

# A review of the work of the London Foreign Exchange Joint Standing Committee in 2007

This article reviews the work undertaken by the London Foreign Exchange Joint Standing Committee during 2007.

## Introduction

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-2007 can be found at the end of this article.

The Committee met six times during 2007; the Annual Dinner of the main Committee followed the November meeting where the main topic of discussion was developments in credit markets. A key feature at the FXJSC meetings during 2007 was the ongoing discussion on market conditions. The work programme of the main Committee and its subgroups included: 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 arrangements; and the publication of the semi-annual turnover survey of the UK foreign exchange market. Much of this work was progressed by subgroups, in particular those representing operations managers, legal representatives and other *ad hoc* specialist working groups. Members of the main Committee also met with representatives of the fund management and hedge fund community during 2007 to discuss market developments.

## Non-Investment Products Code and the work of the operations 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 published by the FXJSC, with contributions from the Sterling Money Markets Liaison Group and the Management Committee of the London Bullion Market Association (LBMA) for the relevant sections. The Code was updated in December 2007.<sup>(1)</sup>

During 2007, the operations subgroup and its working groups, in conjunction with the legal subgroup, worked on preparing changes to the NIPs Code. The latest version of the Code incorporated a new section on dealing mandates and revised the section on confirmations and standard settlement instructions, to reflect current best practice.

The NIPS Code section on trade confirmations was expanded and updated to include a broader description of the processes for the confirmation and settlement of trades with additional practical and technical information. The Code also included a new section on mandates agreed with the Association of Corporate Treasurers. The LBMA provided an update of the section covering wholesale spot, forwards and deposits in gold and silver bullion.

## Work of the FXJSC contingency subgroup

The contingency subgroup, which was established in 2005, continued to highlight business continuity issues relevant to the foreign exchange market. Members of the subgroup kept abreast of current business continuity developments. They were involved in designing a range of contingency scenarios for the operations subgroup to consider as part of business continuity planning.

As follow-up to the special meeting of the FXJSC members held in September 2006 to discuss business continuity, the operations subgroup, in consultation with the contingency subgroup, presented a series of questions to CLS and SWIFT,

(1) See [www.bankofengland.co.uk/markets/forex/fxjsc/nipscode.pdf](http://www.bankofengland.co.uk/markets/forex/fxjsc/nipscode.pdf).

two key service providers to the foreign exchange market, on communication and operational issues during a contingency event.

## Work of the legal subgroup

The legal subgroup was established in 2004 and comprises thirteen members offering in-house counsel from many of the major institutions involved in the wholesale foreign exchange markets in London. The group met three times in 2007. It appointed a new Chair and continued to be very active, making an invaluable contribution through its provision of legal support to the work of the FXJSC main Committee and operations subgroup, and in particular through advising on and drafting the sections to update the NIPs Code.

The legal subgroup also considered master non-deliverable forward (NDF)<sup>(1)</sup> confirmation documentation and contributed to international discussions on the multilateral master confirmation form which was subsequently published on the Emerging Markets Trading Association (EMTA) website. The legal subgroup also continued to liaise with a range of other domestic and foreign legal committees to keep abreast of topical issues relating to the foreign exchange markets.

## Markets in Financial Instruments Directive (MiFID)

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

In July 2007 a question was posted on a public European Commission website asking whether foreign exchange forwards fell within the scope of MiFID. The working group considered the consequences of broadening the scope of MiFID and advised the Committee and the UK authorities accordingly. In 2008 the Commission published an answer to the effect that, consistent with the FSA's view, MiFID does not apply to commercial foreign exchange forward trades.

## Chief Dealers' subgroup

The Chief Dealers' subgroup was established in July 2005. Its membership in 2007 comprised twelve chief dealers active in the London foreign exchange market.

The subgroup met four times during 2007. Members discussed conjunctural and structural developments in the foreign exchange market, focusing on e-commerce, MiFID and, in the latter part of the year, on the impact of the volatile market conditions.

