

# Minutes

## Foreign Exchange Joint Standing Committee

13 September 2018

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Location: Bank of England, 20 Moorgate, London, EC2R 6DA

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

**Bank of China:** Wang Yan

**Barclays:** James Hassett

**CLS:** David Puth

**Deutsche Bank:** Russell Lascala

**European Venues and Intermediaries Association:** David Clark

**FICC Markets Standards Board:** James Kemp

**Financial Conduct Authority (FCA):** Helen Boyd (Guest Speaker)

**Insight Investment:** Richard Purssell

**JP Morgan:** Stephen Jefferies

**Shell:** Frances Hinden

**Standard Chartered:** Chris Allington

**The Investment Association:** Galina Dimitrova

**UBS:** Mark Goodman and Richard Makin (Guest Speakers)

**XTX Markets:** Zar Amrolia

**Goldman Sachs:** Dan Parker (Chair, Legal Sub-committee)

**RBC:** Isabelle Dennigan (Chair, Operations Sub-committee)

**Bank of England:** Andrew Hauser (Chair), Rohan Churm, Jonathan Grant, Charlotte Pope-Williams, James O'Connor, Grigoria Christodoulou (Secretariat), Tom Lynch (Secretariat), Frederic Ladbury (Secretariat).

Apologies: **BNP Paribas:** Adrian Boehler

**Citigroup:** Giles Page

**Financial Conduct Authority (FCA):** Alan Barnes

**Goldman Sachs:** Kayhan Mirza

**Schroders:** Robbie Boukhoufane

**Thomson Reuters:** Neill Penney

Minute no.	Minute	Action owner and due date
1.	<p><b>Welcome and apologies</b></p> <p>Andrew Hauser (Chair) introduced himself as the new Chair of the Committee, and said he was keen that the Committee should be able to have a wide-ranging and robust exchange of views on all aspects of the market under his Chairmanship. The Chair welcomed guest speakers Helen Boyd (Financial Conduct Authority (FCA)), Mark Goodman (UBS) and Richard Makin (UBS). The Chair also welcomed new member Chris Allington (Standard Chartered).</p> <p>Four<sup>1</sup> members have rotated off the Committee. The Chair thanked the four members for all their contributions over the years. This rotation has enabled two<sup>2</sup> new members to join the Committee. The FXJSC Secretariat is currently considering suitable members to rotate on to the Committee to fill the residual capacity.</p> <p>Apologies were received from Adrian Boehler (BNP Paribas), Giles Page (Citigroup), Alan Barnes (FCA), Kayhan Mirza (Goldman Sachs), Robbie Boukhoufane (Schroders) and Neill Penney (Thomson Reuters).</p>	
2.	<p><b>Minutes of 3 May 2018 meeting</b></p> <p>The minutes of the 3 May 2018 meeting were agreed. There were no matters arising.</p>	
3.	<p><b>Impact of algorithmic trading on trading behaviour</b></p> <p>Mark Goodman and Richard Makin (UBS) gave an overview of artificial intelligence (AI) and machine learning in regards to the Foreign Exchange (FX) market. The discussion was focussed around distinguishing what is meant by each term, exploring areas of the FX market already implementing the technologies, the current and potential impact on market structure, and future governance considerations. Data was also highlighted as being crucial in the advancement of algorithmic trading, AI and machine learning. Technological advances are changing the velocity, quantity and diversity of data being collected globally. FX market participants are relying more on data to feed into trading algorithms making access to data increasingly important and competitive.</p>	
4.	<p><b>Global Foreign Exchange Committee (GFXC) and FX Global Code developments</b></p> <p>Rohan Churm and Grigoria Christodoulou (Bank of England), Richard Purcell (Insight Investment) and Helen Boyd (FCA) provided attendees with an update on the FX Global Code (Code) and the work of the Global Foreign Exchange Committee (GFXC).</p> <p>The GFXC met on 27 June 2018 hosted by the South African Reserve Bank in Johannesburg, South Africa. The FXJSC was represented by Rohan Churm, Andrew Hauser (Bank of England) and Neil Penney (Thomson Reuters). The GFXC nominated and elected Simon Potter (Federal Reserve Bank of New York), as Chair for a one-year term. It also nominated and elected Adrian Boehler (BNP Paribas) and Akira Hoshino (MUFG Bank) to serve together as Co-Vice Chairs for a two-year term.</p> <p>The GFXC commissioned work to add an example of negative pre-hedging to</p>	

<sup>1</sup> Rotated members: Frederic Boillereau (HSBC), Itay Tuchman (Citigroup), Kurt Vom Scheidt (Saxo Bank) and Tetsuro Kono (MUFG Bank)

<sup>2</sup> New members: Chris Allington (Standard Chartered) and Giles Page (Citigroup)

the Code. The GFXC received three draft examples for consideration and agreed to add one new example to the Code. It describes a scenario where a trade is over-hedged by double the amount of the initial trade.

The GFXC discussed 'Cover and deal' trading models and initial findings revealed that the term 'cover and deal' was being used a lot more broadly than first anticipated. The GFXC commissioned further work around the role that disclosures play in informing clients on how their trade requests are being handled.

