

# FOREIGN EXCHANGE JOINT STANDING COMMITTEE

Tuesday 17 November 2015

Bank of England, Threadneedle Street, London, EC2R 8AH

## MINUTES

### **In Attendance**

<i>Chris Salmon</i>	<i>Bank of England (Chair)</i>
<i>Jacqueline Joyston-Bechal</i>	<i>Bank of England (Legal)</i>
<i>Lisa Gupta</i>	<i>Bank of England (Secretariat)</i>
Ronald Kent	British Bankers' Association
Andrew Rogan	British Bankers' Association
James Bindler	Citi
Heather Pilley	Financial Conduct Authority
Frederic Boillereau	HSBC
Lisa Scott-Smith	Millennium Global (Buy-side Sub-committee Chair)
Isabelle Dennigan	RBC (Operations Sub-committee Chair)
Richard Metcalfe	The Investment Association
Phil Weisberg	Thomson Reuters
James Potter	Tullett Prebon
George Athanasopoulos	UBS
Alex McDonald	Wholesale Markets Brokers Association
<i>Grigoria Christodoulou</i>	<i>Bank of England (Speaker)</i>
<i>Liam Crowley-Reidy</i>	<i>Bank of England (Speaker)</i>
<i>Elizabeth Darkens</i>	<i>Bank of England (Speaker)</i>
<i>Rebecca Jackson</i>	<i>Bank of England</i>
<i>James O'Connor</i>	<i>Bank of England</i>

### **Apologies**

Rob Loewy	Bank of China
Richard Gill	Bank of New York Mellon
Chris Allen	Barclays (Legal Sub-committee Chair)
David Puth	CLS Bank
Gil Mandelzis	EBS BrokerTec

## **1. Apologies for absence**

Apologies were received from Rob Loewy, Richard Gill, Chris Allen, David Puth and Gil Mandelzis. The Chair thanked Andrew Rogan for his contributions to the Committee and welcomed his replacement Ronald Kent.

## **2. Minutes of 22 September meeting and matters arising**

The minutes of the September meeting were agreed.

## **3. Bank of England Paper – The resilience of financial market liquidity<sup>1</sup>**

Liam Crowley-Reidy (Bank of England) introduced the paper, setting out the impact on market liquidity of structural changes in financial markets over the past few years, such as ongoing innovation, changing preferences among investors and regulatory influences.

The Committee considered the impact on liquidity in the FX market as a result of evolving structures and trading approaches. In particular, members discussed the impact of: (i) increasing assets under management; (ii) newer sources of liquidity and; (iii) greater internalisation within institutions to facilitate more efficient inventory management.

## **4. Discussion of recent market developments**

The Committee discussed foreign exchange market conditions, with a focus on the path of monetary policy and the anticipated policy divergence between major global economies. Members broadly agreed that the market was expecting a US rate rise on

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<sup>1</sup> The paper can be accessed here:  
[http://www.bankofengland.co.uk/financialstability/Documents/fpc/fspapers/fs\\_paper34.pdf](http://www.bankofengland.co.uk/financialstability/Documents/fpc/fspapers/fs_paper34.pdf)

16 December and that, barring any surprise, the impact on liquidity would be manageable. Additionally, the Committee discussed the recent attacks in Paris and the potential implications on a US rate rise in December if financial market conditions deteriorated significantly.

Some members noted that FX implied volatility for the one month tenor had recently increased, as the 16 December Federal Reserve Bank of New York decision moved to within the one month period. Other members noted the increased cost of securing US dollar funding to cover the year end reporting date of 31 December, as a result of market uncertainty. The Committee also discussed the impact of a US rate rise on leveraged US dollar positions.

## **5. Global FX Code**

Chris Salmon (Bank of England) urged FXJSC members to remain actively engaged in the Global FX Code (the 'Code') process and contribute as appropriate. FXJSC members had a pivotal role to play in endorsing and adopting the Code in the United Kingdom. The Code would be a standing agenda item at future FXJSC meetings until at least May 2017.