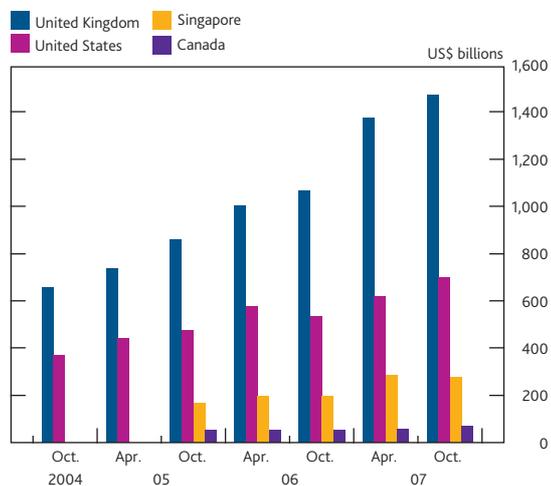
## International co-operation

Liaison between the eight foreign exchange committees based in different financial centres (London, Frankfurt for the euro area, Hong Kong, New York, Singapore, Sydney, Tokyo and Toronto) continued during the year. There were discussions about topical issues in the foreign exchange market and the importance of working together on questions of common interest such as NDF confirmations and turnover surveys.

## International survey results overview

Thirty banks, drawn from committee members and the most active participants in the London foreign exchange market, contributed to the sixth and seventh semi-annual surveys of foreign exchange turnover in London conducted by the FXJSC. The survey continued to show strong growth in London foreign exchange turnover. Average daily turnover<sup>(2)</sup> recorded in the October 2007 survey was \$1,472 billion, 7% higher than the April survey, but some 38% higher than in October 2006, the biggest annual increase since the London survey began (**Chart 1**). By comparison turnover growth recorded by the New York Foreign Exchange Committee over the same period was 31% higher on the year, while Singapore and Canada were up 42% and 34% respectively.

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 Committee.

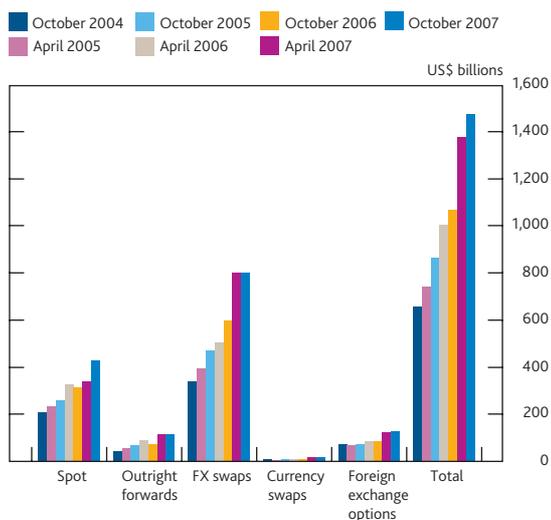
(a) This includes spot, outright forwards, FX swaps, currency swaps and FX options.

The FXJSC survey saw a continuation of growth in all products, except swaps which remained unchanged (**Chart 2**) following the disruption to forward markets during the financial turmoil in the autumn of 2007.

(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) Based on spot, outright forwards, FX swaps and other OTC foreign exchange instruments.

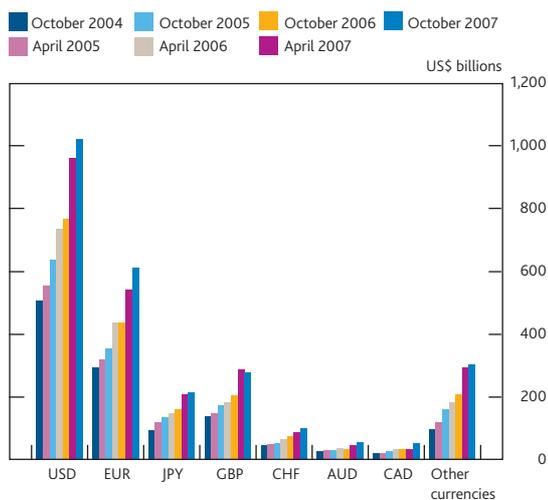
**Chart 2 UK daily average turnover by product**



Source: London Foreign Exchange Joint Standing Committee.

Among the major currencies (**Chart 3**), there was a fall in sterling turnover, despite the overall rise in the market. Turnover concentration in the top five banks fell slightly to 41% from 45%, while the number of banks accounting for 95% of turnover remained broadly consistent at 20 for October 2007. Following consultation among survey participants, conducted by a working group of market participants, a revised reporting form was put together by the survey working group for the 2008 surveys.

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



Source: London Foreign Exchange Joint Standing Committee.

