

Minutes

Foreign Exchange Joint Standing Committee

6 December 2018

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

Attendees: **Association of Corporate Treasurers:** Sarah Boyce
Bank of China: Wang Yan
Citigroup: Giles Page
Deutsche Bank: Russell Lascala, David Reid (Guest Speaker)
European Venues and Intermediaries Association: David Clark
FICC Markets Standards Board: James Kemp
Financial Conduct Authority: Alan Barnes
Insight Investment: Richard Purssell
JP Morgan: Stephen Jefferies
Refinitiv: Neill Penney
Shell: Frances Hinden
The Investment Association: Galina Dimitrova
XTX Markets: Zar Amrolia
Goldman Sachs: Dan Parker (Chair, Legal Sub-committee), John Blythe (Deputy Chair, Operations Sub-committee)
Bank of England: Andrew Hauser (Chair), Rohan Churm, Charlotte Pope-Williams, Sakshi Gupta, Grigoria Christodoulou (Secretariat), James Manchester (Secretariat)

Apologies: **Barclays:** James Hassett
Bank of England: Jonathan Grant
Goldman Sachs: Kayhan Mirza
RBC: Isabelle Dennigan (Chair, Operations Sub-committee)
Schroders: Robbie Boukhoufane

Minute no.	Minute	Action owner and due date
1.	<p>Welcome and apologies</p> <p>Andrew Hauser (Chair, Bank of England) noted the apologies received and welcomed guest speaker David Reid (Deutsche Bank), and John Blythe (Goldman Sachs) attending as the FXJSC Operations Sub-committee representative. The Chair also welcomed James Manchester and Sakshi Gupta (Bank of England), noting that they had joined the Secretariat of the Main Committee and Legal Sub-committee respectively.</p> <p>Three members¹ had rotated off the Committee. The Chair thanked them for all their contributions. The FXJSC Secretariat was currently conducting a membership review as part of its regular schedule with new members expected to join the Committee from Q1 2019.</p>	
2.	<p>Minutes of 13 September 2018 meeting</p> <p>The minutes of the 13 September 2018 meeting were agreed. There were no matters arising.</p>	
3.	<p>FXJSC Forward Agenda 2019</p> <p>James Manchester summarised topics for the 2019 forward agenda that members had suggested ahead of the meeting. The Committee discussed the proposals and put forward additional suggestions. Members noted that algorithmic and high frequency trading, fintech, and the evolving role of platforms were key industry developments that may be worthwhile to discuss at the FXJSC in 2019. Furthermore some members noted that an educational presentation on the future of benchmarks and potential impacts to FX markets would be useful. Over the coming year, the FXJSC would also continue to input into the ongoing work of the Global Foreign Exchange Committee (GFXC).</p> <p>The Chair noted that a finalised forward agenda would be shared with members in due course, and would act as an indicative guide for the Secretariat in organising meetings. Final agendas might nevertheless be amended closer to each meeting to reflect topical developments in the wholesale FX market.</p>	
4.	<p>Market Developments</p> <p>Rohan Churm (Bank of England) introduced a discussion on recent developments in the FX markets and how those markets were responding to a range of current economic and political uncertainties, including those related to the UK's withdrawal from the European Union. Members provided some observations as to how measures of sterling liquidity – including interbank trading volumes and daily ranges – had evolved over recent months, and how sterling liquidity had been impacted by the volatility that arose around key economic and political announcements. These observations were compared against those seen in other G4 currency pairings, and how implied volatilities and risk reversals had adjusted in options markets over the same period. Members also provided general observations as to how different market participants were able to manage the risks inherent in these evolving markets.</p> <p>There was general consensus that liquidity in sterling FX pairs had so far held up and the FX market more broadly had on the whole continued to function effectively.</p>	
5.	<p>Prime Brokerage – Market Trends</p> <p>Russell Lascala and David Reid (Deutsche Bank) delivered a presentation on market trends in FX Prime Brokerage (PB). Mr Lascala explained how</p>	

¹ Rotated members: Chris Allington (Standard Chartered), Adrian Boehler (BNP Paribas) and David Puth (CLS).

PB services aimed to deliver operational and collateral efficiencies for clients through a single contractual relationship with a prime broker. They noted that PB was an integral and growing part of the FX business.

