

A review of the work of the London Foreign Exchange Joint Standing Committee in 2015

This article reviews the work undertaken by the London Foreign Exchange Joint Standing Committee during 2015.

Introduction

The London Foreign Exchange Joint Standing Committee (FXJSC — hereon, 'the Committee') was established in 1973 and is chaired and administered by the Bank of England. The Committee provides a forum for market participants, infrastructure providers and the relevant UK public authorities to discuss conjunctural and structural issues concerning the wholesale foreign exchange (FX) market in the United Kingdom and the associated supporting infrastructure. A list of the members of the Committee as at end-2015 can be found at the end of this article. The Committee met five times during 2015.

The Committee continued to focus on the main issues impacting the functioning of, and liquidity within, the FX market. This included the potential impact of regulatory reforms on FX markets and the drivers and impact of FX volatility. On the latter, topics discussed included developments in emerging markets, the volatility in the Swiss franc at the start of the year, the UK general election and potential monetary policy divergence between major global economies. The key items of discussion during 2015 were the Global Preamble: Codes of Best Market Practice and Shared Global Principles,⁽¹⁾ the overall approach and timetable for the FX Global Code work and an update on the implementation of the recommendations from the Fair and Effective Markets Review (FEMR) Final Report⁽²⁾ and the Financial Stability Board's (FSB's) FX Benchmark report.

The Committee received presentations from a number of guest speakers during the year. A guest speaker from Vodafone provided a view of FX markets from a corporate perspective and a guest speaker from Spinnaker Capital presented on FX developments in the emerging markets. Furthermore, the Bank of England *Financial Stability Paper* on the resilience of financial market liquidity was also discussed.⁽³⁾ In addition the Financial Conduct Authority (FCA) provided a summary of the best execution regime detailed within the FCA Handbook and outlined potential amendments

to that regime under MiFID II (Markets in Financial Instruments Directive and Regulation).

In terms of Committee structure, a review of the membership composition to ensure that the Committee continued to reflect the diversity of the UK wholesale FX market was undertaken in late 2015 with changes effective in 2016. A full list of current Committee members can be found on the FXJSC webpage.⁽⁴⁾

Non-Investment Products (NIPs) Code

The NIPs Code is a voluntary code of good market practice drawn up by market practitioners covering the FX market in the United Kingdom as well as the markets for wholesale bullion and wholesale deposits. The Code is published by the FXJSC, with contributions from the FXJSC Operations and Legal sub-committees, the Sterling Money Markets Liaison Committee and the Management Committee of the London Bullion Market Association (LBMA) for the relevant sections. The current version of the Code was published in November 2011.⁽⁵⁾

In March 2015, the FXJSC was one of eight foreign exchange committees in major financial centres that endorsed the Global Preamble: Codes of Best Market Practice and Shared Global Principles. The Preamble provides high-level globally harmonised guidance and covers topics such as personal conduct, confidentiality and market conduct, and policies for execution practices and reflects a number of the FSB's FX Benchmark recommendations.

(1) More information on the Global Preamble: Codes of Best Market Practice and Shared Global Principles can be found at www.bankofengland.co.uk/markets/Documents/forex/fxjsc/globalpreamble.pdf.

(2) More information on the Fair and Effective Markets Review can be found at www.bankofengland.co.uk/markets/Pages/fmreview.aspx.

(3) The *Financial Stability Paper* is available at www.bankofengland.co.uk/financialstability/Documents/fpc/fspapers/fs_paper34.pdf.

(4) The FXJSC webpage can be accessed at www.bankofengland.co.uk/markets/Pages/forex/fxjsc/default.aspx.

(5) The NIPs Code can be found at www.bankofengland.co.uk/markets/Documents/forex/fxjsc/nipscode1111.pdf.

Building on this work, in May 2015 the Bank for International Settlements (BIS) announced the creation of a working group to strengthen code of conduct standards and principles in foreign exchange markets. Subsequently, the Foreign Exchange Working Group (FXWG) was established and held its first meeting in July 2015. The FXWG is supported by a Market Participants Group (MPG). The FXWG has two workstreams. The first is to establish a single global code for the FX market (the 'FX Global Code') by harmonising common elements of the existing regional FX codes as well as drafting new principles for those areas not adequately covered in the existing codes. In the United Kingdom, the FX Global Code will eventually replace the FX portion of the NIPs Code. Other elements of the NIPs Code and related codes will be reviewed and updated in parallel with the FX elements being replaced by the FX Global Code. The second workstream focuses on developing proposals to promote and incentivise adherence to the FX Global Code. Both workstreams are planned for completion in May 2017 with some interim material published in May 2016.⁽¹⁾

Work of the FXJSC Operations sub-committee

The Operations sub-committee was established in 2002. Its members are operations managers from many major banks active in the London wholesale FX market, as well as representatives from service providers and trade associations and also from the FCA. The sub-committee met six times in 2015.

