

# Minutes

## Foreign Exchange Joint Standing Committee

2 March 2020

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

Committee **Alan Barnes** – *Financial Conduct Authority*

Attendees: **Andrew Hauser (Chair)** – *Bank of England*

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

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

**Frances Hinden** – *Shell*

**Galina Dimitrova** – *The Investment Association*

**Giles Page** – *Citigroup*

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

**Kevin Kimmel** – *Citadel Securities*

**Marc Bayle de Jesse** – *CLS*

**Marcus Browning** – *Rokos Capital*

**Neill Penney** – *Refinitiv*

**Richard Purssell** – *Insight Investment*

**Robbie Boukhoufane** – *Schroders*

**Rohan Churm** – *Bank of England*

**Russell Lascala** – *Deutsche Bank*

**Sian Hurrell** – *RBC*

**Simon Manwaring** – *Natwest Markets*

**Stephen Jefferies** – *JP Morgan*

**Wang Yan** – *Bank of China*

**Zar Amrolia** – *XTX Markets*

Guest **Andrew Harvey** – *GFMA*

Attendees: **Joann Spadigam** – *Bank of England*

**Sumita Ghosh** – *Bank of England*

FXJSC **David Edmunds** – *Bank of England*

Secretariat: **Grigoria Christodoulou** – *Bank of England*

**Lauren Hustwitt** – *Bank of England*

**James O'Connor** – *Bank of England*

**Jonathan Grant (Legal Secretariat)** – *Bank of England*

Apologies: **James Kemp** – *FICC Markets Standards Board*

**Kayhan Mirza** – *Goldman Sachs*

**Richard Bibbey** – *HSBC*

**Sarah Boyce** – *Association of Corporate Treasurers*

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 Marc Bayle de Jesse (CLS), Simon Manwaring (Natwest Markets) and guest attendee Andrew Harvey (GFMA).</p> <p>The Chair drew the Committee's attention to the Bank of England's statement of 18 December 2019 regarding the misuse of an audio feed of the Bank's press conferences by a third party. He noted that the matter had been referred to the FCA, and that, if they had not already done so, firms should be identifying whether they had been using these services. They should also be assuring themselves whether any such use was consistent both with their statutory responsibilities and with their voluntary undertakings under the FX Global and UK Money Markets Codes.</p>	
2.	<p><b>Minutes of 21 November 2019 meeting</b></p> <p>The minutes of the 21 November 2019 meeting were agreed. There were no matters arising.</p>	
3.	<p><b>Special Discussion: Coronavirus</b></p> <p>The Committee discussed recent market developments related to Covid-19. A rise in volatility had been observed across asset classes, including equity, fixed income and FX, including emerging market currencies. Members discussed how Covid-19 might impact FX market functioning.</p> <p>Members discussed the FX contingency arrangements being put in place, with staff either planning to work from home or at contingency sites, and what the challenges were in ensuring firms were equipped to respond.</p> <p>The FXJSC Secretariat highlighted the availability of the FXJSC, as outlined in the Terms of Reference, as a channel of communication between market participants and relevant UK public authorities, including during times of market instability.</p>	
4.	<p><b>Market Developments</b></p> <p>Joann Spadigam (Bank of England) delivered a presentation on the October 2019 FXJSC Turnover Survey results<sup>1</sup>. Average daily FX turnover had risen by 2% since April 2019 and 11% since October 2019, to \$2.9 trillion marking the largest figure on record. FX swaps had continued to rise in October 2019's data, and members noted some possible drivers – including regulatory requirements and the use of FX swaps as means of funding liquidity management – but did not reach definitive conclusions.</p> <p>USD/EUR remained the most traded currency pair, but USD/GBP and EUR/GBP turnover had increased by 13% and 8% respectively. Members discussed that the increase in sterling turnover could be related to the heightened focus on Brexit during the survey period.</p> <p>Turnover between reporting dealers had increased to a record high of \$1.5 trillion. Some potential reasons mentioned for the increase included: (i) trade compression, where dealers executed additional transactions in order to reduce their overall notional position; (ii) a reduced appetite for holding large open positions and; (iii) a skew towards shorter dated swaps which could result in more contracts being rolled in any one month.</p>	

<sup>1</sup> The October 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-october-2017>

## 5. **FX Settlement**

Rohan Churm (Bank of England) delivered a presentation on FX settlement risk linked to the results of the 2019 BIS Triennial Survey (2019 Survey). The 2019 Survey had shown an increase in daily FX turnover to \$6.6 trillion, estimated to equate to gross daily payment obligations of \$18.7 trillion. Of these obligations, around half (approximately \$8.9 trillion) settled non-payment versus payment (non-PvP), representing a significant increase in the share of non-PvP settlement. And the share of non-PVP settlement had increased in both CLS eligible and ineligible pairs. These were very large numbers – and although some might for example reflect increased internalisation of trading, if even a fraction were a genuine increase in external non-PVP settlement, there could be implications for financial stability. Further investigation was needed, both to understand the increase fully, and to evaluate alternative responses.