The GFXC Disclosures Working Group concluded that there has been an improvement in the disclosures being made publicly available by market participants. It was noted however that there was a large range in quality and still room for a lot of improvement. The Working Group will develop and publish a list of questions and characteristics that a market participant may consider in developing or reviewing their own disclosures.

The GFXC Secretariat produced 'the FX Global Code at One Year: A Look Back and a Look Ahead'<sup>3</sup> document (the document) to aid discussion at the meeting. The document highlighted key achievements for the Code including that well over 300 Market Participants had, by the time of the GFXC meeting, made Statements of Commitment to the Code, which demonstrated widespread adoption across the global market. The Committee also noted the establishment of 12 public registers, on which Market Participants may make their Statements of Commitment publicly available, and the launch of a Global Index of Public Registers by the GFXC to enable the public to quickly identify whether Market Participants appear on one or more participating public registers.

Feedback received while formulating the document and discussion at the GFXC meeting highlighted a need to get the buy-side more engaged with the Code. In furtherance of this objective the GFXC agreed to establish a group of buy-side liaisons to serve as lead representatives to the GFXC in order to deepen the Committee's ongoing engagement with the buy-side and create a dedicated GFXC Outreach Working Group. The Working Group had met once since the GFXC meeting and was exploring different mechanisms for achieving greater buy-side engagement with the Code.

The document contained a recommendation for the formation of a GFXC Working Group on embedding the Code into the market was agreed by the GFXC. The first task for the Working Group was to prepare and launch the second GFXC Code survey (being launched end-September). The results of the survey were expected to be used as part of the Working Group's deliberations on next steps.

In the United Kingdom, the FCA launched a process for recognising industry codes of conduct. Behaviour that is in line with a 'FCA recognised industry code' will tend to indicate that a person subject to the Senior Managers and Certification Regime is meeting their obligation to observe proper standards of market conduct in relation to unregulated activities. Industry codes are not mandatory and are only one way, not the only way, of complying with the requirement to observe proper standards of market conduct. The FXJSC was in the process of submitting an application for the Code to become a 'FCA-recognised industry code' to further embed the Code into the FX market.

##### 5. **Transparency through data analytics**

Zar Amrolia (XTX Markets) shared his thoughts on the role data analytics can play in increasing transparency in the FX market. Common and shared independent analytics have begun to emerge for algorithmic and benchmark based executions. Independent post-trade analysis using common metrics for Liquidity Providers (LPs) and Liquidity Consumers (LCs) would, in his

<sup>3</sup> [https://www.globalfx.org/docs/fx\\_code\\_one\\_year.pdf](https://www.globalfx.org/docs/fx_code_one_year.pdf)

opinion, allow market participants to optimise their executions and to highlight the quality both of execution by LCs and liquidity provision by LPs.

6. **FCA update**

Helen Boyd (FCA) gave a regulatory update to the group noting the FCA remains pleased with MiFID II implementation. Some firms were continuing to undertake some remedial work but major issues seemed to have been dealt with and markets were functioning well. The FCA was undertaking various supervisory work projects with work on transaction reporting noted as being most relevant for FXJSC members. The FCA held forums on transaction reporting earlier this summer and members were urged to review the slides which have been made available on the FCA website.<sup>4</sup>

The European Securities and Markets Authority (ESMA) proposed some draft guidance on the reporting of FX swaps under Markets in Financial Instruments (Article 26 and 27) and the European Market Infrastructure Regulation (Article 9) on 9 August and requested further information on its implementation from the industry.

7. **Update from Operations Sub-committee**

Isabelle Dennigan (RBC and Chair of Operations Sub-committee) provided an overview of the Operations Sub-committee's work. The Operations Sub-committee held an extraordinary meeting on 22 June to facilitate a discussion on some of the potential operational implications of the UK's withdrawal from the EU. Members identified factors which may generally impact FX market participants, the potential implications of different approaches to these factors, and the merits of these in turn.

The Operations Sub-committee also met on 6 September and agenda items included a presentation from Vodafone on their approach to FX, an overview of Insight Investment's FX operations and an update from CLS regarding their priorities.

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

Dan Parker (Goldman Sachs and Chair of Legal Sub-committee) provided an overview of the Legal Sub-committee's work. The Legal Sub-committee met on 4 September and received two presentations: one from Linklaters on cryptocurrency developments; and a second from Jasbir Dhillon QC of Brick Court Chambers regarding the recent High Court case of *Lehman Brothers Special Financing Inc. v(1) National Power Corporation and (2) Power Sector Asset and Liabilities Management Corp* [2018] EWHC 487 (Comm).

9. **Any other business**

The Chair informed the committee that the FXJSC Secretariat will be reaching out to members to seek their views on which topics they believe the FXJSC should focus on next year. Based on the feedback received, the FXJSC Secretariat will formulate a draft forward agenda for members' consideration at the next meeting.

10. **The next meeting of the FXJSC will be 6 December 2018.**

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<sup>4</sup> <https://www.fca.org.uk/publication/minutes/transaction-reporting-forum-july-2018.pdf>