

# A review of the work of the London Foreign Exchange Joint Standing Committee in 2006

This article reviews the work undertaken by the London Foreign Exchange Joint Standing Committee during 2006.

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 wholesale foreign exchange market in London, representatives from brokers, the Wholesale Market Brokers' Association (WMBA), the Association of Corporate Treasurers (ACT) — representing 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-2006, can be found at the end of this review.

The Committee met six times during 2006. The main themes of the work programmes of the FXJSC main Committee and its subgroups were: updating the Non-Investment Products Code (NIPs Code); liaison with the UK authorities in clarifying the treatment of foreign exchange instruments under the Markets in Financial Instruments Directive (MiFID); further work on the refining of contingency preparations; and the publication of the Committee's semi-annual survey of turnover in the UK foreign exchange market. Much of this work was progressed by subgroups, in particular those representing operations managers, legal representatives and chief dealers, and other *ad hoc* working groups.

## Non-Investment Products Code and the work of the operations managers subgroup

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 the markets for wholesale bullion and wholesale deposits. The Code is maintained by the FXJSC, with contributions from the Sterling Money Markets Liaison Group (MMLG) and the Management Committee of the London Bullion Market Association (LBMA) on the relevant sections. In January 2006, the Code was updated and republished for the first time since 2001. Significant changes to its format were made, including making

the Code solely available in electronic format on the Bank's website, to facilitate more frequent updates in the future.

During 2006, the operations subgroup, in collaboration with the legal subgroup, worked on preparing further proposed changes for inclusion in the NIPs Code. These changes were developed using several additional working groups. The sections under review to reflect current best practice included those on mandates, confirmations and Standard Settlement Instructions (SSIs).

The confirmations working group developed the section on usage and processing of confirmations and clarified procedures for cancelling confirmations. This section also highlights the use of electronic confirmation, matching and tracking systems as part of market-standard procedures.

The mandates working group reviewed the dealing mandates<sup>(1)</sup> section of the NIPs Code, updating it to take account of developments in electronic trading and clarifying responsibilities and procedures for accepting, rejecting and updating such mandates. Final drafts of both of these sections were completed by the end of the year. In addition to the updated sections on confirmations and mandates produced by the FXJSC, the LBMA contributed an updated version of the section of the NIPs Code covering wholesale spot, forwards and deposits in gold and silver bullion. There were no further changes made during 2006 to the annex on wholesale deposits.

The SSIs working group continued to make progress during 2006 in formulating recommendations for standardisation. An updated version of this section is expected to be finalised in 2007.

(1) A dealing mandate is typically supplied by a corporate client setting out arrangements for dealing with its counterparties eg listing who is authorised at the corporate to deal on its behalf.

Throughout the year, a FXJSC working group on non-deliverable forwards (NDFs)<sup>(1)</sup> co-operated closely with the New York Foreign Exchange Committee (FXC) on helping to produce a new bilateral NDF Master Confirmation Agreement. This was published by the Emerging Markets Traders Association (EMTA) in December 2006. The NDF working group also co-operated closely with the Continuous Linked Settlement (CLS) system to provide market input into the drafting of CLS's protocol for foreign exchange confirmations.

Going forward, it is intended that the Code will be updated on a more regular, routine basis. 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 now, 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 Market Brokers' Association.

## Contingency planning and work of the contingency subgroup

As in other markets, there was significant progress on contingency preparations in 2006, involving collaboration between the FXJSC and its subgroups and other market committees with the aim of further improving financial sector resilience.

The FXJSC main Committee and the operations subgroup participated in the pandemic flu exercise organised by the Tripartite Authorities<sup>(2)</sup> during October and November. Members followed the evolving scenarios over the weeks of the exercise and held a special conference call of the Committee, including the Chair of the operations subgroup, in Week 4 of the exercise. This call discussed the possible impact of a pandemic on the foreign exchange market and, more specifically, the extent to which transaction volumes should be reduced and how quickly that could be managed. The FXJSC main Committee further discussed these issues, and the weekly update of the exercise, at its regular meeting which occurred during Week 5. The views of the FXJSC were passed to the Cross Market Business Continuity Group (CMBCG) which considered the potential impact of a pandemic across markets.<sup>(3)</sup> The exercise highlighted the importance of the resilience of the key infrastructure providers and their interactions.

