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# A review of the work of the London Foreign Exchange Joint Standing Committee in 2005

*This article reviews the work undertaken by the London Foreign Exchange Joint Standing Committee during 2005.*

## Introduction and overview

The Foreign Exchange Joint Standing Committee (FXJSC — ‘the Committee’) was established in 1973, under the auspices of the Bank of England, as a forum for banks and brokers to discuss broad market issues. The Committee comprises: senior staff from many of the major banks operating in the foreign exchange market in London; representatives from brokers; the Association of Corporate Treasurers (ACT), corporate users of the foreign exchange market; the British Bankers’ Association (BBA); and the Financial Services Authority (FSA). A list of the members of the Committee, as at end-2005, may be found at the end of this review.

The Committee met six times during 2005. The main focus of the Committee’s work was on updating the Non-Investment Products (NIPs) Code; progress was also made on further refining contingency preparations, the establishment of a Chief Dealers’ subgroup and further development of the Committee’s semi-annual survey of the UK foreign exchange market. Much of the Committee’s work has been progressed by the legal, operational and other *ad hoc* working groups.

## Non-Investment Products Code — updated in January 2006

The NIPs Code is a voluntary code of good market practice drawn up by market practitioners, covering the foreign exchange market in the United Kingdom as well as wholesale bullion and wholesale deposits. The Code was first published in its current form in 2001, reflecting changes to the UK regulatory landscape following the introduction of the Financial Services and Markets Act (FSMA). A revised Code published in January 2006 wholly replaced the 2001 version. Work to update the Code was co-ordinated through the FXJSC, together with the Sterling Money Markets Liaison Group (MMLG) and the Management Committee of the London Bullion Market Association (LBMA).

The January 2006 Code incorporates the sections on undisclosed principal trading and best practice guidelines for foreign exchange settlement in CLS (Continuously Linked Settlement), which were agreed separately in 2003. There have also been significant changes to the format of the updated Code; this is now available solely in electronic format on the Bank of England’s website. The number of annexes in the Code has been reduced and re-ordered to cover the areas of business the Code covers, ie wholesale sterling deposits, wholesale foreign currency deposits and foreign exchange, and wholesale bullion. It is hoped that these changes will make it easier to use and apply to specific areas of the market.

The main changes of substance were to update the Code to reflect current best practice. A section has been added on the use of mobile phones in the dealing room, the chapter on confirmations and settlement has been significantly updated, and changes were made on the exchange of Standard Settlement Instructions (SSIs) and the inclusion of timely deadlines for the exchange of confirmations. The FXJSC also took the opportunity to remove outdated language on the settlement of differences in the FX market, and on the Committee’s arbitration role. The new Code also embodies new sterling interest rate conventions following periods of market disruption, developed by a working group of the MMLG. The LBMA provided updated language for the bullion annex to reflect changes such as the modernisation of the gold fixing process.

Going forward, the Code will be updated on a regular semi-annual basis, and re-published in October and March each year. Consultation from the most recent update has already identified a number of issues to be considered, including best practice in and around electronic trading and settlement in the FX market. Suggestions for any future amendments should be made to the Secretariat of the FXJSC at PO Box 546

Threadneedle Street (HO-1), London EC2R 8AH. As is currently the case, changes will be made after consultation with associations which endorse the Code, including 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 Markets Brokers' Association.

### **Contingency planning and work of the contingency subgroup**

As in other markets, there was a good deal of work on contingency preparations in 2005, involving collaboration between all of the FXJSC subgroups and other market committees. Most recently, the FXJSC has produced a table showing what the Committee and some of the major pieces of infrastructure in the foreign exchange market would do in a major operational disruption. This was drawn up with contributions from the contingency subgroup, an operational subgroup and the main Committee. The table has been published, alongside a similar table produced by the MMLG, on the Bank of England's website.