Grigoria Christodoulou (Bank of England) provided an overview of the two Code work streams; one to draft the new Code (led by Simon Potter, Federal Reserve Bank of New York) and a second to develop proposals to promote and incentivise adherence to the new Code (led by Chris Salmon, Bank of England).

On the work stream to draft the new Code Grigoria Christodoulou updated the Committee on the overall approach and timetable, including the engagement

mechanism and timeframe for gathering feedback from the FXJSC ahead of the interim published update in May 2016.

Elizabeth Darkens (Bank of England) outlined the objective of the adherence work stream to identify a framework that will maximise the prospect of widespread and effective adherence, given the unique features of local foreign exchange markets.

Elizabeth Darkens also explained the overall approach of the adherence work stream, in particular what the content of the interim published update in May 2016 may contain.

The work of the Foreign Exchange Working Group (FXWG) is being supplemented by an additional group of private sector market participants – the “Market Participants Group” (MPG). Lisa Scott-Smith, James Bindler and Phil Weisberg provided a brief update on their work on the MPG.

## **6. Regulatory Update**

Heather Pilley (FCA) gave an overview of recent FX regulatory developments to the Committee. In particular she provided: (i) an update on the delivery by the European Securities and Markets Authority (ESMA) of draft regulatory and implementing technical standards for the Markets in Financial Instruments Directive and Regulation (MiFID II); (ii) an update of the European Commission’s work on the definition of foreign exchange derivative instruments under the delegated acts of MiFID II; (iii) an update on European Market Infrastructures Regulation (EMIR) developments, focusing on upcoming margin standards and amendments to trade reporting and; (iv) an overview regarding two sets of proposed regulatory technical standards on indirect

clearing for both over-the-counter derivatives and for exchange-traded derivatives that ESMA will develop under EMIR and Markets in Financial Instruments Regulation (MiFIR) respectively. It was also noted that the Financial Stability Board published an update report for the G20 Antalya summit.

## **7. FXJSC – discussion of future role and membership structure**

The Chair presented the revised FXJSC terms of reference and invited members to feedback comments to the FXJSC Secretariat prior to the terms of reference being ratified at the next FXJSC meeting in January 2016. The Chair also updated on the review being undertaken to ensure that the Committee continued to reflect the diversity of the UK wholesale FX market so it can effectively discharge its mandate.

As part of this review a subset of the FXJSC buy-side sub-committee would be folded into the main FXJSC. The FXJSC operations and legal sub-committees would maintain their existing structure. It is anticipated that the new membership composition should be in place for the next FXJSC meeting in January 2016.

## **8. Updates from the sub-committees**

### *Buy-side sub-committee*

The buy-side sub-committee met on 3 November 2015. The sub-committee considered the impact of central bank policy decisions on market liquidity. The sub-committee additionally discussed the impact of changes to the WMR Benchmark following the recommendations in the FSB FX Benchmark Report and the changing counterparty landscape.

### *Operations sub-committee*

The operations sub-committee met on 17 November 2015 for an away day. The sub-committee received a presentation from a currency strategist in the morning followed by two focus groups in the afternoon, one on the Code and the other on FX settlement resiliency.

On the Code focus group, members discussed how they could actively contribute to the work of the FXWG. On FX settlement resiliency, members ratified the work undertaken thus far by the working group. The sub-committee also agreed a set of scenarios that it would be useful for the working group to consider further, in addition to mapping out communication channels.

### *Legal sub-committee*

The legal sub-committee met on 28 September 2015. The sub-committee agreed a revised set of Competition Guidelines which would be circulated with the agenda for the next FXJSC meeting in January 2016.

## **9. Any other business**

The Chair reminded members of the upcoming April 2016 BIS triennial survey and the key deadlines.

**The next meeting of the FXJSC will be held on 28 January 2016  
at the Bank of England.**