

Minutes

FOREIGN EXCHANGE JOINT STANDING COMMITTEE

19 December 2016

Location: Prudential Regulation Authority, 20 Moorgate, London, EC2R 6DA

Attendees: **Association of Corporate Treasurers:** Sarah Boyce

Bank of China: Wang Yan

Bank of Tokyo-Mitsubishi UFJ: Tetsuro Kono

Barclays: James Hassett

British Bankers' Association: Ronald Kent

Citigroup: James Bindler

CLS: David Puth

FICC Markets Standards Board: James Kemp

Financial Conduct Authority: Jamie Black, Edwin Schooling Latter

Goldman Sachs: Dan Parker (Guest Representative), Michael Weiss (Guest Representative)

HSBC: Frederic Boillereau

Legal & General Investment Management: Stephen Grady

Millennium Global Investments: Lisa Scott-Smith

Royal Bank of Canada: Isabelle Dennigan (Chair Operations Sub-Committee)

Saxo Bank: Kurt Vom Scheidt

Shell: Frances Hinden

Thomson Reuters: Neill Penney

Tullett Prebon: James Potter

UBS: Chris Purves (Alternate)

Wholesale Markets Brokers' Association: David Clark

XTX Markets: Sunil Samani (Guest Representative)

Bank of England: Chris Salmon (Chair), Grigoria Christodoulou (Secretariat), Lisa Gupta (Secretariat), Jonathan Grant (Legal), Jonathan Keane (Legal), Liam Crowley-Reidy (Speaker), Chris Cox, David Edmunds, Yanina Gonzalez, Alex Hutton, Rebecca Jackson, James O'Connor, Thomas Lynch

Apologies: **AXA Investment Managers:** Lee Sanders

Bank of New York Mellon: Richard Gill

Barclays: Chris Allen (Chair Legal Sub-Committee)

BNP Paribas: Adrian Boehler

Deutsche Bank: Russell Lascala

Goldman Sachs: Kayhan Mirza

Insight Investment: Richard Pursell

Rolls-Royce: James Harvey

UBS: George Athanasopoulos

XTX Markets: Zar Amrolia

Minute no.	Minute	Action owner and due date
1.	<p>Welcome and apologies for absence</p> <p>The Chair welcomed all attendees and informed them that Phil Weisberg (Thomson Reuters) had left the Committee and Lee Sanders (AXA Investment Managers) and Neill Penney (Thomson Reuters) had joined the Committee. The Chair also noted that Lisa Gupta (Secretariat) would be stepping down at the start of 2017 and a replacement would be announced in due course.</p> <p>The Chair reminded attendees that whilst this was primarily an additional FXJSC meeting convened to discuss and agree the FXJSC comments on the draft FX Global Code (the 'Code'), the meeting duration had been extended to allow time for some regular updates and discussion of market developments. However given the majority of the meeting was focused on the Code, nominated alternates and guest representatives had been allowed to attend where the main Committee member was unable to do so in line with the process adopted for other additional FXJSC meetings.</p> <p>Apologies were received from Lee Sanders, Richard Gill, Adrian Boehler, Russell Lascale, Kayhan Mirza, Richard Pursell, James Harvey, George Athanasopoulos, Zar Amrolia and Chris Allen.</p>	
2.	<p>Minutes of 14 September and 19 October meetings and matters arising</p> <p>The minutes of the September and October meetings were agreed.</p>	
3.	<p>Regulatory Update</p> <p>Jamie Black (Financial Conduct Authority) provided an update on a number of regulatory matters related to FX including:</p> <ol style="list-style-type: none"> <li data-bbox="331 1137 1222 1283">I. The MiFID II Delegated Regulation on which the FCA had published an implementation consultation paper on 29 September 2016 for comment by 4 January 2017. The consultation paper proposed to issue guidance on the scope of the expanded definition of foreign exchange derivative instruments. <li data-bbox="331 1328 1222 1597">II. Margin requirements for non-cleared derivatives trades noting that the EMIR Regulatory Technical Standards (RTS) would be effective from 4 January 2017. Following efforts from the European authorities to bring the timing of the RTS in line with the implementation schedule set out in the BCBS/IOSCO global standards in the EU, the updated margin requirements for large financial institutions would be effective from 4 February 2017 and all other financial counterparties and systemically important non financials would be effective from 1 March 2017. <li data-bbox="331 1641 1222 1839">III. In response to evidence of poor conduct and investor protection concerns in relation to Contract for Difference products for retail clients, on 6 December 2016 the FCA released a consultation paper, for comment by 7 March 2017, which proposed a range of enhanced disclosure requirements for firms providing these products to retail clients. The consultation paper also outlined the FCA's policy considerations for binary bets. 	
4.	<p>Updates from the sub-committees</p> <p><i>Operations sub-committee</i></p> <p>Isabelle Dennigan (Chair of Operations Sub-committee) provided an overview of work being undertaken by the sub-committee. Isabelle Dennigan also noted that the sub-committee would review and agree its 2017 work priorities at its first meeting in 2017 and would seek the FXJSC Main Committee approval shortly thereafter.</p>	

The Operations sub-committee met on 24 November 2016 and received two presentations: (i) on FX clearing by LCH which covered how the FX product landscape was evolving such as increased NDF volumes and the impact of this on the services LCH offered their clients and; (ii) on the RTGS Strategy Review undertaken by the Bank of England with the publication of a consultation paper in September 2016 setting out the Bank of England's vision for the next generation of its Real-Time Gross Settlement (RTGS) service.¹

Isabelle Dennigan provided an update on recent membership changes undertaken to ensure that the overall sub-committee composition continued to reflect the diversity of the wholesale FX market.