During the year, the sub-committee continued to discuss themes impacting FX market operations, including recent trends in cyber risk, the continued evolution of digital currencies and growing innovation such as distributed ledger technology. The sub-committee received presentations on market developments in the emerging markets and eurozone, best practice in client on-boarding and an overview of the findings of the FEMR Final Report.

In 2015 the sub-committee completed its work on those working groups established in 2014 to focus on topics such as exploring ways to improve EU trade reporting and looking at ways to improve post-trade risk management processes. The working group analysing synergies between FX turnover surveys continued to make good progress and a new working group was created to take forward the actions arising from an FX sector resilience exercise carried out in February 2015, examining the impact of the failure of a settlement engine on FX market operations.

Work of the FXJSC Legal sub-committee

The Legal sub-committee was established in 2004 and comprises fourteen professionals providing in-house legal

counsel for many of the major institutions involved in the wholesale FX market in London. The sub-committee met twice in 2015.

The sub-committee continued to make an important contribution through its provision of legal support to the work of the Committee and its other sub-committees. During 2015, the sub-committee welcomed a guest speaker from the European Commission (EC) on EC priorities for growth and jobs, as well as speakers from Baker & McKenzie LLP to discuss competition law guidelines for the FXJSC. The sub-committee also discussed developments in the global FX market and related legislation, including the ongoing implementation of the recommendations of the FEMR Final Report, the work to develop an FX Global Code, and the implementation of MiFID II⁽²⁾ and the Markets in Financial Instruments Regulation (MiFIR).⁽³⁾

Work of the FXJSC Buy-side sub-committee

The Buy-side sub-committee was established in 2013 and during 2015 met three times. During the year, the sub-committee discussed changes in market conditions including FX market liquidity and the drivers and impact of FX volatility. The sub-committee also considered the effect of changes in market structure such as amendments to the WM/Reuters Benchmark methodology.

Both new and existing initiatives were also discussed, such as the Global Preamble: Codes of Best Market Practice and Shared Global Principles, the overall approach and timetable for the FX Global Code work, and progress on the implementation of the recommendations from the FSB FX Benchmark report.

As part of the FXJSC membership review it was decided to increase buy-side representation on the Committee instead of maintaining a separate sub-committee. The Buy-side sub-committee held its last meeting in November 2015.

International co-operation

Liaison between the eight FX committees based in different international financial centres (London, Frankfurt for the euro area, Hong Kong, New York, Tokyo, Singapore, Sydney and Toronto) continued during the year. In March 2015, the Tokyo Foreign Exchange Market Committee hosted an annual global meeting of the foreign exchange committees.⁽⁴⁾

(1) The Phase 1 materials can be accessed at www.bis.org/mktc/fxwg_phase1.htm.

(2) 2014/65/EU.

(3) Regulation 600/2014.

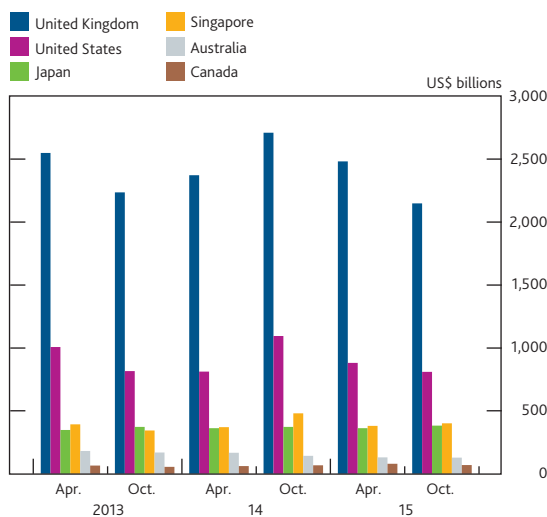
(4) Full minutes of the 2015 meeting can be found at www.fxcomtky.com/announce/pdf_file/gfxc_minutes_final.pdf.

At the meeting the committees endorsed the Global Preamble: Codes of Best Market Practice and Shared Global Principles. The committees also agreed to explore the scope for further harmonisation of the various regional FX codes and to examine ways to promote consistent adherence by FX market participants to the Global Preamble and the various regional codes. In July 2015, the BIS established the FXWG supported by an MPG to work on these two actions.

