

FOREIGN EXCHANGE JOINT STANDING COMMITTEE

Wednesday 11 May

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

MINUTES

In Attendance

Sarah Boyce	Association of Corporate Treasurers
Wang Yan	Bank of China
Richard Gill	Bank of New York Mellon
Tetsuro Kono	Bank of Tokyo-Mitsubishi UFJ
James Hassett	Barclays
Marcus Browning	BlueCrest Capital
Ronald Kent	British Bankers' Association
James Bindler	Citigroup
Russell Lascala	Deutsche Bank
James Kemp	FICC Markets Standards Board
Jamie Black	Financial Conduct Authority
Kayhan Mirza	Goldman Sachs
Frederic Boillereau	HSBC
Richard Pursell	Insight Investment
Stephen Grady	Legal & General Investment Management
James Harvey	Rolls-Royce
Kurt Vom Scheidt	Saxo Bank
Frances Hinden	Shell
Galina Dimitrova	The Investment Association
Phil Weisberg	Thomson Reuters
George Athanasopoulos	UBS
David Clark	Wholesale Markets Brokers' Association
Zar Amrolia	XTX Markets
Isabelle Dennigan	RBC <i>Chair Operations Sub Committee</i>
Chris Allen	Barclays <i>Chair Legal Sub-Committee</i>
Guy Debelle (<i>Guest attendee</i>)	BIS Foreign Exchange Working Group Chair ¹
<i>Chris Salmon</i>	<i>Bank of England (Chair)</i>
<i>Grigoria Christodoulou</i>	<i>Bank of England (Secretariat)</i>
<i>Lisa Gupta</i>	<i>Bank of England (Secretariat)</i>

¹More information about the BIS Foreign Exchange Working Group can be found here:
<http://www.bis.org/about/factmktc/fxwg.htm>

<i>Jonathan Grant</i>	<i>Bank of England (Legal)</i>
<i>Elizabeth Darkens</i>	<i>Bank of England</i>
<i>David Edmunds</i>	<i>Bank of England</i>
<i>Chris Mills</i>	<i>Bank of England</i>
<i>James O'Connor</i>	<i>Bank of England</i>

Apologies

David Puth	CLS
Lisa Scott-Smith	Millennium Global Investments
James Potter	Tullett Prebon

1. Welcome and apologies for absence

Apologies were received from David Puth, Lisa Scott-Smith and James Potter. The Chair informed attendees that Gil Mandelzis (EBS BrokerTec) had stepped down from the Committee.

2. Minutes of 28 January, 16 February, 23 March and 22 April meetings and matters arising

The minutes of the January, February, March and April meetings were agreed.

3. FX Global Code

Grigoria Christodoulou (*Bank of England*) provided an overview of how the fatal flaw comments the FXJSC had submitted in April had been reflected in the final Phase 1 draft of the FX Global Code (the 'Code').

The Chair reminded attendees of the upcoming milestones ahead of the publication in May 2016 of Phase 1 materials. In particular, the Chair noted that the Phase 1 materials would be signed off on 25 May at the annual Global Foreign Exchange Committees (Global FXCs) meeting in New York. On 26 May the Phase 1 Code text would be published on the Bank for International Settlements (BIS) website, alongside an interim update on the adherence approach and a statement of support from the members of the BIS Economic Consultative Committee and Global Economy Meeting. Furthermore, on 26 May the Global FXCs would publish a joint statement of support for the Phase 1 materials on each of their national FXCs websites².

² The Global FXCs comprise of the: Australian Foreign Exchange Committee; Canadian Foreign Exchange Committee; ECB's Foreign Exchange Contact Group; Hong Kong Treasury Markets Association; London Foreign Exchange Joint Standing Committee; New York Foreign Exchange Committee; Singapore Foreign Exchange Market Committee; Tokyo Foreign Exchange Market Committee.

The Chair asked attendees for their views on the proposed Global FXCs joint statement. It was suggested that one part of the statement should be strengthened to provide a firmer signal of the market's commitment to adhere to the Code. The Chair agreed with this suggestion. Attendees confirmed that they were content: (i) to approve the Global FXCs joint statement, subject to incorporation of the proposed amendment and; (ii) for the Chair and Stephen Grady (*Legal and General Investment Management*) to sign up to the Global FXCs joint statement on behalf of the FXJSC at the Global FXCs meeting on 25 May.

