

FOREIGN EXCHANGE JOINT STANDING COMMITTEE

Wednesday 14 September 2016

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
Lisa Scott-Smith	Millennium Global Investments
James Harvey	Rolls-Royce
Kurt Vom Scheidt	Saxo Bank
Pamela Gachara (<i>Alternate</i>)	The Investment Association
Phil Weisberg	Thomson Reuters
James Potter	Tullett Prebon
George Athanasopoulos	UBS
David Clark	Wholesale Markets Brokers' Association
Stephen Miller (<i>Guest representative, Operations Sub-committee</i>)	Bank of America Merrill Lynch
Guy Debelle (<i>Guest attendee</i>)	Reserve Bank of Australia, BIS Foreign Exchange Working Group Chair ¹
Tom Jacques (<i>Guest speaker</i>)	Greenwich Associates
Frank Feenstra (<i>Guest speaker – via conference call</i>)	Greenwich Associates
<i>Chris Salmon</i>	<i>Bank of England (Chair)</i>
<i>Grigoria Christodoulou</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>Lisa Gupta</i>	<i>Bank of England (Secretariat)</i>
<i>Jan Lasik</i>	<i>Bank of England (Legal)</i>
<i>Chris Cox</i>	<i>Bank of England</i>
<i>Yanina Gonzalez</i>	<i>Bank of England</i>
<i>Lee Hockins</i>	<i>Bank of England</i>
<i>Alex Hutton</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

Adrian Boehler	BNP Paribas
David Puth	CLS
Frances Hinden	Shell
Galina Dimitrova	The Investment Association
Zar Amrolia	XTX Markets
Chris Allen	Barclays <i>Chair Legal Sub-Committee</i>
Isabelle Dennigan	RBC <i>Chair Operations Sub Committee</i>

1. Welcome and apologies for absence

The Chair welcomed all attendees and informed them that Adrian Boehler (*BNP Paribas*) had joined the Committee.

Apologies were received from Adrian Boehler, David Puth, Frances Hinden, Galina Dimitrova, Zar Amrolia, Chris Allen and Isabelle Dennigan.

2. Minutes of 11 May meeting and matters arising

The minutes of the May meeting were agreed.

3. Conduct and Fair Outcomes Presentation

Tom Jacques (*Greenwich Associates*) provided a presentation summarising some of the initial findings from a pilot survey they conducted on conduct and fair outcomes in the FX market. Attendees discussed: (i) how fair outcomes can be defined and determined; (ii) the scope for broad-based independent surveys to provide information on conduct standards across the industry and how they can be used to improve standards and; (iii) the importance of client feedback and an understanding of what the key components of fair outcomes are from their perspective. Tom Jacques noted that Greenwich had further refined the survey questions following the pilot and were looking to incorporate similar questions into their fixed income, cash equities and corporate interest rate derivatives programmes globally.

4. FX Global Code

Guy Debelle (*Reserve Bank of Australia and BIS Foreign Exchange Working Group Chair*) updated attendees on the work of the BIS Foreign Exchange Working Group

(FXWG) since the Phase 1 material for the FX Global Code (the ‘Code’) was published in May 2016. He also provided an overview of the next steps for Phase 2 including: (i) the new topics that were being addressed; (ii) the process for the development and refinement of examples and; (iii) the approach and timeframes for engaging market participants on the Foreign Exchange Committees (FXCs). The Chair noted that additional FXJSC meetings had been scheduled to discuss the draft Code text and encouraged members to submit nominations for each of the FXJSC Code review working groups.

Grigoria Christodoulou (*Bank of England*) provided an update on the adherence workstream, noting that the adherence initiatives announced in May 2016, including establishing a link between adherence to the Code and membership of FXCs, were being refined and expanded upon. Furthermore, the Market Participants Group (MPG) had established a working group to consider a range of potential market based mechanisms to raise awareness of the Code and promote adherence to it as well as provide input into the overall adherence workstream.

