

# A review of the work of the London Foreign Exchange Joint Standing Committee in 2009

This article reviews the work undertaken by the London Foreign Exchange Joint Standing Committee during 2009.

## Introduction

The London 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, trade associations including 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-2009, and a high-level organogram, can be found at the end of this article. The Committee held six meetings during 2009, as well as an *ad hoc* liaison teleconference during the market-wide business continuity exercise in November.

In the first half of the year, the Committee agreed to undertake a review of the UK foreign exchange (FX) market and its operation during the recent financial crisis. A working group was set up to conduct this review comprising representatives from the membership of the Committee and its subgroups. The working group produced a paper that was endorsed by the Committee and was published on the FXJSC website in September 2009.<sup>(1)</sup> The paper provides a brief overview of the UK foreign exchange market, its size, structure and the regulatory regime under which it operates, and discusses how the FX market performed during the period of financial turbulence. The paper also sets out a range of current market initiatives under discussion by the Committee, and its subgroups, to mitigate risks further.

One of the key findings of the FXJSC paper was that, in contrast to some other asset classes, the FX market remained fully operational throughout the crisis. However, FX liquidity was impaired during the second half of 2008, and this was most pronounced for FX forwards and swaps. Among the potential explanations, it seems that market participants were

primarily concerned about their counterparty exposures. Market confidence started to improve in early 2009 and FX liquidity subsequently gradually picked up.

Overall, the paper concludes that the deep and liquid nature of the FX market and high level of transparency, together with the risk-mitigating structures already in place, such as the use of Credit Support Annexes (CSAs)<sup>(2)</sup> and the settlement services provided by CLS Bank,<sup>(3)</sup> and a well-established code of best practice between market participants, each played a vital role in ensuring that the FX market remained operational during times of high volatility and increasing uncertainty. However, as part of the review, the FXJSC identified a number of key initiatives, many of them of a global nature, to reduce risks further including: encouraging the use of payment-versus-payment mechanisms, such as CLS, across more participants, currencies and products; improving back-office capacity and operational capabilities; strengthening existing CSAs and considering the possible costs and benefits of introducing central counterparty clearing for certain FX products.

As part of these initiatives, a number of infrastructure providers, including LCH.Clearnet, CLS and ICAP, gave presentations to the FXJSC on their services and outlook for the foreign exchange market.<sup>(4)</sup> The operations subgroup has also taken forward its work programme on behalf of the FXJSC, to increase market efficiency and mitigate risks further. Moreover, members of the Committee also met with asset managers and members of the hedge fund community during 2009 to discuss market developments.

(1) See [www.bankofengland.co.uk/markets/forex/fxjsc/fxpaper090923.pdf](http://www.bankofengland.co.uk/markets/forex/fxjsc/fxpaper090923.pdf).

(2) The ISDA Credit Support Annex deals with bilateral security and other credit support arrangements between counterparties for transactions governed by an ISDA Master Agreement.

(3) CLS (Continuous Linked Settlement) Bank is a special-purpose bank that provides a continuous linked settlement service for FX transactions by simultaneously settling the two payments relating to the transaction (‘payment-versus-payment’), and thereby eliminating the risk that one payment could be made and the corresponding payment not received. More information on CLS is available at [www.cls-group.com/About/Pages/default.aspx](http://www.cls-group.com/About/Pages/default.aspx).

(4) Guest speakers at the January and March 2010 meetings were the CME Group and the ICE.

## Work of the FXJSC operations subgroup

The operations subgroup was established in 2002. Its members are operational managers from many major banks active in the London wholesale foreign exchange market as well as representatives from service providers and trade associations.

During 2009, the 'Option Confirmations Automation' working group of the operations subgroup finished its work on establishing best-practice standards for 'vanilla' FX option confirmations. Work has now begun on standardised confirmations for more 'exotic' FX options such as single barrier and double barrier options. A working group was established to work with members of the operations subgroup to consider ways of increasing CLS usage and participation among a wider cross-section of market participants; also to consider possible new products and currencies. Moreover, the operations subgroup established a dialogue with corporates, funds and asset managers, relating to FX market operations and to promote best practices across the market. The subgroup has also continued to strengthen its co-operation with other international committees by joint membership of some of its working groups and by regular liaison conference calls to discuss the workstreams of the individual groups and establish global best practices for operational issues where possible.

