energy, which had also seen some carry trades, these correlations had been less pronounced. Some Committee members thought that there was also a general increase in risk aversion, with funds moving out of Emerging Markets on the back of lower returns over the previous six months. The state of the US sub-prime market had contributed to this risk aversion.

Qualitatively, it was still felt that there was plenty of leverage in the market, but that its precise extent was very hard to quantify. Generally it was concluded that the infrastructure of markets and firms had been able to cope easily with the record volumes of trades that had been executed in recent weeks.

4. Presentation: A view of the FX market and infrastructure from a corporate angle (Topi Jokiranta, Group Financial Risk Manager, Cadburys Schweppes)

Topi Jokiranta gave the committee a view of the FX market from a corporate point of view, outlining the principal models in corporate FX dealing and corporates' principal concerns in requirements of the FX market. He stressed the continuing importance of banks' FX operations in providing liquidity for corporates, although this business as a share of banks' FX business was falling. He explained the main FX instruments required by corporates to facilitate their cash traffic, in-house banking and hedging requirements and how he saw these developing in future. The development of electronic trading had been an unqualified benefit for corporates allowing for more efficient and quicker execution, better control and audit trails and a cheaper and more flexible service. He thought banks could add a lot of value to their corporate clients through contributing to their risk management efforts and communicating these to auditors.

There followed a brief discussion that covered corporates' back office arrangement, particularly in the event of a crisis, and the extent to which corporates were aware of the NIPs code. It was agreed that it would be helpful to develop ways to raise awareness of the NIPs code among corporates.

5. Update on outreach group

The feedback from the initial meeting was very positive, particularly from the buy-side participants. The next meeting will take place in the second half of April..

6. Regulatory update: MiFID and NDFs (Tim Rowe, FSA)

The perimeter issues policy statement would be published towards the end of March, but would not cover the issue of FX as an ancillary service, the treatment of which would be largely unchanged. NDFs would be treated as forwards under article 84 of the Regulated Activities Order. Question 30 in the perimeter guidance would cover this issue. Committee members who wished to get information on the issue of 'free deliveries' should contact Katie Brannigan at the FSA. All those who had contributed to the FSA's work in on MiFID were thanked.

The Chair expressed thanks to the legal sub-group for their efforts and David Bloom thanked the FSA for providing the group with an opportunity to make a contribution.

7. Update on publication of the NIPs code

The endorsing bodies had not yet all signed off the updated version of the code, but the process was expected to be completed in April. The Operations sub-group was in the process of finalising a draft update of the SSIs section of the NIPs code. Completing this would be the main focus of work on updating the code this year.

8. Other business

Annual dinner – committee members were urged to let the secretariat know when they would be available in November to attend an FXJSC dinner. A few convenient dates were required to offer to potential speakers.

**The next meeting of the FXJSC to be held on Wednesday 16 May at 4pm at
Barclays Capital.**

FXJSC Secretariat

March 2007