The legal subgroup also responded on behalf of the FXJSC to questions sent to the Committee by the Tripartite Authorities on the adequacy of foreign exchange contracts in a major operational disruption. The group produced a table of answers using the checklist developed by the Financial Markets Law Committee and concluded that London foreign exchange market contracts contain satisfactory provisions for contingency situations. Members were encouraged to examine documentation in their own firms to ensure that firms' latest contracts reflect these provisions.

The Committee once again participated in the market-wide test organised by the Tripartite Authorities, on 28 November 2005. The FXJSC and operations subgroup held conference calls as part of the test and provided information about the foreign exchange market to the Authorities and, in turn, passed information gathered in the call to the Cross Market Business Continuity Group (CMBCG) for use in their conference call.

The contingency subgroup established last year began to consider individual contingency scenarios, allowing members of the operations subgroup to consider and discuss contingency issues in the foreign exchange

market in more detail, particularly the FXJSC's own contingency arrangements for individual events. The Chief Dealers' subgroup has also been providing details of contingency scenarios from a front office perspective for the operations subgroup to consider. In addition, the contingency subgroup has been assisting in practical preparations including dissemination of contact information, such as updated contact details.

### **Work of the legal subgroup**

The legal subgroup has been very active this year, making an invaluable contribution through its provision of legal support to the work of both the FXJSC main committee and operations subgroup. During the year the legal subgroup has made notable contributions including advising and drafting sections of the update of the NIPs Code, creating draft mandate standard documentation, considering existing prime brokerage documentation, advising on contingency preparedness in standard foreign exchange documentation and generally assisting the working groups of the main Committee and operations subgroup. The legal subgroup has also provided assistance in helping the basis swaps market in preparing an alternative set of 'fix' exchange rates to replace the 11.00 am page of foreign exchange rates currently published by the Bank of England, which was what that market was previously using as its reference.

### **Markets in Financial Instruments Directive (MiFID) working group**

A new working group was established under the direction of the FXJSC's legal subgroup to provide guidance to the main Committee on MiFID and its impact on the foreign exchange market, particularly its implementation in the United Kingdom and to assist the market in liaising with the HMT and the FSA. This has included drafting a formal response to HMT consultation on implementation of MiFID in the United Kingdom with regard to its application to the foreign exchange market. The working group will continue to facilitate liaison between the market and the FSA and the HMT.

### **Establishment of Chief Dealers' subgroup**

In July 2005 the Chief Dealers' subgroup met for the first time. The group comprised eleven experienced foreign exchange market professionals active in the London foreign exchange market. Meeting quarterly, members discuss conjunctural and structural

developments in the foreign exchange market and assess their impact on its functioning and on related financial markets. Market structure topics discussed have included the impact of algorithmic trading and MiFID.

The purpose of the group is to brief the FXJSC and other subgroups on topical market issues, to respond to requests from the FXJSC for views on issues relating to activity in the foreign exchange market or its operation as they arise, and to liaise with the FXJSC and its contingency subgroup on developments in business continuity. The subgroup has contact with and exchanges views with the New York Chief Dealers' group.

### Work of the operations subgroup

The major event in the first half of 2005 was the Global Operational Managers conference, held on 20–21 April in London at the Bank of England conference centre, sponsored by the FXJSC. The conference followed on from the first global conference for operations managers held in September 2003, hosted by the New York Foreign Exchange Committee (FXC) at the Federal Reserve Bank in New York. The two-day event, involving over 130 delegates from around the world, was structured to allow for presentations, panel discussions and question and answer sessions; the theme was entitled 'the challenges facing operations in the 21st century'. Sessions on continuing challenges such as contingency, operational risk and the regulatory environment proved as interactive and relevant as the previous conference in New York in 2003 and demonstrated that these areas remain a priority for operations managers globally. However, sessions on developments in CLS, FX prime brokerage and e-commerce were especially topical with significant growth in these businesses since the previous conference. The growth in offshoring initiatives for many companies provided an excellent opportunity to share experiences and lessons learnt, while client panels proved insightful and relevant.<sup>(1)</sup> The next conference is scheduled to take place in 2007, hosted by the ECB Operations Group.