Some attendees noted that ensuring sufficient outreach, both geographically and across different types of institutions, was vital to promulgate the Code and support widespread adoption. Guy Debelle agreed and noted that outreach to market associations and infrastructures were key to achieving this. Accordingly, FXWG members were engaging with associations and infrastructures in their jurisdiction to understand what measures they may put in place to promote and facilitate adherence to the Code among their members.

5. Regulatory Update

Jamie Black (*Financial Conduct Authority*) provided an update on a number of regulatory matters related to FX including: (i) the MiFID II Delegated Regulation definition of foreign exchange derivative instruments which was adopted by the European Commission (EC) in April 2016; (ii) margin requirements for non-cleared derivatives trades noting that the European Supervisory Authorities (ESAs) had published an Opinion on the EC's proposed amendments to the final draft Regulatory Technical Standards in September 2016 and; (iii) the FCA Remediation Programme where the firms involved had completed a detailed assessment of whether their culture, governance arrangements, policies, procedures, systems and controls were appropriate and adequate to manage the risks in their business. Jamie Black noted that the FCA had started to see improvements in the firms' control environments, as well as in their overall culture and the quality of their governance arrangements.

6. Updates from the sub-committees

Operations sub-committee

Stephen Miller (*Bank of America Merrill Lynch, Operations sub-committee member*) provided an overview of the sub-committee's work.

The Operations sub-committee met on 7 September 2016 and discussed: (i) the resiliency of the FX market infrastructure around the UK referendum and any lessons learnt; (ii) the advantages and risks of increasingly automated settlement processes and; (iii) the results of the BIS and FXJSC turnover surveys.

Stephen Miller provided an update on recent membership changes and noted that the review of the overall sub-committee composition, to ensure that it reflected the diversity of the wholesale FX market, was ongoing.

FX Settlement Crisis Management Playbook

Stephen Miller reminded attendees that the Operations sub-committee had created a working group to take forward the actions arising from the 2015 FX sector resilience exercise 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 output of this working group was the FX Settlement Crisis Management Playbook (the 'Playbook') which set out various scenarios, trigger points and potential solutions. This Playbook was endorsed by the Operations sub-committee at their September meeting and would next be presented to the Bank of England's Cross Market Operational Resilience Group (CMORG) as the original sponsor of the work.

Attendees agreed that the Playbook was valuable in providing a common operations framework across a large sector of the market. The Chair thanked the Operations sub-committee for their work and remarked that it was important that the Playbook continued to evolve in line with changes in market structure.

7. Discussion of recent market developments

James O'Connor (*Bank of England*) provided an overview of FX market developments since the May FXJSC meeting, focusing on market functioning around the UK referendum. Attendees broadly agreed that there were a few factors that had contributed to the FX market's resiliency around this event including: (i) the UK referendum was a known event and thus firms had undertaken extensive planning to reduce other risks such as by ensuring sufficient resourcing was in place across business lines and avoiding system developments around that time to ensure a more stable system environment; (ii) the steady flow of news as the results were published was likely to have reduced sudden and sharp market moves and; (iii) appropriate adjustments in risk appetite and active management of client expectations by banks. Attendees discussed how the FX market's reaction and resiliency might differ in the case of an unexpected event.

On the outlook for the major currency pairs up to year-end, attendees thought there were a variety of factors that could cause a repositioning in the market including central bank policy announcements, the result of the US election and the impact caused by the anticipated announcement of the UK invoking Article 50.

8. BIS/FXJSC Turnover Surveys

Chris Cox (*Bank of England*) provided an overview of the key themes from the recently published April 2016 BIS Triennial and FXJSC turnover surveys. The group briefly discussed the results, including: (i) the drivers behind, and potential impact of, the decline in the UK's share of global FX turnover; (ii) the continuation of existing

trends such as increased counterparty concentration and greater liquidity fragmentation and; (iii) the impact of the growth of the Renminbi.

The next meeting of the FXJSC will be held on 19 December 2016.