Legal sub-committee

Jonathan Grant (Secretariat of Legal Sub-committee) provided an overview of work being undertaken by the sub-committee.

The Legal sub-committee met on 1 November 2016 and received a presentation from Clifford Chance on recent FX regulatory developments. Jonathan Grant noted that the sub-committee was commencing a review of its membership composition to ensure that it reflected the diversity of the wholesale FX market.

5. **Discussion of recent market developments**

Liam Crowley-Reidy (Bank of England) provided an overview of FX market developments since the September 2016 FXJSC meeting, focused on the 7 October 2016 sterling flash event based on work the Bank of England had undertaken for the BIS Markets Committee.

Attendees discussed the possible drivers behind the event, its potential impact on market structure and function and lessons learned, including any elements that the Code could seek to provide guidance on, for example transparent reference pricing policies. Whilst attendees broadly agreed that there did not appear to be a clear single trigger point for the moves there was some discussion on option-related hedging and the impact that certain order types might have on spot FX, particularly in less liquid trading periods. The general consensus was that moves in spot FX were likely to have been exaggerated by options-related hedging flows as the currency depreciated. Refinements in documentation could potentially help mitigate against this.

Attendees discussed how allowing for greater discretion on behalf of intermediaries could minimise the impact of flash events. Greater discretion, however, could, under certain circumstances, reduce end-investors' willingness to leave resting orders with dealers, leading the Committee to conclude that a balance was required.

Attendees discussed whether flash events were likely to increase in frequency with the continued growth of automated trading.

Attendees agreed that the Swiss franc de-peg in January 2015 had triggered a re-assessment across FX market participants in terms of how they operated and what risk management processes they had in place. This contributed to the FX market's greater resiliency around the sterling flash event.

6. **FX Global Code**

Feedback from working groups on draft text

The Chair reminded attendees that the aim of the agenda item was to approve the feedback the FXJSC would submit to the BIS FX Working Group (FXWG) on the draft Code text that was circulated in early December.

¹ The RTGS Consultation Paper can be found [here](#).

The Chair invited representatives from each of the four working groups to provide their group's high level themes and points for discussion. The four working groups covered: Execution (James Hasset, Barclays); Governance (Frances Hinden, Shell and Michael Weiss, Goldman Sachs); Risk Management and Compliance (Sarah Boyce, Association of Corporate Treasurers) and; a Whole Code review and the Statement of Commitment (Dan Parker, Goldman Sachs). Attendees discussed and agreed the broad themes and more detailed content of the FXJSC response, which the Bank would submit to the FXWG as requested.

Update on adherence

David Puth (CLS) and Lisa Scott-Smith (Millennium Global Investments) provided an update on the work of the Market Participants Group (MPG) Adherence Working Group (AWG) that had been established to consider potential market-based adherence mechanisms as part of the overall adherence workstream. The MPG AWG had reached out to the broader MPG and had shortlisted five adherence mechanisms to continue investigating based on their feasibility, ease of implementation and scope of reach.

Grigoria Christodoulou (Bank of England) provided an overview of the broader adherence workstream including an update on: (i) outreach with associations and infrastructures; (ii) the work the Bank of England was doing for its own adherence to the Code and; (iii) linking Foreign Exchange Committees (FXCs) membership with Code adherence. On establishing a link between adherence to the Code and membership of FXCs, attendees discussed the potential broad transition timeframes based on the current draft Statement of Commitment. The Chair noted that the Terms of Reference for the FXJSC would be reviewed in mid-2017 to reflect that FXJSC membership was linked to Code adherence.

Edwin Schooling Latter (Financial Conduct Authority) summarised some of the key points he made in his 'Conduct Risk in FX Markets' speech in November 2016. He noted that in the UK the Code would be a key component of market conduct standards that staff in authorised firms will have to observe under the Senior Managers Regime.²

Next steps

The Chair updated attendees on the upcoming milestones including that the next FXWG meeting was scheduled to take place on 7 January 2017. The next draft of the Code would be a fatal flaw draft and was scheduled for circulation in early February, with the next meeting of the FXJSC on 10 February 2017 to be used to discuss and agree the FXJSC comments.³

7. Any Other Business

The Chair thanked members for their participation in the annual call test that took place on 22 November 2016 and noted a 71% participation rate.

8. The next meeting of the FXJSC will be held on 10 February 2017 at the Bank of England.

² The Conduct Risk in FX Markets speech can be found [here](#).

³ At time of writing the next FXJSC meeting was scheduled for 9 February 2017, but has subsequently been moved to 10 February 2017 due to the extension of the FX Global Code fatal flaw feedback window to allow FXJSC members maximum time for this review.