Throughout the year, the operations subgroup worked on updating the NIPs Code, specifically the chapter on Confirmations and Settlement. Much of the work was taken forward by the Standard Settlement Instructions

(SSIs) and confirmations working groups. Among other changes, the SSIs working group concluded that in future it would be acceptable to use SWIFT<sup>(2)</sup> broadcast as the electronic mechanism to establish standing instructions, provided this was followed by a confirmation. This was a change from previous guidance which had suggested it was not best practice. The confirmations working group introduced a two-hour best practice guideline for the exchange of confirmations. With the assistance of a working group from the legal subgroup, the mandates working group also made some progress on issues relating to mandates between corporates and banks, and its work is expected to be included in the next update of the Code.

The group contributed operations expertise to a number of other working groups, including prime brokerage and e-commerce. Members also followed up on work in other forums on non-deliverable forwards (NDFs) which led to the formation of an NDF working group; this is in close discussion with the FXC group which has been progressing work in this area.

### Other working groups

There have been a number of issues addressed by the Committee over the year that members believed could be best progressed by working groups composed of members of other FXJSC subgroups, or even market participants from institutions not directly involved as members of the Committee or its subgroups. This fits with a wider aim of the Committee to involve as many parts of the foreign exchange market as possible in its work. One area where this has been achieved is the FXJSC's semi-annual turnover survey, with 30 active London banks now contributing data. Also, the FXJSC, together with the FSA and representatives from the wider market, considered the interpretation and practical implementation of CP205 (Conflict of Interest in Investment Research) for the foreign exchange market.

### Work of the prime brokerage/e-commerce group

The prime brokerage and e-commerce subgroup was established to explore the operational risks in prime brokerage and recent developments in e-commerce. The group is drawn from volunteers from the FXJSC main Committee, operations subgroup and the wider market.

(1) Details of the discussions and presentations can be accessed at [www.bankofengland.co.uk/markets/forex/fxjsc/GOM\\_conference.htm](http://www.bankofengland.co.uk/markets/forex/fxjsc/GOM_conference.htm).

(2) SWIFT provides secure messaging services to financial institutions and market infrastructure including CHAPS, TARGET, CREST and CLS.

The subgroup met three times in 2005. The first meeting established the objectives of the group, its potential outputs and identified significant themes for discussion. The following two meetings were focused specifically on prime brokerage and e-commerce, respectively. For prime brokerage, the subgroup discussed the implications of the changing trading model prevalent in the market and the operational risks involved. The e-commerce discussion looked at market and technology developments, and potential risks and growth areas since the previous FXJSC report on e-commerce in 2003. The preliminary findings of the subgroup were presented to the main FXJSC in the first half of 2006.

### **International co-operation**

Over the year the Chair and/or Secretariat attended meetings of the New York FXC, the Canadian Foreign Exchange Committee and the ECB contact group. The Chair also met with a number of members of the newly re-formed Australian Foreign Exchange Committee, the Hong Kong Treasury Markets Association and the Singapore Foreign Exchange Market Committee. The meetings involved very useful discussions on issues that impact the global foreign exchange market.

The FXJSC Secretariat have continued to host quarterly conference calls with the other global foreign exchange committee secretaries, to update on the work of individual groups and topical issues; these have involved participants from Singapore, Tokyo, New York, the ECB, Toronto, Sydney and Hong Kong. One strand of work where there has been much co-operation has been the foreign exchange market turnover surveys. Members of these committees also attended and made valuable contributions to the Global Operations Managers conference in April 2005.

### **International survey results overview**

Thirty banks, drawn from committee members and the most active participants in the foreign exchange market, contributed to the second and third semi-annual surveys of foreign exchange turnover in London conducted by the FXJSC. The survey showed strong growth in foreign exchange turnover during 2005. Average daily turnover recorded in the October 2005 survey was \$863 billion, some 31% higher than in October 2004. This was mirrored by a rise of 28% in the turnover recorded by the New York FXC in its survey over the same period. The Singapore Committee also decided to publish its survey results to the same timetable, starting with the October 2005 survey.