## Non-Investment Products Code

The Non-Investment Products (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 FXJSC operations and legal subgroups, the Sterling Money Markets Liaison Group and the Management Committee of the London Bullion Market Association (LBMA) for the relevant sections. The current version of the Code was published in April 2009.<sup>(1)</sup>

## Market-wide business continuity exercise

In November 2009, the London FXJSC took part in a market-wide business continuity exercise which was based on a scenario of significant flooding of various financial centres including Canary Wharf and Manhattan in the United States. The exercise was organised by the tripartite authorities (FSA, HM Treasury and Bank of England) and was designed to assess and improve the UK financial sector's resilience in the event of major operational disruption. The FXJSC was asked to take part representing the UK foreign exchange market. Following initial briefing of the scenario, members of the FXJSC main Committee and the operations subgroup organised a

conference call during the first day of the exercise to discuss their response to the scenario and outline their business continuity arrangements in such an event. In most cases, businesses were able to revert to their contingency arrangements and continue business as usual for the FX market. The views of the FXJSC were collated and a response was submitted to the exercise organisers. A report on the market-wide exercise and lessons learned was published in February 2010.<sup>(2)</sup>

## Work of the FXJSC legal subgroup

The legal subgroup was established in 2004 with some 19 professional members providing in-house legal counsel for many of the major institutions involved in the wholesale foreign exchange market in London. The group met three times in 2009. It continued to make an invaluable contribution through its provision of legal support to the work of the FXJSC main Committee and its operations subgroup; in particular reviewing and preparing the updated NIPs Code for publication and contributing to the FXJSC review of the UK foreign exchange market that was published in September. During 2009, the legal subgroup welcomed guest speakers on topical issues from the Financial Markets Lawyers Group (FMLG), the International Swaps and Derivatives Association (ISDA), the FSA as well as member firms, and kept updated on developments in the global FX market.

In addition, the legal subgroup participated in the FXJSC Operations working group that continued to work on standardising the master documentation on non-deliverable forward (NDF)<sup>(3)</sup> confirmations. The group continued to liaise with a range of other domestic and foreign legal committees to keep abreast of developments in foreign exchange markets.

## Work of the FXJSC Chief Dealers' subgroup

The Chief Dealers' subgroup was established in July 2005. Its membership in 2009 comprised twelve chief dealers active in the London foreign exchange market.

The subgroup met three times during 2009 to discuss conjectural and structural developments in the foreign exchange market, including the performance of various parts of the FX market during the crisis and the impact of potential regulatory changes on market liquidity and risk management behaviour. The group also discussed e-commerce and

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

(2) See [www.fsa.gov.uk/pages/Library/Other\\_publications/Miscellaneous/2010/mwe2009.shtml](http://www.fsa.gov.uk/pages/Library/Other_publications/Miscellaneous/2010/mwe2009.shtml).

(3) 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.

developments in FX market infrastructure, in particular focusing on system outages, contingency arrangements and market transparency.

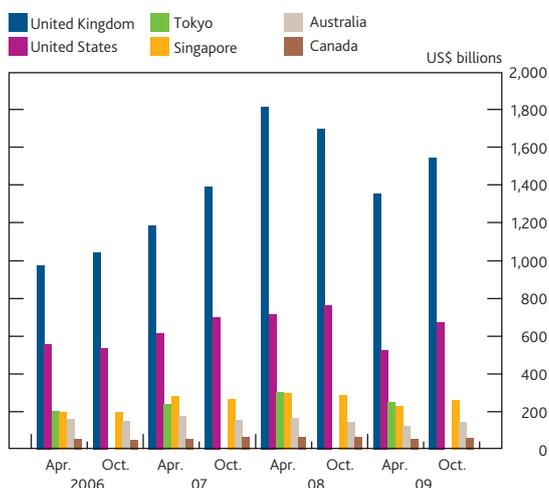
### International co-operation

Liaison between the eight foreign exchange committees based in different international financial centres (London, Frankfurt for the euro area, Hong Kong, New York, Singapore, Sydney, Tokyo and Toronto) continued during the year. In December 2009 the Singapore Committee hosted the third global meeting of the FX committees. Topics discussed included the FXJSC and New York Foreign Exchange Committee papers on the functioning of the FX market, international regulatory reform initiatives, operational lessons learned from the Lehman bankruptcy and its impact on the market.

