

Minutes

Foreign Exchange Joint Standing Committee

8 February 2019

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

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

Barclays: Fabio Madar

Citigroup: Giles Page

CLS: Kenneth Harvey (Guest attendee)

European Venues and Intermediaries Association: David Clark

FICC Markets Standards Board: James Kemp

Financial Conduct Authority: Alan Barnes

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

Insight Investment: Richard Pursell

JP Morgan: Stephen Jefferies

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

Refinitiv: Neill Penney

Schroders: Robbie Boukhoufane

Shell: Frances Hinden

The Investment Association: Galina Dimitrova

XTX Markets: Zar Amroliya

Bank of England: Andrew Hauser (Chair), Rohan Churm, James O'Connor, Grigoria Christodoulou (Secretariat), James Manchester (Secretariat), Jonathan Grant (Legal Secretariat), Alex Hutton (Guest Speaker), Alastair Hughes (Guest Speaker), Jugvinder Singh (Guest Speaker)

Apologies: **Bank of China:** Wang Yan

Deutsche Bank: Russell Lascale

RBC: Sian Hurrell

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 attendee Kenneth Harvey (CLS). The Chair also welcomed Fabio Madar (Barclays) and Sian Hurrell (RBC) as new members of the Committee, noting that Ms Hurrell was due to attend from the next meeting. One member¹ had rotated off the Committee.</p> <p>The Chair noted that as part of the membership review there was work ongoing to add further to the membership of the Committee over the coming months.</p>	
2.	<p>Minutes of 6 December 2018 meeting</p> <p>The minutes of the 6 December 2018 meeting were agreed. There were no matters arising.</p>	
3.	<p>Competition Law Guidance Reminder</p> <p>Jonathan Grant (FXJSC Legal Sub-committee) reminded members of the competition guidelines² and that the purpose of the FXJSC was to serve as a forum for discussing issues of common concern to market participants and infrastructure providers operating in the UK's FX market. Mr Grant noted that members should not share any commercially sensitive information, and reminded members of the importance of being familiar with the competition guidelines and sharing them with other staff in their organisations involved in FXJSC work.</p>	
4.	<p>Update on the FXJSC Terms of Reference</p> <p>James Manchester (Secretariat, Bank of England) noted that the Secretariat had reviewed and updated the FXJSC Main Committee Terms of Reference, and provided a summary of the proposed changes that had been made. The Committee had no further comments and agreed to the updated Terms of Reference.</p>	
5.	<p>FMSB Update</p> <p>James Kemp (FMSB) provided an overview of FICC Markets Standards Board (FMSB) work, and summarised some outputs that the FMSB had recently published or were due to publish.</p> <p>Mr Kemp noted that the FMSB had published a Transparency Draft Statement of Good Practice (SGP) on algorithmic trading in FICC markets in mid-2018; the final SGP was expected shortly. Members noted that the FMSB's published research on Behavioural Cluster Analysis had been well received, and the Chair asked the Secretariat to re-circulate copies to the FXJSC. Mr Kemp highlighted a number of areas of ongoing FMSB work including a review of the changing roles of the first line and second lines of defence; algorithmic trading and conduct risk; and transparency and disclosures. It was noted that the Global Foreign Exchange Committee ("GFXC") had a close ongoing interest in disclosures and had a number of pieces of work ongoing in this area. Members stressed the importance they attached to ensuring that the two groups continued to engage closely on this topic going forward.</p>	<p>ACT</p> <p>Secretariat – to circulate the FMSB paper on Behaviour Cluster Analysis to members.</p>
6.	<p>Market Developments</p> <p>Alex Hutton (Bank of England) delivered a presentation on the October 2018 FXJSC Turnover Survey ("the Survey") results³. The headlines were that FX</p>	

¹ Rotated member: James Hassett (Barclays).

² <https://www.bankofengland.co.uk/-/media/boe/files/markets/foreign-exchange-joint-standing-committee/fxjsc-competition-guidelines-2018.pdf>

³ The October 2018 FXJSC Turnover Survey results could be found at:

<https://www.bankofengland.co.uk/markets/london-foreign-exchange-joint-standing-committee/results-of-the-semi-annual-fx-turnover-survey-october-2018>

trading activity remained robust, and the UK remained the largest FX centre globally, with an average daily turnover of \$2,611 billion in October 2018. The UK had also maintained its position as the largest (non-Asian) centre for trading Chinese currency. Members welcomed the presentation and analysis of the Survey results, discussed how structural changes such as 'electronification' and the increase in central clearing may have contributed to the trends, and debated general liquidity trends, including in emerging market currencies and particularly the Chinese renminbi.

Another key finding of the Survey was that there had been a widening gap in the percentage of turnover executed between multi- and single-dealer electronic trading systems. Members discussed some of the merits and weaknesses of using multi- and single-dealer systems which could explain this trend.