## Members of the London Foreign Exchange Joint Standing Committee as at December 2005

<b>Name</b>	<b>Firm/Organisation</b>
Ivan Ritossa	Barclays
Robert Loewy	Bank of China
Henri Foch	BNP Paribas
Jeff Feig	Citigroup
Matthew Spicer	Credit Suisse
Robert McTamanev	Goldman Sachs
Andrew Brown	HSBC
Adam Burke	JPMorgan Chase
Marcus Browning	Merrill Lynch
Paul Blain	Morgan Stanley
Peter Nielsen	Royal Bank of Scotland
Nick Beecroft	Standard Chartered
Michael Kahn	State Street
Darren Coote	UBS
Jack Jeffery	EBS
Phil Weisberg	FXAll
John Herbert	ICAP
Brian Welch	Association of Corporate Treasurers
Alex Merriman	British Bankers' Association
Ian Stevenson	Wholesale Markets Brokers' Association
David Bloom	HSBC
Leigh Meyer	Chair, legal subgroup Citigroup
David Hacon	Chair, operations subgroup
Paul Fisher (Chair)	Financial Services Authority
Sumita Ghosh/Howard Jones (Secretariat)	Bank of England Bank of England

## Members of the London Foreign Exchange Joint Standing Committee operations subgroup as at December 2005

<b>Name</b>	<b>Firm/Organisation</b>
Jos Dijsselhof	ABN Amro
Michael Douglas	Bank of America
Bob Jordan	Bank of England
Duncan Lord	Barclays
Lincoln Burkitt	CSFB
Darryl Webb	Deutsche Bank
Susan Balogh	Goldman Sachs
Chris Roberts	HSBC
Graeme Munro	JPMorgan Chase
Derrick Pearson	Lloyds TSB
Kim Surendran	Mellon Bank
Isabelle Dennigan	Royal Bank of Scotland
Stephen Smith	State Street
William Deighton	UBS
Phil Kenworthy	CLS Services
Colin Perry	ICAP
John Moorhouse	Reuters
Elizabeth Swanton	SWIFT
John Whelan	Association of Foreign Banks
Alex Merriman	British Bankers' Association
Leigh Meyer (Chair)	Citigroup
Sumita Ghosh/Howard Jones (Secretariat)	Bank of England

## Members of the FXJSC legal subgroup

<b>Name</b>	<b>Firm/Organisation</b>
Janet Wood	Bank of America
Sahar Kasenally	Barclays Capital
Julia Elliott	Citigroup
Ulrike Schefe	CSFB
David Entwistle	Deutsche Bank
Anne Moore-Williams	FSA
Felicity White	HSBC
David Lewis	JPMorgan Chase
Pania Kouris	Lloyds TSB
Annabeth Bates	Morgan Stanley
Alex Bouchier	Royal Bank of Scotland
Martin Oakley	Reuters
Simone Paul	State Street
Kate Binions	UBS
David Bloom (Chair)	HSBC
Jacqueline Joyston-Bechal (Secretary)	Bank of England

## Members of the FXJSC Chief Dealers' subgroup

<b>Name</b>	<b>Firm/Organisation</b>
Hiroshi Morioka	Bank of Tokyo Mitsubishi
Danny Wise	Barclays Capital
Raymond Ng	Citigroup
Mark Iles	The Royal Bank of Canada
Mike Leighton	CSFB
Angus Greig	Deutsche Bank
Bernie Kipping	Commonwealth Bank of Australia
Chris Freeman	State Street Bank and Trust Company
Chris Kreuter	UBS
Keith Carpenter	ABN Amro
Roger Hawes	Royal Bank of Scotland
Christopher Nicoll	Morgan Stanley
Martin Mallett (Chair)	Bank of England