International survey results overview

Thirty banks representing the most active participants in the UK FX market contributed to the 22nd and 23rd FXJSC semi-annual surveys of UK FX turnover in April and October 2015. Total UK turnover fell 21% in the year to October 2015, 13% lower than in April 2015. This is the lowest daily turnover since October 2012 (Chart 1).

Chart 1 Global FX^(a) daily average turnover



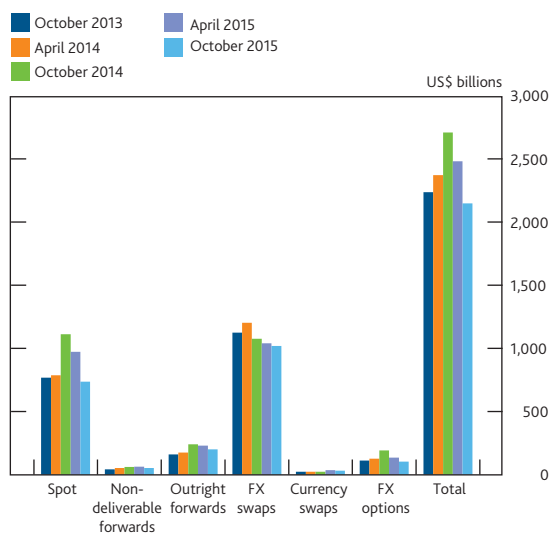
Sources: Australian Foreign Exchange Committee, Canadian Foreign Exchange Committee, London Foreign Exchange Joint Standing Committee, New York Foreign Exchange Committee, Singapore Foreign Exchange Market Committee and Tokyo Foreign Exchange Market Committee.

(a) This includes spot, non-deliverable forwards, outright forwards, FX swaps, currency swaps and FX options for the United Kingdom and most other centres.

This trend was broadly consistent with global developments: total turnover across the six reporting centres fell 19% year on year in October 2015. In particular, the United States registered the largest relative decrease in turnover (down 26%), followed by the United Kingdom (down 21%), Singapore (down 17%) and Australia (down 10%). In contrast, turnover in Tokyo and Canada rose 3% and 4% respectively.

The fall in UK FX turnover was largely driven by a 24% fall in FX spot turnover in the year to October 2015 (Chart 2), while falls in other products were more muted. UK FX spot turnover fell to US\$0.7 trillion per day, 34% lower than the survey highs set in October 2014, consistent with other reporting centres.

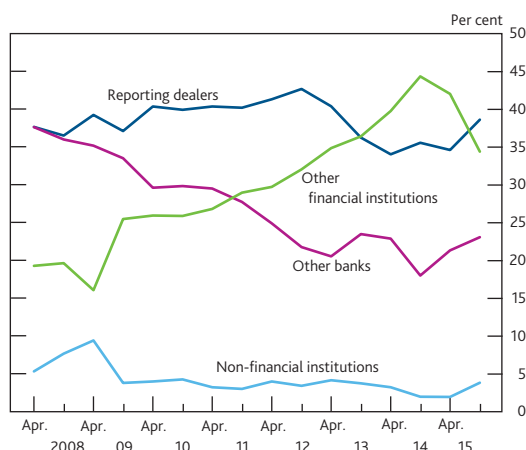
Chart 2 UK daily average turnover by product



Source: London Foreign Exchange Joint Standing Committee.

The proportion of FX trades with 'other financial institutions' (OFIs) including hedge funds, non-reporting banks, central banks and sovereign wealth funds saw a sharp fall in the past year, after a continued rise over the past five years. This development was particularly prominent in FX spot markets; 34% of spot trades were with OFIs in October 2015, down from 44% a year earlier, while reporting dealer banks' share rose to 39% (Chart 3). The proportion of trades with non-financial institutions, including corporates, remains steady at 4%.

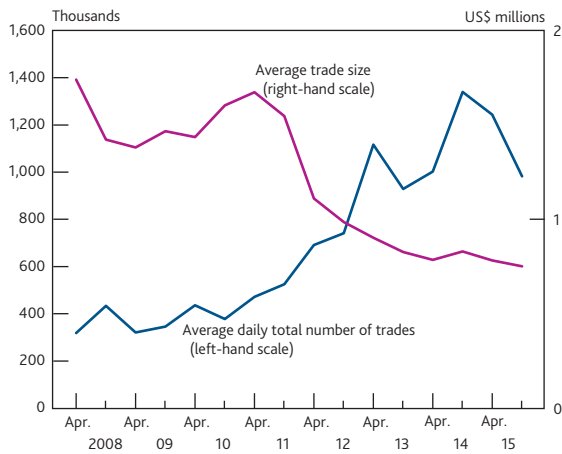
Chart 3 FX spot by counterparty type



Source: London Foreign Exchange Joint Standing Committee.