### International survey results overview

Thirty one banks, representing the most active participants in the London foreign exchange market, including members of the FXJSC, contributed to the tenth and eleventh semi-annual surveys of foreign exchange turnover in London conducted by the FXJSC in April and October 2009. In April 2009, London foreign exchange turnover<sup>(1)</sup> fell 20% from six months earlier, returning to similar levels to the October 2007 survey. However, the October 2009 results showed that turnover has since recovered somewhat. Average daily turnover recorded in the October 2009 survey was \$1,549 billion, 14% higher than the April survey, but still some 9% lower than in October 2008 (Chart 1). This was in line with FX activity in other global centres; turnover growth recorded by the New York Foreign Exchange Committee fell by 11% on the year to October 2009, while activity in the Singapore and Australia FX markets fell

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



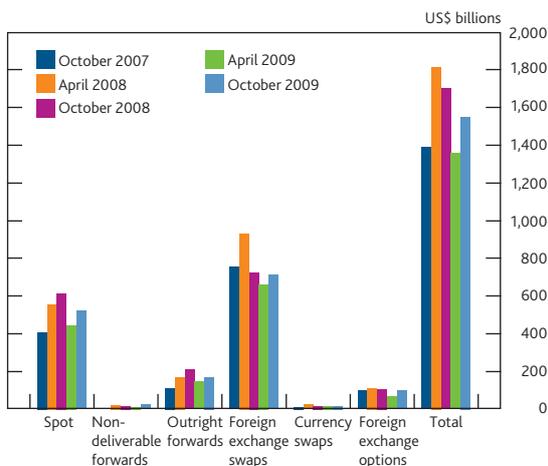
Sources: Australian Foreign Exchange Committee, Canadian Foreign Exchange Committee, London Foreign Exchange Joint Standing Committee, New York Foreign Exchange Committee, Singapore Foreign Exchange Committee and Tokyo Foreign Exchange Market Committee.

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

10% and 2%, respectively. Turnover in the Canadian market was down 10% on the year. Japan does not conduct a survey in October.<sup>(2)</sup>

The increased turnover in the London FX market in October, compared to April, was driven by a 17% rise in spot foreign exchange turnover (Chart 2). Foreign exchange swap turnover also saw a marked recovery, with a rise of 7%. All other products posted increases in turnover from April, although turnover in almost all products remained below October 2008 levels.

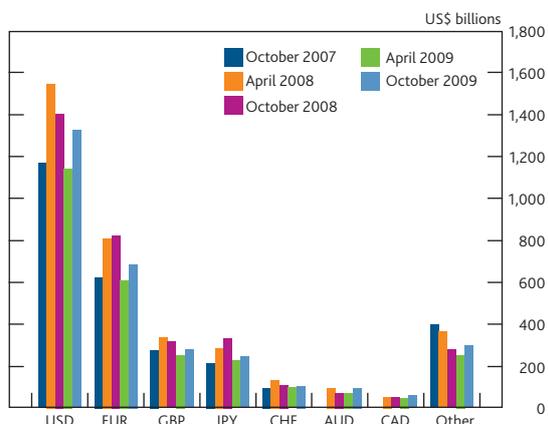
Chart 2 UK daily average turnover by product



Source: London Foreign Exchange Joint Standing Committee.

Turnover of all major currencies increased since April 2009, although there was little change in the relative levels of activity by currency (Chart 3). Turnover in sterling rose 10% in October from April, while turnover in US dollars rose 16%. Australian dollar (+29%) and Canadian dollar (+28%) turnover

Chart 3 UK daily average turnover by currency<sup>(a)</sup>



Source: London Foreign Exchange Joint Standing Committee.

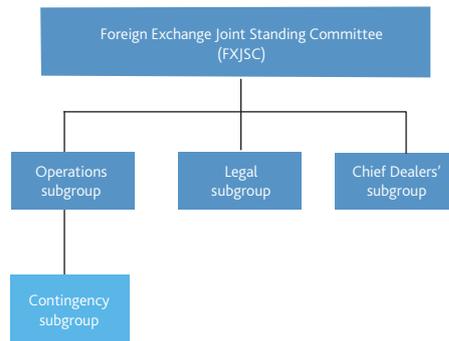
(a) Data on turnover for the Australian dollar and Canadian dollar are only available since the survey was extended in April 2008.

(1) Based on spot, outright forwards, non-deliverable forwards, FX swaps and other OTC foreign exchange instruments.  
 (2) The Tokyo Foreign Exchange Market Committee publishes annual turnover results.

rose most sharply of all the currencies and the level of turnover for October 2009 was the highest recorded in the survey.<sup>(1)</sup> Turnover concentration rose, particularly for over-the-counter (OTC) derivatives. Overall, the top five banks participating in the survey accounted for 54% of overall turnover, from a level of 52% in April 2009, while 20 banks continued to account for 95% of turnover as in previous surveys.