The contingency subgroup, established in 2005, began to consider individual contingency scenarios, allowing members of the operations subgroup to consider and discuss contingency issues in the foreign exchange market at a

granular level, including the FXJSC's own contingency arrangements for individual events. In September 2006, the contingency subgroup, together with the operations subgroup, organised a special meeting to consider a walkthrough of a scenario involving a prolonged outage of the CLS system for the settlement of foreign exchange transactions. The scenario for the meeting was constructed with the help of CLS. Panel members presenting the scenario included the Chairs of the FXJSC main Committee, the operations subgroup and the contingency subgroup, as well as representatives of CLS and FXJSC member firms. The audience comprised of a large number of market participants who were encouraged to participate actively in the debate on contingency arrangements. The meeting highlighted issues such as possible improvements to crisis communication arrangements, to be considered by the operations subgroup, which includes CLS. SWIFT also made presentations to the operations managers on its developments and business continuity planning.

## Work of the legal subgroup

The legal subgroup was established in 2004 and comprises 18 members offering in-house counsel from many of the major places of the wholesale foreign exchange markets in London. The legal subgroup was very active in 2006, making an invaluable contribution through its provision of legal support to the work of the FXJSC main Committee, operations subgroup and working groups, in particular through advising on and drafting the sections to update the NIPs Code. The legal subgroup also considered the Master NDF confirmation documentation.

In a separate work-stream, the legal subgroup assisted the basis swaps market in preparing and implementing a set of 'fix'<sup>(4)</sup> exchange rates, jointly produced by EBS and Reuters, to provide an alternative option to the 11.00 am page of foreign exchange rates which had been used by the basis swap market as its reference. This publication of indicative rates at 11.00 am had previously been provided by the Bank of England, which ceased publication on 18 December 2006.

### Legal subgroup working group: Markets in Financial Instruments Directive (MiFID)

The MiFID working group, established under the direction of the FXJSC's legal subgroup has provided guidance to the main Committee on MiFID and its impact on the foreign exchange market, particularly its implementation in the United Kingdom and has assisted the market's liaison with HMT and the FSA.

(1) NDFs are forward contracts in foreign exchange where one currency is not easily traded. The contract is priced by reference to a particular source for the bilateral exchange rate but is settled entirely in the more freely available currency, usually dollars.

(2) HM Treasury, the Financial Services Authority and the Bank of England.

(3) Tripartite Authorities' *UK Financial Sector Market Wide Exercise 2006 Report* can be found at [www.fsc.gov.uk/upload/public/Files/36/Financial%20Sector%20Market%20Wide%20Exercise%202006%20Report.pdf](http://www.fsc.gov.uk/upload/public/Files/36/Financial%20Sector%20Market%20Wide%20Exercise%202006%20Report.pdf).

(4) A 'fix' is an indicative market rate published at an agreed time and which is frequently used as a price reference for customers' transactions.

This included drafting a formal response to the HMT consultation on the implementation of MiFID in the United Kingdom and concluded with the publication of the FSA's policy statement, PS 07/5 *Perimeter Guidance relating to MiFID* on the treatment of foreign exchange swaps, forwards and NDFs.

### Chief Dealers' subgroup

The Chief Dealers' subgroup was established in July 2005 and membership during 2006 reached a total of thirteen chief dealers active in the London foreign exchange market. Meeting quarterly, members discussed conjunctural and structural developments in the foreign exchange market, including the impact of algorithmic trading and MiFID.

### International co-operation

In October 2006, the Chair and two other Committee representatives attended a special meeting hosted by the New York Foreign Exchange Committee, comprising Chairs and Secretaries of eight foreign exchange committees based in different financial centres (London, Frankfurt for the euro area, Hong Kong, New York, Singapore, Sydney and Toronto). The group discussed topical issues in the foreign exchange market and the work programmes of the committees and highlighted the importance of good communications between the committees.