The average daily number of trades fell in the past year consistent with falls in headline turnover. The average trade size was little changed at US\$1.9 million. There was a slight fall in the average FX spot trade size, to new lows at US\$0.75 million (Chart 4).

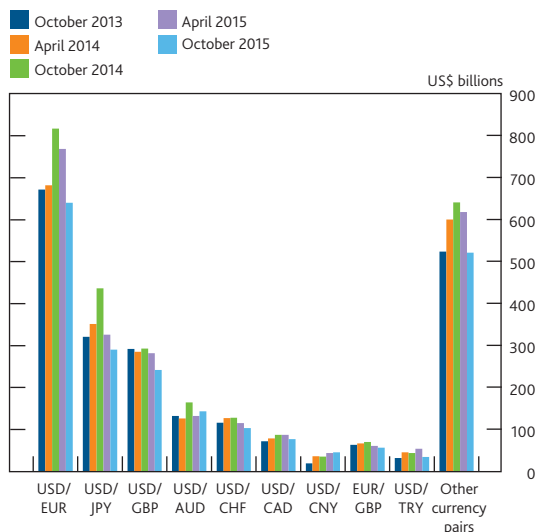
Chart 4 Average daily number of trades and trade size in FX spot



Source: London Foreign Exchange Joint Standing Committee.

Turnover in most currencies fell in the past year, albeit generally in line with falls in overall turnover. EUR/USD activity fell by 22% in October 2015 from a year earlier and activity in USD/JPY fell 34% from a year earlier, with turnover in the latter the lowest since October 2012 (Chart 5). USD/GBP turnover fell by 17%, the lowest turnover since October 2010.

Chart 5 UK daily average turnover across top nine currency bilaterals

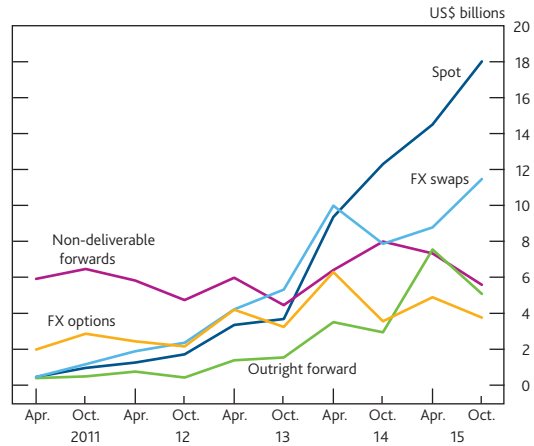


Source: London Foreign Exchange Joint Standing Committee.

Despite the broader falls in turnover, Chinese renminbi activity continued to rise, up 28% in the year to October 2015. The Chinese renminbi is now the eighth largest currency pair,

accounting for 2.1% of trades, from 1.3% a year ago. Most of the increase in the Chinese renminbi was due to increases in FX spot and FX swap turnover, up 47% and 46% respectively on the year (Chart 6).

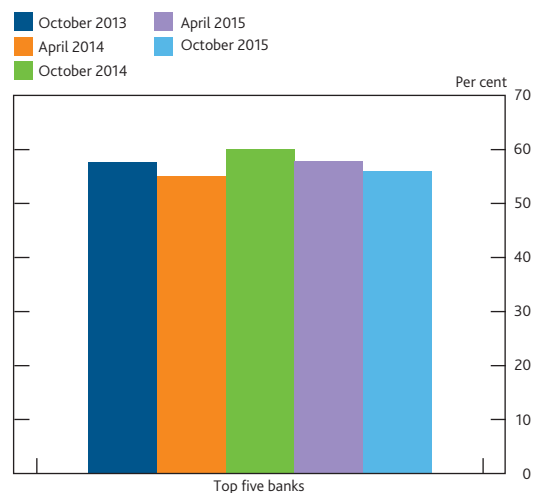
Chart 6 USD/CNY turnover split by product



Source: London Foreign Exchange Joint Standing Committee.