Guy Debelle (*Chair – BIS Foreign Exchange Working Group*) provided an overview of the next steps for Phase 2 of the Code ahead of full publication in May 2017, including the new topics to be addressed, and the approach and timeframes for engaging market participants. The Chair noted that additional FXJSC meetings would be scheduled to focus on the Code once the timeframe for Phase 2 has been confirmed, which was likely to be in July. The Chair also noted that during Phase 2 there would be greater engagement with market participants on potential adherence mechanisms to the Code.

4. Discussion of recent market developments

James O'Connor (*Bank of England*) provided an overview of FX market developments since the last full FXJSC meeting in January, in particular on market functioning including during more recent episodes of higher short term volatility. Attendees broadly agreed that the higher levels of volatility were being driven by reduced warehousing of risk and increased uncertainty amongst market participants. In particular attendees cited idiosyncratic events such as unexpected central bank policy announcements and the outcome of the upcoming referendum on EU membership.

Attendees noted that activity levels in the FX market had continued to decline, as evidenced through reduced trade volumes and lower average trade sizes. Attendees discussed the potential impact of these factors on liquidity, particularly in relation to the market's capacity to absorb unexpected shocks and when trading non-G10 currencies. Attendees agreed that liquidity had continued to reduce and broadly attributed this to: (i) reduced risk appetite amongst market participants partially due to the decline in risk warehousing capacity by banks as a result of regulatory changes and; (ii) an increase in internalisation rates by banks.

Attendees also briefly discussed the potential market reaction to the forthcoming referendum on EU membership.

5. Regulatory Update

Jamie Black (*Financial Conduct Authority*) provided an update on a number of regulatory matters related to FX.

Items of discussion included: (i) an overview of the scope and implementation timings of the delegated regulation with regards to MIFID II the European Commission had published on 25 April 2016; (ii) an update on the Regulatory Technical Standards on Margin rules published by the European Supervisory Authorities in March 2016, with first stage implementation scheduled for completion by September 2016; (iii) an overview of the EU Benchmark Regulation which was expected to come into effect in June 2016 and to be implemented in UK legislation by the end of 2017 and; (iv) an update on the timings for the Market Abuse Regulation (MAR) due to apply from 3 July 2016.

6. Updates from the sub-committees

Legal sub-committee

Chris Allen (*Chair of Legal Sub-committee*) reported that, since the last Main Committee meeting in January, meetings of the Legal sub-committee had been concerned with reviewing and discussing the draft Code.

Operations sub-committee

Isabelle Dennigan (*Chair of Operations Sub-committee*) provided an overview of the current areas of work being undertaken by the sub-committee.

The Operations sub-committee met on 6 May 2016 and received two presentations on: (i) the structure, approach and challenges of managing treasury operations from a corporate perspective provided by Shell and; (ii) an update on the work being undertaken by the Bank as part of its One Bank Research Agenda to understand the impact of growing innovation in the industry such as digital currencies and distributed ledger technology³.

Isabelle Dennigan outlined the work being undertaken by one of the sub-committee's working groups to take forward the actions arising from an FX sector resilience exercise carried out in 2015 that examined the impact of the failure of a settlement engine on FX market operations. The working group had focused on three key areas covering infrastructure transparency, FX contingency processes and bilateral netting abilities. The working group had created a playbook setting out various scenarios, trigger points and potential solutions. This work was due for completion in summer 2016.

³ The discussion paper can be accessed here:
<http://www.bankofengland.co.uk/research/documents/onebank/discussion.pdf>

In terms of membership composition, Isabelle Dennigan updated attendees on recent membership changes on the sub-committee. Furthermore, Isabelle Dennigan noted that the Chair, Deputy Chairs and Secretariat of the sub-committee would review its membership composition to ensure it was reflective of the diversity of the wholesale FX market. The target for this to be completed was by the next meeting in September.

7. Any Other Business

Elizabeth Darkens (*Bank of England*) informed attendees that the FXJSC Annual Review article would be published in the Bank of England's Q2 *Quarterly Bulletin* and would be circulated to members in draft form for review. The article covered the work undertaken by the FXJSC Main Committee and its sub-committees during 2015.

The next meeting of the FXJSC will be held on 14 September 2016.