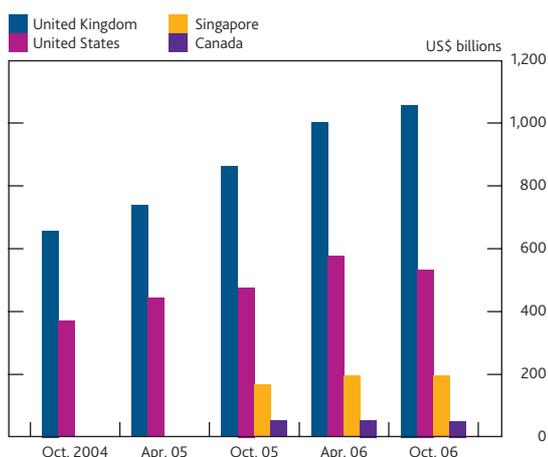
### International survey results overview

Thirty banks, drawn from committee members and the most active participants in the London foreign exchange market, contributed to the fourth and fifth semi-annual surveys of foreign exchange turnover in London conducted by the FXJSC.<sup>(1)</sup> The survey showed strong growth in London foreign exchange turnover during 2006. Average daily turnover recorded in the October 2006 survey was \$1,056 billion, some 23% higher than in October 2005, a more modest growth from the year before (**Chart 1**). Turnover growth recorded by the New York FXC over the same period was 12%. In addition, October 2006 facilitated the first annual comparison of the Singapore FEMC and Canadian FXC surveys, which showed a 17% increase and 5% decrease in turnover respectively.

The FXJSC survey saw a continuation of growth in all products, except outright forwards (**Chart 2**).

Among the major currencies (**Chart 3**), there was a fall in euro turnover, despite rises in dollar, sterling and yen. Turnover concentration in the top five banks remained steady at 45%, while the number of banks accounting for 95% of turnover fell to 20% from 21% in October 2005 (and 22% in October 2004).

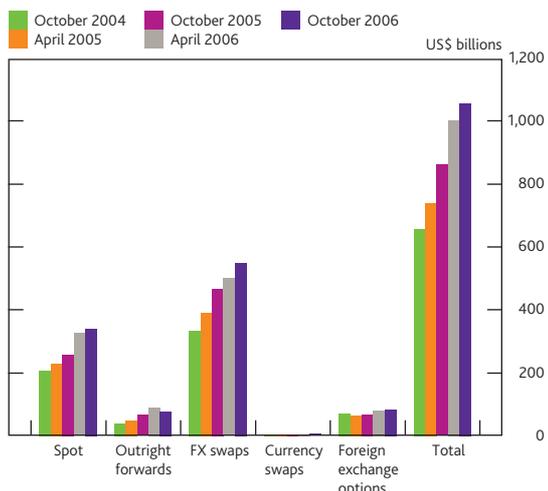
**Chart 1 Global FX<sup>(a)</sup> daily average turnover**



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

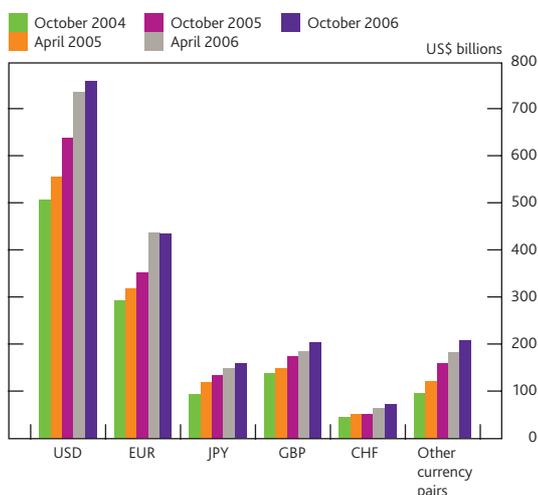
(a) This includes spot, outright forwards, FX swaps, currency swaps and FX options.

