

# Minutes

## Foreign Exchange Joint Standing Committee

6 September 2019

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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

**CLS:** Gilbert Lichter – *Guest Representative*

**Deutsche Bank:** Russell Lascala

**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 Purcell

**JP Morgan:** Stephen Jefferies

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

**Refinitiv:** Neill Penney

**Rokos Capital:** Marcus Browning

**Schroders:** Robbie Boukhoufane

**The Investment Association:** Galina Dimitrova

**XTX Markets:** Zar Amroliya

**Bank of England:** Andrew Hauser (Chair), Rohan Churm, Jonathan Grant (Legal Secretariat),  
Grigoria Christodoulou (Secretariat), David Edmunds (Secretariat), Lauren Hustwitt (Secretariat)

Apologies: **Citigroup:** Giles Page

**HSBC:** Richard Bibbey

**Shell:** Frances Hinden

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Minute no.	Minute	Action owner and due date
1.	<p><b>Welcome and apologies</b></p> <p>Andrew Hauser (Chair, Bank of England) noted the apologies received and welcomed new members Marcus Browning (Rokos Capital) and guest attendee Gilbert Lichter (CLS).</p> <p>Fabio Madar's departure from the Committee was noted.</p>	
2.	<p><b>Minutes of 9 May 2019 meeting</b></p> <p>The minutes of the 9 May 2019 meeting were agreed. There were no matters arising.</p>	
3.	<p><b>Market Developments</b></p> <p>Alex Hutton (Bank of England) delivered a presentation on the April 2019 FXJSC Turnover Survey results<sup>1</sup>. Average daily FX turnover had risen by 12% since October 2018, to \$2,860 billion in April 2019. This was a fresh record high, emphasising that FX trading activity had remained robust during the period, with the UK continuing to account for the largest share of global FX turnover. Members noted that the results were higher than initial expectations, and in comparison to some other indicators of FX turnover such as the published CLS data. Gilbert Lichter (CLS) explained that differences in calculation methodologies could account for some of the disparity. The Committee considered other possible explanations for the uptick in FX swap transactions in particular, including in response to regulatory requirements, but did not reach definitive conclusions.</p> <p>As in recent surveys, trading in the Chinese Reminbi had continued to grow, with the UK maintaining its position as the largest non-Asian centre for trading the Chinese currency. Members discussed and concluded this was a trend they expected to continue in coming surveys.</p>	
4.	<p><b>Impact of algorithmic and high frequency trading</b></p> <p>Members discussed recent developments in, and potential market impacts of, algorithmic and high frequency trading in FX markets. It was noted that usage of algorithms has been growing steadily over the past few years, although they still accounted for a relatively small proportion of overall FX spot trading.</p> <p>Buy-side market participants, including hedge funds, were increasingly using algorithms to manage their own risk. The Committee discussed the key drivers contributing to the growth of algorithmic trading, citing: regulation; the rising importance of demonstrating best execution using transparent and verifiable price data; the scope to get greater access to multiple sources of liquidity; and the potential for reducing the market impact of large orders as possible factors. In line with the increasing demand for execution quality monitoring, members noted there had been a proliferation of third party Transaction Cost Analysis (TCA) providers entering the market offering clients the ability to monitor pre-trade and post-trade analytics.</p> <p>From a user perspective, Committee members noted the importance of carrying out appropriate due diligence in order to understand how the algorithms they used worked and what their limitations might be. It was noted that relatively few algorithms were yet able to adapt to changes in market liquidity in an intelligent way. Generally speaking, members felt that</p>	

<sup>1</sup> The April 2019 FXJSC Turnover Survey results can be found at: <https://www.bankofengland.co.uk/markets/london-foreign-exchange-joint-standing-committee/results-of-the-semi-annual-fx-turnover-survey-april-2019>

algorithms were not suited to the execution of very large orders (for example flows relating to merger and acquisition activity) as they would likely be too slow.

The Chair noted that he would be giving a speech on some of these topics shortly, building on this and other discussions with market participants.<sup>2</sup>

5. **Global Foreign Exchange Committee (GFXC) three year review**

Bank staff noted that the GFXC had agreed to discuss plans for its three year review of the FX Global Code at the next GFXC meeting to be held in Sydney in December. In advance of this, members of local Foreign Exchange Committees, including the FXJSC, had been invited to feed back views on the Code and in particular answer two questions, (i) were there any key issues that were currently not addressed in the Code?; and (ii) were there areas where the guidance provided in the Code should change?

The Committee had a detailed discussion on these points. In summary, the Committee felt the Code remained fit for purpose and did not require fundamental change. There were however some areas that the GFXC should consider as part of the review, covering amongst other things further guidance on disclosures and initiatives that could help support further buy-side engagement with the Code. These and other points would be fed into the review process.

6. **FMSB Update**

James Kemp (FMSB) provided an update on some of the current work areas of the FMSB. Mr Kemp noted that the FMSB had a number of active workstreams including, 1) assessing how to embed FMSB standards through potential training partnerships and, 2) a strategic review of possible new focus areas in both the current and future market landscape. Mr Kemp also noted that FMSB working groups were continuing work on topics including managing large trades and disclosures, with the latter being conscious of similar work under discussion at the GFXC.

7. **FCA Update**

Alan Barnes (FCA) noted that ESMA would publish a consultation paper reviewing the Market Abuse Regime (MAR) in mid-October. The consultation paper would include an item on whether spot FX contracts should be covered by MAR. The purpose of the consultation paper was to provide technical advice to the Commission for its report to the Council and the European Parliament on the application of MAR, which it was required to provide under MAR Article 38.

8. **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 5 September 2019, and agenda items included presentations on the April 2019 FXJSC Turnover Survey Results, and discussion on the GFXC's three year review of the FX Global Code. Ms Dennigan noted that the Operations Sub-committee had been in contact with the Operations Managers Working Group, a sub-committee of the Federal Reserve Bank of New York's Foreign Exchange Committee, to discuss potential collaboration between the two groups.

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

Dan Parker (Legal Sub-committee, Chair, Goldman Sachs) noted the Legal

<sup>2</sup> <https://www.bankofengland.co.uk/speech/2019/andrew-hauser-panellist-at-trade-tech-fx-europe-barcelona>

Sub-committee was scheduled to meet on 10 September 2019 and planned to discuss, amongst other things, the GFXC's three-year review of the FX Global Code.

10. **Any other business**

The Chair noted that the Secretariat would be reaching out to members to seek their views on the topics they wanted the FXJSC to focus on next year. Based on feedback received, the FXJSC Secretariat would prepare a draft forward agenda for members' consideration at the next meeting.

**The next FXJSC meeting will be held on 21 November 2019.**