Overall concentration among the top five banks has decreased over the year from 60% to 56% (Chart 7), driven largely by a fall in FX spot market concentration. Prime brokerage concentration among the top five banks is little changed over the year with the top five banks accounting for 95% of all reported prime brokerage turnover.

Chart 7 Overall concentration among the top five banks



The forthcoming FXJSC survey results for April 2016 will be published in Summer 2016.

Tables of membership at end-2015

Members of the London Foreign Exchange Joint Standing Main Committee as at end-December 2015

Name	Firm/organisation
Brian Welch	Association of Corporate Treasurers
Rob Loewy	Bank of China
Richard Gill	Bank of New York Mellon
Ronald Kent	British Bankers' Association
James Bindler	Citigroup
David Puth	CLS Services
Gil Mandelzis	EBS BrokerTec
Heather Pilley	Financial Conduct Authority
Frederic Boillereau	HSBC
Lisa Scott-Smith	Millennium Global Investments
Richard Metcalfe	The Investment Association
Phil Weisberg	Thomson Reuters
James Potter	Tullett Prebon
George Athanasopoulos	UBS
Alex McDonald	Wholesale Markets Brokers' Association
Chris Allen	Barclays, Chair, Legal sub-committee
Jonathan Grant	Bank of England, Secretariat, Legal sub-committee
Isabelle Dennigan	RBC, Chair, Operations sub-committee
Chris Salmon (Chair)	Bank of England
Grigoria Christodoulou (Secretariat)	Bank of England
Lisa Gupta (Secretariat)	Bank of England
Elizabeth Darkens	Bank of England
Rebecca Jackson	Bank of England

Members of the London Foreign Exchange Joint Standing Committee Operations sub-committee as at end-December 2015

Name	Firm/organisation
Nigel Brigden	Association of Foreign Banks
Sarah Mullen	Bank of America Merrill Lynch
Louise Lee	Bank of England
Pamela Bald	Bank of New York Mellon
Kerry Peacock	Bank of Tokyo Mitsubishi UFJ
Duncan Lord	Barclays
Andrew Rogan	British Bankers' Association
Leigh Meyer	Citigroup
John Hagon	CLS Services
Anne Wrobel	Financial Conduct Authority
John Blythe	Goldman Sachs
Trevor Evans	HSBC
Phil Glackin	JPMorgan Chase
Daniel Parsons	Morgan Stanley
Isabelle Dennigan (Chair)	RBC
Richard Norman	Royal Bank of Scotland
Will Deighton	Société Générale
Ian Cowell	State Street
Joe Halberstadt	SWIFT
Nancy Riyad	UBS
Jonathan Grant	Bank of England, Secretariat, Legal sub-committee
Christopher Ford (Secretariat)	Bank of England
Lisa Gupta (Secretariat)	Bank of England

Members of the London Foreign Exchange Joint Standing Committee Buy-side sub-committee as at November 2015^(a)

Name	Firm/organisation
Alexis Blair	Aspect Capital
Lee Sanders	AXA
Jatin Vara	BlackRock
Marcus Browning	BlueCrest Capital
Neil Squires	Goldman Sachs Asset Management
Richard Pursell	Insight Investment
Roger Hallam	JP Morgan Asset Management
Stephen Grady	Legal and General Investment Management
Lisa Scott-Smith (Chair)	Millennium Global Investments
John Dacosta	Wellington
Rebecca Jackson	Bank of England
Chris Salmon	Bank of England
Lisa Gupta (Secretariat)	Bank of England
Jonathan Grant	Bank of England, Secretariat, Legal sub-committee

(a) Please note membership of the Buy-side sub-committee is as at the date of its last meeting in 2015 after which point it was formally disbanded.

Members of the London Foreign Exchange Joint Standing Committee Legal sub-committee as at end-December 2015

Name	Firm/organisation
Jateen Shah	Bank of America Merrill Lynch
Chris Allen (Chair)	Barclays
Elisa Kerr	Barclays
Sharon Blackman	Citigroup
Gaynor Wood	CLS Services
Simon Goldsworthy/Charlotte Hannavy	Deutsche Bank
David Harris	Financial Conduct Authority
Dan Parker	Goldman Sachs
Christian Bettley	HSBC
Emma Rickett	JPMorgan Chase
Barra Little	Morgan Stanley
Joanna Wormell	Royal Bank of Scotland
Kate Binions/Rakesh Shah	Standard Chartered
Richard Lamb/Amanda Steer	UBS
Jonathan Grant/Jan Lasik (Secretariat)	Bank of England