Members then moved on to discuss the Japanese yen flash event that had occurred in early Asian trading hours on Thursday 3 January 2019. A range of drivers were identified, including the time of day (at which liquidity was thin given early Asian market trading hours and the Japanese market holiday), and the role of Japanese retail flows, which also appeared to have driven a number of cross-market movements.

Members noted that the yen moves had not been as large as those in sterling in 2016, and had rebounded relatively rapidly without obvious evidence of widespread contagion. Nevertheless, there was a perception that such events were becoming more common. Some members felt that the market was developing its own shock absorbers, in the form of changes to infrastructures and trading practices. But others noted the possibility that more significant tools, such as the sort of 'circuit breakers' seen in equity markets, might be required to prevent the incidence of more significant disturbances. It was noted that continued education for all market participants on what may cause flash events also remained an important tool for future prevention. The Committee agreed to return to these issues.

7. **Transition of LIBOR and future of benchmarks⁴**

Alastair Hughes and Jugvinder Singh (Bank of England) delivered a presentation on the risk-free rate ("RFR") transition work, which leads on from international recommendations that have been made to reform interest rate benchmarks across currencies, in terms of strengthening existing inter-bank offer rates and developing alternative nearly risk-free reference rates. The Sterling Overnight Indexed Average ("SONIA") was launched with a revised definition and methodology in April 2018 to be the RFR for sterling markets, and Mr Hughes illustrated some trends as to how SONIA was being referenced in derivative and bond markets.

The Working Group on Sterling Risk-Free Reference Rates was initially convened by the Bank of England in 2015, and identified and recommended SONIA as the preferred RFR for sterling markets. It was then reconstituted in January 2018 with a broader membership to catalyse a broad-based transition to SONIA by end-2021 across sterling bond, loan and derivative markets. Mr Hughes also outlined the global context and summarised the work of transitioning to RFRs by other National Authorities; in particular, the work of the US' Alternative Reference Rates Committee and the ECB's Euro Area Working Group to transition to their own reformed RFRs.

Mr Hughes drew touchpoints of the RFR transition to the global FX market,

⁴ David Clark (EVIA) declared his potential conflicts of interest as a member of the LIBOR Oversight Committee and the ICE Swap Oversight Committee, as a non-executive director of Thomson Reuters Benchmark Services Limited, and as Chair of the WM/Reuters Oversight Committee. Galina Dimitrova (the Investment Association) declared her potential conflicts of interest as a member of the Working Group on Sterling Risk-Free Reference Rates and the ICE LIBOR Oversight Committee.

noting the main areas of relevance would include the contractual terms and market conventions of FX derivative products, and a need to develop RFR-based internal models (to replace LIBOR-based market models) for updated pricing curves and risk management purposes.

Members discussed the state of industry awareness. It was noted that, particularly since Q3 2018, the levels of general awareness of the move towards RFRs and its implications had increased substantially, with a number of firms setting up dedicated groups to work on this topic. Focus was however initially largely on interest rate risk: thinking on FX specific risks was at an earlier stage.

Beyond the larger trading centres, members noted that the path towards RFRs might be more challenging for some emerging market countries where the lack of sufficient eligible transaction data may lead them to rely on alternative calculation methodologies.

Interested market participants were encouraged to contact the RFR Secretariat (RFR.Secretariat@bankofengland.gov.uk) to support RFR transition work for the FX market.

8. **FCA Regulatory Update**

Alan Barnes (FCA) provided an overview of the various arrangements that HMT and the FCA would put in place if the UK left the EU without an agreement and implementation period. Mr Barnes highlighted the main changes arising from the MiFID II, MAR, and Benchmark Regulation Statutory Instruments which convert EU legislation into UK law, the Temporary Permissions Regime, and the Temporary Transitional Power.

Mr Barnes also noted that the FCA consultation on recognising the FX Global Code had closed. The FCA would provide further information on its conclusions in due course.

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

Isabelle Dennigan (Operations Sub-committee Chair, RBC) provided an overview of the Operations Sub-committee work. The Sub-committee met on 31 January 2019, and agenda items included presentations on Digital Currencies and Distributed Ledger Technology, and an update on the Bank of England's Real-Time Gross Settlement (RTGS) Renewal Programme. Members discussed the potential settlement implications of the unforeseen market holidays due to be observed in Japan during their Golden Week in April-May 2019, and the Operations Sub-committee priorities for 2019. The Q3 2018 updates to the FX Settlement Crisis Playbook ("the Playbook") were discussed, and members identified some possible areas of focus for the next review of Playbook, currently expected towards the end of 2019.

10. **Any other business**

Grigoria Christodoulou (Secretariat, Bank of England) reminded members that the GFXC was finalising two reports on 'Disclosures' and 'Cover and Deal' which had been circulated to members in draft with a deadline for any comments by 8 February 2019. Both reports would then be published on the GFXC website⁵.

The next FXJSC Main Committee meeting was scheduled for 9 May 2019.

⁵ https://www.globalfxc.org/press_releases.htm