

FOREIGN EXCHANGE JOINT STANDING COMMITTEE

Thursday 28 January 2016

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

MINUTES

In Attendance

Sarah Boyce	Association of Corporate Treasurers
Rob Loewy	Bank of China
Richard Gill	Bank of New York Mellon
James Hassett	Barclays
Marcus Browning	Bluecrest Capital
James Bindler	Citigroup
David Puth	CLS
Russell LaScala	Deutsche
Jamie Black	Financial Conduct Authority
Heather Pilley	Financial Conduct Authority
James Kemp	FICC Markets Standards Board
Kayhan Mirza	Goldman Sachs
Frederic Boillereau	HSBC
Richard Pursell	Insight Investment
Lisa Scott-Smith	Millennium Global Investments
James Harvey	Rolls-Royce
Frances Hinden	Shell
Galina Dimitrova	The Investment Association
Phil Weisberg	Thomson Reuters
James Potter	Tullett Prebon
George Athanasopoulos	UBS
David Clark	Wholesale Markets Brokers Association
Zar Amrolia	XTX Markets
Chris Allen	Barclays, <i>Chair Legal Sub-Committee</i>
Isabelle Dennigan	RBC <i>Chair Operations Sub Committee</i>
<i>Chris Salmon</i>	<i>Bank of England (Chair)</i>
<i>Grigoria Christodoulou</i>	<i>Bank of England (Secretariat)</i>
<i>Chris Mills</i>	<i>Bank of England (Secretariat)</i>
<i>Jonathan Grant</i>	<i>Bank of England (Legal)</i>
<i>Tom Belsham</i>	<i>Bank of England</i>
<i>Rebecca Jackson</i>	<i>Bank of England</i>
<i>James O'Connor</i>	<i>Bank of England</i>

Apologies

Ronald Kent	British Bankers Association
Gil Mandelzis	EBS BrokerTec
Stephen Grady	Legal and General Investment Management
Kurt vom Scheidt	Saxo Bank

1. Apologies for absence and welcome to new members

Apologies were received from Ronald Kent, Gil Mandelzis, Stephen Grady and Kurt vom Scheidt. The Chair welcomed the new members of the FXJSC to their first meeting. The Chair noted that members are invited to contribute with a view to furthering the interests of the wholesale foreign exchange market, rather than representing the interests of their individual institutions. Members have an important role to play in shaping and promoting good practices and behaviours in the UK wholesale foreign exchange market. The Chair thanked Heather Pilley for her contributions to the Committee and welcomed her replacement Jamie Black.

2. Minutes of 17 November meeting and matters arising

The minutes of the November meeting were agreed.

3. Revised Terms of Reference¹

The Chair welcomed any final comments on the revised Terms of Reference noting that they will be published on the Bank of England's website along with the November FXJSC meeting minutes following their approval by this Committee. It was noted that until the publication of the Global FX Code, the FXJSC will continue to refer to the Non-Investment Products (NIPs) Code as the source of guidance on good practice in the UK foreign exchange market.

¹ <http://www.bankofengland.co.uk/markets/Documents/forex/fxjsc/fxjsctor.pdf>

4. Revised Competition Guidelines

Jonathan Grant (FXJSC Legal sub-committee) noted that the Legal sub-committee have updated the FXJSC competition guidelines to ensure they reflected recent regulatory developments, and that they remained as clear and helpful as possible. Mr Grant urged the group to familiarise themselves with the competition guidelines and share them with other staff in their organisation involved in FXJSC work.

5. Discussion of recent market developments

James O'Connor (Bank of England) provided a short overview of market developments since the start of the year. The majority of the subsequent discussion amongst FXJSC members focused on sterling following its sharpest depreciation since 2009. Members broadly agreed that a changing UK interest rate outlook among market participants, compounded by uncertainty about the outcome of the forthcoming referendum on EU membership, was weighing on sterling sentiment.

Additionally, the Committee discussed the potential consequences of recent Chinese policy action in FX markets. Developments in China had been driving activity in other major markets as well as so-called emerging market currencies, and there had been renewed attention. The committee spoke of the increased focus on pegged currencies (particularly Hong Kong dollar and the Saudi riyal) evident from the large moves at the start of 2016.

Following publication of the FXJSC turnover survey, the committee discussed whether volumes were likely to continue to fall and their potential impact on liquidity. Most members agreed that liquidity had reduced in recent years and the market was

finding a “new normal”. There was particular focus on a lack of liquidity for smaller currencies being traded out of their time zone.

6. Trading patterns around the WMR fixing

Tom Belsham (Bank of England) presented external research that purported to show predictable trading patterns during the 5 minute WMR fixing window. Some Committee members noted that client interest in trading at the 4pm benchmark remained strong but that, in part because other trading activity tended to withdraw from the market at that time, mechanical TWAP-style execution had the potential to drive a market in a particular direction. There was some discussion among the committee regarding a change to the benchmark methodology, such as increasing the 5-minute window or averaging several different fixing times throughout the day.

7. Global FX Code

Grigoria Christodoulou (Bank of England) provided a brief update on the work of the BIS foreign exchange working group (FXWG) to produce a Global FX Code.² David Puth, Chair of the FXWG’s Market Participants Group (MPG), noted that the MPG have been focussing their efforts on topics related to order handling, execution and information sharing. FX committees globally, including the FXJSC in the UK, were engaged in the Global FX Code process and would provide feedback on draft materials as appropriate going forward. FXJSC members were committed to actively support and contribute to the production of the Global FX Code, engaging with the relevant stakeholders in their organisations, and dedicating their time and resource.

² <http://www.bis.org/about/factmktc/fxwg.htm?m=3%7C332%7C610>

James Kemp (FMSB) provided a brief update on the work of the FICC Markets Standards Board. He noted that while the scope of the FMSB is broader than foreign exchange markets, where they produced material that could be helpful to the development of the Global FX Code these would be made available to the MPG and FXWG for their consideration. And conversely, the FMSB may consider whether elements of the Global FX Code could inform the work they are doing across other wholesale FICC markets.

8. Regulatory Update

Heather Pilley (FCA) provided an update on a number of regulatory matters relating to FX.

Findings from the FCA's recent FX outreach exercise included some firms noting that liquidity in G10 currencies remained deep, and therefore market manipulation would be more likely in other currencies. Further, a range of pricing sources were considered to be available for buy-side market participants. Ms Pilley reminded the Committee that the UK authorities had recommended the creation of a new market abuse regime to cover activity in the spot FX market. She noted that any new regime would draw on the relevant sections of the Global FX Code.

Work was well underway to establish European benchmark legislation. Ms Pilley added that once the EU regime is implemented (expected in late 2017/early 2018) it would supersede the existing UK legislation.

The next meeting of the FXJSC will be held on 11 May 2016.