Andrew Harvey (GFMA) led a discussion on the recent growth of emerging markets and how this has introduced important settlement and dispute resolution issues for market participants to consider. These issues included the impact on post-trade processes such as contractual documentation, the management of settlement risk, and the resolution of late payments. It was noted that emerging market trade flows tended to be less automated, which may have contributed to some of these issues.

## 6. **Diversity in the FX Market**

The Chair emphasised the importance of promoting and enhancing diversity within the financial services industry. Within the wholesale FX industry, the Committee was well-placed to make meaningful contributions to that endeavour.

Bank officials outlined some of the key initiatives within the Bank's own internal diversity and inclusion strategy. These included: pooled recruitment, sponsorship programmes to support progression into senior management; flexible working; career returners programmes; internal networks; and external charter commitments. Within the Markets Directorate, work was underway to diversify the membership of external committees and market intelligence contacts further.

Members welcomed the presentation, discussed how diversity and inclusion in the London FX market could be further improved, and shared their experiences. Members also discussed how the FXJSC could support and promote diversity in the FX market.

## 7. **Global Foreign Exchange Committee (GFXC)**

An update was provided to members on topics covered at the previous Global Foreign Exchange Committee (GFXC) meeting held on 4-5 December 2019 in Sydney. A key work-stream for the GFXC in 2020 was the three-year review of the FX Global Code ("the Code"). The GFXC had agreed to focus on five main areas, each to be taken forward by a working group:

- **Buy-side Outreach:** focussing on improving buy-side outreach of the Code.
- **Anonymous trading:** focussing on aspects of anonymous trading, such as the use of tags, where additional guidance in the Code may be appropriate.
- **Disclosures:** focussing on ways to accelerate the adoption of more effective disclosures.
- **Algorithmic Trading and Transaction Cost Analysis (TCA):** focussing on reviewing the Code's existing guidance on algorithmic trading and considering how guidance around TCA could be

incorporated into the Code.

- **Execution principles:** focussing on responding to industry feedback on Principle 8 (Clarity about the Capacity in which Market Participants act), Principle 11 (Pre-Hedging) and Principle 17 (Last Look) of the Code.

Grigoria Christodoulou (GFXC secretariat and Bank of England) explained who was leading each group, and provided an overview of their diverse membership. The GFXC working groups were smaller than previously, but would aim to consult with industry more broadly as their work progressed. The plan was for the working groups to provide reasonably firm proposals to the GFXC meeting in June for consideration. The FXJSC would be able to discuss these papers at its June meeting, to feed in views ahead of GFXC discussion.

It was noted that Akira Hoshino's term as vice-chair of the GFXC was due to end later this year, and the process had commenced for selecting a replacement. Local Foreign Exchange Committees had been invited to put forward nominations. It was noted that the other vice-chair, Neill Penney, was a member of the FXJSC, and that geographical diversity would be a factor in assessing nominees.

8. **FCA Update – update provided by written procedure**

The FCA reported that the European Commission had launched a public consultation on the review of the MiFID2/MiFIR regulatory framework<sup>2</sup>. This was intended to inform a review which the Commission was required to provide to the European Parliament and Council. The consultation asked whether the current regulatory framework was adequately calibrated to prevent misbehaviours in spot FX transactions and asked for recommendations to improve its robustness. It also asked what supervisory powers should be granted to national competent authorities to address improper business and trading conduct on the spot FX market.

9. **Update from Operations Sub-committee – update provided by written procedure**

The Operations Sub-committee had met on 13 February 2020. Agenda items had included: a presentation from XTX Markets; a discussion on the Argentine Peso NDF failure in September 2019, as an example of FX settlement risk in emerging markets; and discussion on the annual review of the FX Settlement Crisis Playbook. Members also discussed the forward agenda priorities for 2020.

10. **Update from Legal Sub-committee – update provided by written procedure**

The Legal Sub-committee had met on 11 February 2020. The Legal Sub-committee had received three presentations: (i) on the GFXC meeting held on 4th-5th December 2019, together with an update on the FX Global Code 3-year review process and workstreams; (ii) an update on the LIBOR transition process in the UK, including an outline of the priorities and key milestones published by the Sterling Risk-Free Reference Rates Working Group (RFR WG) for 2020; and (iii) an update on recent developments relating to UK's withdrawal from the EU on 31 January, and developments regarding the future UK-EU relationship in financial services.

11. **Any other business**

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<sup>2</sup> Please see following link:

[https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/2020-mifid-2-mifir-review-consultation-document\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/2020-mifid-2-mifir-review-consultation-document_en.pdf)

Members were thanked for participating in the annual contingency call test held on 12 February 2020.

It was noted that the Committee's terms of reference were currently being reviewed and would be shared with members for comments by written procedure.

**The next FXJSC meeting was scheduled for 9 June 2020.**