**Chart 2 UK daily average turnover by product**



Source: London Foreign Exchange Joint Standing Committee.

**Chart 3 UK daily average turnover by currency**



Source: London Foreign Exchange Joint Standing Committee.

(1) Turnover survey results are available at the Bank of England website at [www.bankofengland.co.uk/markets/forex/fxjsc/fxturndata070122.pdf](http://www.bankofengland.co.uk/markets/forex/fxjsc/fxturndata070122.pdf).

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**Members of the London Foreign Exchange Joint Standing Committee as at December 2006**

Name	Firm/Organisation
Robert Loewy	Bank of China
Ivan Ritossa	Barclays
Henri Foch	BNP Paribas
Marcus Browning	Citi
Matthew Spicer	Credit Suisse
Robert McTamanev	Goldman Sachs
Andrew Brown	HSBC
Adam Burke	JP Morgan
Richard Gladwin	Lehman Brothers
Paul Blain	Morgan Stanley
Peter Nielsen	Royal Bank of Scotland
Marcus Nysten	SEB
Michael Kahn	State Street
Darren Coote	UBS
Jack Jeffery	EBS
Phil Weisberg	FXAll
James Potter	Tullett Prebon
David Clark	Wholesale Market Brokers' Association
Brian Welch	Association of Corporate Treasurers
Alex Merriman	British Bankers' Association
Leigh Meyer	Chair, operations subgroup
David Bloom	Chair, legal subgroup
Timothy Rowe	Financial Services Authority
Paul Fisher (Chair)	Bank of England
Sumita Ghosh/Benedict King (Secretariat)	Bank of England

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**Members of the London Foreign Exchange Joint Standing Committee operations subgroup as at December 2006**

Name	Firm/Organisation
Michael Douglas	Bank of America
Bob Jordan	Bank of England
Duncan Lord	Barclays
Phil Kenworthy	CLS Services
Michael Daly	Deutsche Bank
Susan Balogh	Goldman Sachs
Richard White	HSBC
Colin Perry	ICAP
Graeme Munro	JP Morgan
Derrick Pearson	Lloyds
Kim Surendran	Mellon Bank
Andrew Harvey	Morgan Stanley
Kerry Peacock	Rabobank
John Moorhouse	Reuters
Isabelle Dennigan	RBS
Stephen Smith	State Street
Elizabeth Swanton	SWIFT
William Deighton	UBS
John Whelan	Association of Foreign Banks
Alex Merriman	British Bankers' Association
Leigh Meyer (Chair)	Citi
Sumita Ghosh/Benedict King (Secretariat)	Bank of England

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**Members of the Chief Dealers' subgroup as at December 2006**

Name	Firm/Organisation
Hiroshi Morioka	Bank of Tokyo Mitsubishi UFJ
Danny Wise	Barclays Capital
Justin Newman	Calyon
Bernie Kipping	Commonwealth Bank of Australia
Mike Leighton	Credit Suisse
Angus Greig	Deutsche Bank
Chris Allington	Merrill Lynch
Christopher Nicoll	Morgan Stanley
Roger Hawes	RBS
Mark Iles	Royal Bank of Canada
Chris Freeman	State Street
Chris Kreuter	UBS
Martin Mallett (Chair)	Bank of England

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**Members of the FXJSC legal subgroup as at December 2006**

Name	Firm/Organisation
Gaynor Wood	Bank of America
Chris Allen	Barclays Capital
Julia Elliott	Citi
Leonie Miller	Credit Suisse
Yien Hong	Deutsche Bank
Felicity White	HSBC
David Lewis	JP Morgan
Pania Kouris	Lloyds
Daniel Rubin	Morgan Stanley
Alex Bouchier	RBS
Martin Oakley	Reuters
Alistair Clevely	Standard Chartered
Simone Paul	State Street
Kate Binions	UBS
Anne Moore-Williams	Financial Services Authority
David Bloom (Chair)	HSBC
Jacqueline Joyston-Bechal (Secretary)	Bank of England