The forthcoming FXJSC survey results for April 2010 will be published in Summer 2010.

**Figure 1** Foreign Exchange Joint Standing Committee: structure



#### Members of the London Foreign Exchange Joint Standing Committee as at December 2009

Name	Firm/Organisation
Brian Welch	Association of Corporate Treasurers
Rob Loewy	Bank of China
Richard Gill	The Bank of New York Mellon
Sean Comer	Barclays
Cassandra Kenny	British Bankers' Association
Vincent Leclercq	Calyon
James Bindler	Citigroup
Rob Close	CLS
Zar Amrolia	Deutsche Bank
Heather Pilley	Financial Services Authority
Phil Weisberg	FXAll
Nick Burgin	Goldman Sachs
Frederic Boillereau	HSBC
Troy Rohrbaugh	JPMorgan Chase
Sarah Edgington	Morgan Stanley
Richard Gladwin	Nomura
Roger Hawes	Royal Bank of Scotland
Richard Leighton	Standard Chartered
James Potter	Tullet Prebon
Darren Coote	UBS
Alex McDonald	Wholesale Market Brokers' Association
Graeme Munro	JPMorgan Chase, Chair, operations subgroup
Susan Revell	Morgan Stanley, Chair, legal subgroup
Michael Cross (Chair)	Bank of England
Grigoria Christodoulou/Sumita Ghosh (Secretariat)	Bank of England

#### Members of the London Foreign Exchange Joint Standing Committee operations subgroup as at December 2009

Name	Firm/Organisation
Dennis Sweeney	Association of Foreign Banks
Simon Bruce	Bank of America
Richard Gray	Bank of England
Duncan Lord	Barclays Capital
Cassandra Kenny	British Bankers' Association
Leigh Meyer	Citigroup
Phil Kenworthy	CLS Services
Andreas Gaus	Credit Suisse
Tony Beels	Deutsche Bank
Graham Warby	Goldman Sachs
Mike Neale	HSBC
Colin Perry	ICAP
Anna Box	ISDA
Derrick Pearson	Lloyds
Andrew Harvey	Morgan Stanley
Matthew Norris	Nomura
John Moorhouse	Reuters
Jeremy Hill	Royal Bank of Scotland
Ian Cowell	State Street
Alan Spalding	SWIFT
Daniel Haid	UBS
Graeme Munro (Chair)	JPMorgan Chase
Grigoria Christodoulou/Sumita Ghosh (Secretariat)	Bank of England

(1) Since April 2008 when the new survey format was introduced capturing an extended range of currency pairs.

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**Members of the London Foreign Exchange Joint Standing Committee Chief Dealers' subgroup as at December 2009**

Name	Firm/Organisation
Ichei Kuki	Bank of Tokyo-Mitsubishi UFJ
Danny Wise	Barclays Capital
Patrick Mauberque	BNP Paribas
Robert de Groot	Citigroup
Bernie Kipping	Commonwealth Bank of Australia
Angus Grieg	Deutsche Bank
Jon Pierce	Goldman Sachs
Gary Nettleingham	HSBC
Roger Hawes	Royal Bank of Scotland
Chris Freeman	State Street
Niall O'Riordan	UBS
Martin Mallett (Chair)	Bank of England
James O'Connor	Bank of England

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**Members of the London Foreign Exchange Joint Standing Committee legal subgroup as at December 2009**

Name	Firm/Organisation
Gaynor Wood	Bank of America
Chris Allen	Barclays Capital
Richard Haynes	Citigroup
Sharon Blackman	Citigroup
Carl Husselmann	Deutsche Bank
Anne Moore-Williams	FSA
Dan Parker	Goldman Sachs
Felicity White	HSBC
Patrick Palmer	JPMorgan Chase
Stephen Potts	Lloyds TSB
Ed Bracken	Morgan Stanley
Martin Oakley	Reuters
Alex Bouchier	Royal Bank of Scotland
Alistair Clevely	Standard Chartered
Kate Binions	Standard Chartered
Simone Paul	State Street
Kurt Crommelin	UBS
Susan Revell (Chair)	Morgan Stanley
Jacqueline Joyston-Bechal (Secretary)	Bank of England