The forthcoming FXJSC survey results for the April 2008 reporting period will be based on the new extended reporting form, which is more detailed than previously. The new return will provide detail on a number of different metrics including improved currency, counterparty, maturity and product data. The April 2008 survey results will be published in Summer 2008.<sup>(1)</sup>

(1) Turnover survey results are available on the Bank of England's website at [www.bankofengland.co.uk/markets/forex/fxjsturnresults080128.pdf](http://www.bankofengland.co.uk/markets/forex/fxjsturnresults080128.pdf).

### Members of the London Foreign Exchange Joint Standing Committee as at December 2007

Name	Firm/Organisation
Brian Welch	Association of Corporate Treasurers
Rob Loewy	Bank of China
Richard Gill	Bank of New York
Kazuki Fukunaga	Bank of Tokyo Mitsubishi UFJ
Ivan Ritossa	Barclays
Henri Foch	BNP Paribas
Alex Merriman	British Bankers' Association
Marcus Browning	Citigroup
Matthew Spicer	Credit Suisse
Zar Amrolia	Deutsche Bank
Heather Pilley	Financial Services Authority
Phil Weisberg	FXAll
Andrew Brown	HSBC
Christopher Wilcox	JPMorgan Chase
Richard Gladwin	Lehman Brothers
Harry Culham	Merrill Lynch
Peter Nielsen	RBS
Marcus Nysten	SEB
Michael Kahn	State Street
James Potter	Tullet Prebon
Darren Coote	UBS
Stewart Lloyd-Jones	Wholesale Market Brokers' Association
Leigh Meyer	Chair, operations subgroup
Susan Revell	Chair, legal subgroup
Paul Fisher (Chair)	Bank of England
Sumita Ghosh/Mika Inkinen (Secretariat)	Bank of England

### Members of the London Foreign Exchange Joint Standing Committee operations subgroup as at December 2007

Name	Firm/Organisation
Michael Douglas	Bank of America
Richard Gray	Bank of England
Duncan Lord	Barclays Capital
Phil Kenworthy	CLS Services
Andreas Gaus	Credit Suisse
Michael Daly	Deutsche Bank
Susan Balogh	Goldman Sachs
Mike Neale	HSBC
Colin Perry	ICAP
Graeme Munro	JPMorgan Chase
Derrick Pearson	Lloyds
Kim Surendran	Mellon Bank
Andrew Harvey	Morgan Stanley
Kerry Peacock	Rabobank
John Moorhouse	Reuters
Isabelle Dennigan	Royal Bank of Scotland
Ian Cowell	State Street
Alan Spalding	SWIFT
Will Deighton	UBS
John Whelan	Association of Foreign Banks
John Ewan	British Bankers' Association
Leigh Meyer (Chair)	Citigroup
Sumita Ghosh/Mika Inkinen (Secretariat)	Bank of England

### Members of the London Foreign Exchange Joint Standing Committee Chief Dealers' subgroup as at December 2007

Name	Firm/Organisation
Danny Wise	Barclays Capital
Robert de Groot	Citigroup
Bernie Kipping	Commonwealth Bank of Australia
Mike Leighton	Credit Suisse
Angus Grieg	Deutsche Bank
Gary Nettleingham	HSBC
Geoff Thorpe	JPMorgan Chase
Chris Nicoll	Morgan Stanley
Mark Iles	Royal Bank of Canada
Roger Hawes	RBS
Christoph Kreuter	UBS
Martin Mallett (Chair)	Bank of England
James O'Connor	Bank of England

### Members of the London Foreign Exchange Joint Standing Committee legal subgroup as at December 2007

Name	Firm/Organisation
Gaynor Wood	Bank of America
Chris Allen	Barclays Capital
Richard Haynes	Citigroup
Julia Elliot	Citigroup
Leonie Miller	Credit Suisse
Yien Hong	Deutsche Bank
Anne Moore-Williams	FSA
Felicity White	HSBC
Andrew Hamper	JPMorgan Chase
Stephen Potts	Lloyds TSB
Daniel Rubin	Morgan Stanley
Alex Bouchier	RBS
Martin Oakley	Reuters
Alistair Clevely	Standard Chartered
Simone Paul	State Street
Kate Binions	UBS
Susan Revell (Chair)	Morgan Stanley
Jacqueline Joyston-Bechal (Secretary)	Bank of England