

FOREIGN EXCHANGE JOINT STANDING COMMITTEE

Wednesday 12 September 2007

MINUTES

Committee Members Attending

Paul Fisher	Bank of England, Chair
Marcus Browning	Citi
Rob Loewy	Bank of China
Andrew Brown	HSBC
Richard Gladwin	Lehman Bros
Richard Gill	Bank of New York
Michael Kahn	State Street
Darren Coote	UBS
Kazuki Fukunaga	Bank of Tokyo Mitsubishi UFJ
Marcus Nysten	SEB
James Potter	Tullet Prebon
Christiane Mandell	Bank of America
Christopher Wilcox	JP Morgan
Brian Welch	ACT
Harry Culham	Merrill Lynch
Stewart Lloyd-Jones	WMBA
Susan Revell	Morgan Stanley, Chair, Legal subgroup
Zar Amrolia	Deutsche Bank
Heather Pilley	FSA
Jacqueline Joyston-Bechal	Bank of England, Secretary, Legal subgroup
Sumita Ghosh	Bank of England, Secretariat
Mika Inkinen	Bank of England, Secretariat

Other attendees

Neil Record	Record Asset Management (FXJSC Outreach subgroup)
Simon Wells	Bank of England
Raymond Lung	Bank of England

Apologies

Ivan Ritossa	Barclays
Henri Foch	BNP Paribas
Matthew Spicer	Credit Suisse
Leigh Meyer	Citi
Peter Nielsen	RBS
Phil Weisberg	FXAll
Alex Merriman	BBA

1. Apologies for absence and welcome to the meeting

The Chair welcomed Zar Amrolia from Deutsche Bank and Harry Culham from Merrill Lynch to their first meeting. He also welcomed Susan Revell from Morgan Stanley as the new Chair of the Legal subgroup, and Neil Record from Record Asset Management as a guest speaker.

2. Minutes of the 27 June 2007 meeting and matters arising

The minutes of the previous meeting, 27 June 2007, were agreed. There were no matters arising.

3. Discussion: Recent market developments

Simon Wells (Bank of England) gave a summary of recent market events to facilitate discussion.

There was a brief discussion on the sharp moves in yen crosses on 16 August. During the day, short dated implied volatility in the US dollar/yen exchange rate rose sharply, but had been at similar or higher levels before. What was different from other periods was that the volatility smile increased to unprecedented levels. Some of the rises were the result of investors seeking to protect themselves from further yen appreciation, while covering short vega positions in structured books may have exacerbated the moves.

The Committee asked whether the market infrastructure had coped with the volatility and high turnover. FX swap markets had been very difficult as firms sought to manage their liquidity needs by currency bucket. But the market infrastructure had otherwise coped well with the brokers seeing an increase in activity for FX forwards and swaps.

4. Currency Overlay (Neil Record, Record Asset Management)

Neil Record presented on the topic of institutional currency management. The presentation included a brief history of institutional active currency management, estimates of current market size, its implications on the FX market and a look at future trends.

5. FX Turnover Survey

Paul Fisher gave a presentation of the highlights of the FXJSC turnover survey published on 31 July.

6. Regulatory Update (FSA)

The FSA has taken the view that commercial forward FX transactions are outside the scope of MiFID on the basis that they are not derivatives and has also taken a comparable interpretation in relation to Non-Deliverable Forwards made for commercial purposes, as reported before to the FXJSC and described in the FSA's Perimeter Guidance on MiFID published in March. There has been some recent discussion on this issue among European regulators, but the FSA is not currently aware of any factors which would lead it to change its view. The FSA remains on top of the subject.

7. Update on overseas committees

A global meeting of foreign exchange committees is planned for 2 April 2008, and will be hosted by the Bank of England.

8. Update on sub groups

- Operations sub group

The operations sub-group meeting was on 13 September. The meeting included a presentation from SWIFT on SWIFTNET Mail, a new product, and discussions on FX option trades confirmations and the availability of staffing resources.

- Legal sub group

Susan Revell introduced herself as the new Chair of the Legal Sub-Group. JJB gave an update on the NIPS Code publication which has been delayed due to some minor comments received. It did look as if agreement had been reached on the wording and publication should not be delayed much longer. The next Legal Sub-Group meeting was on 5 October.

9. Any other business

- Conference call test

A conference call test may be conducted from the Bank's contingency site in the last week of October.

- Details of November dinner

The annual dinner is scheduled for 13 November, detail to be circulated.

- CPSS consultative report: progress in reducing FX settlement risk.

The results of the report, covering 109 institutions comprising 80% of the market in 15 currency swaps, were briefly presented. The average daily value of obligations was \$3.8bn, 33% of which are settled in a way that gives rise to settlement risk exposures. 34% of institutions surveyed could be said to fully control these exposures. Central banks therefore wanted to encourage and support participants in reducing these exposures where they can, including by improving measurement and by encouraging counterparties to use systems to eliminate settlement risk, such as CLS.

The next meeting of the FXJSC will be held on

Tuesday 13 November 2007 at Bank of England followed by Annual JSC Dinner

FXJSC Secretariat

October 2007