Mr Reid outlined how the FX PB market structure had evolved since its emergence in the 1990s. He noted several milestones throughout this period, including the introduction to key PB services, trends in client usage of PB services and banks offering of FXPB, and how the market adjusted to client needs and macroeconomic conditions. Members reflected on the current state of FXPB including some of the main participants and key client segments, and how the introduction of blockchain technology may impact the market.

Mr Reid also focused on some of the current and future challenges and developments in the market. He noted the move towards unbundling services, and the creation of a credit distribution market. There was significant demand for process automation in scale as well as a desire to move away from paper-based legal frameworks and towards comprehensive use of real-time credit and risk monitoring. He noted that the FX Global Code included specific provisions relating to PB activities (Principle 41), which provides guidance for PB participants in monitoring and controlling trading permissions and credit provisions in real time.

Members welcomed the presentation, and discussed a range of issues posed by it, including the challenges PB providers might face in monitoring clients' activities and the importance of robust due diligence mechanisms.

6. **Global Foreign Exchange Committee (GFXC) 29-30 November meeting update**

Neill Penney (Refinitiv) provided an update on the work of the GFXC and the recent meeting held in Paris on 29-30 November.²

During the first day, the GFXC reviewed the work conducted by its four working groups and agreed next steps. The GFXC discussed the draft papers for publication produced by the Cover and Deal and the Disclosures working groups and considered the comments received from local FX committees including the FXJSC. It was agreed that both papers will be updated and published in early 2019.

The GFXC discussed work on embedding the Code and reviewed the findings from its 2018 survey to measure the effects of the FX Global Code one year on. Overall the preliminary results were encouragingly positive – awareness was good and Code adoption had grown. In particular, the overwhelming majority of respondents reported that the Code had had a positive impact on behaviours and practices both in their own firms and in the market as a whole, with only a tiny minority (approx.1-2%) reporting negative impacts. The GFXC noted that the survey results might also indicate a heightening of expectations that market participants have of their counterparties: one of the key objectives of the Code. Analysis of the survey results was ongoing and the GFXC would publish its findings in early 2019.

The GFXC also reviewed the work of the buy-side outreach working group completed during 2018 and its plans for 2019. A focus of the planned outreach efforts would be clearly articulating the benefits of signing up to the Code for the buy-side community and understanding the challenges faced. This would be achieved via bilateral engagement and by expanding the GFXC's participation in buy-side-focused industry events. The Chair noted that he had recently given a speech on 'Why the buy-side should buy

ACT Secretariat – to circulate the published remarks of Mr Hauser's speech.

² The November 2018 GFXC meeting agenda can be found here: https://www.globalfx.org/events/20181129_agenda.pdf. The final meeting minutes will be published on the GFXC website in early 2019.

into the FX Global Code' at the London FX Hive Live. It was agreed to circulate the published remarks of this speech to members.³

The second day of the GFXC meeting featured updates from local foreign exchange committees, including the FXJSC, and a presentation on reference rate reform and its applicability to FX markets. FXJSC members noted the importance of keeping track of this issue in the Committee's own future work. The GFXC meeting minutes and relevant material would be published in early 2019.

7. **FCA Update**

Alan Barnes (FCA) noted that the FCA had published a consultation seeking views on whether the FCA should recognise the FX Global Code and UK Money Markets Code. The consultation would close on 6 February 2019.⁴

Mr Barnes noted that HMT had published EU Withdrawal statutory instruments (SI) and explanatory information for MiFID2 and MAR, designed to ensure continued protections once the UK was outside the EU.

8. **Update from Legal Sub-Committee**

Dan Parker (Goldman Sachs) provided an update on the Legal Sub-committee meeting held on 3 December, where the main topics included a readout of the GFXC meeting in Paris and an update on matters relating to EU withdrawal. Mr Parker noted that the Legal Sub-committee discussed some of the potential implications around FX settlement dates during the public holiday due to be observed in Japan in April-May 2019, which had been highlighted by the Tokyo Foreign Exchange Committee.

9. **Any other business**

James Kemp (FMSB) provided an update on work of the FMSB relevant to FXJSC members.

The Chair noted that the annual FXJSC contingency call test would be taking place at some point before the next meeting.

The next FXJSC Main Committee meeting was scheduled for 8 February 2019.

³ The published remarks to Mr Hauser's speech can be found here:

<https://www.bankofengland.co.uk/speech/2018/andrew-hauser-the-finance-hive-live-fx-london>

⁴ The FCA consultation can be accessed here: <https://www.fca.org.uk/publication/consultation/cp18-39.pdf>