
The London Foreign Exchange Joint Standing Committee: a review of 2001

This note reviews the work undertaken by the London Foreign Exchange Joint Standing Committee during 2001.

Introduction and overview

The Foreign Exchange Joint Standing Committee (FXJSC) was established in 1973 under the auspices of the Bank of England, largely as a forum for banks and brokers to discuss broad market issues. The membership of the Committee has grown over the past two years and now includes senior staff from many of the major banks operating in the foreign exchange market in London, as well as brokers, corporate users of the foreign exchange market, and the Financial Services Authority (FSA).

The FXJSC met six times in 2001.⁽¹⁾ For most of the year the main focus of the Committee's work was the completion of the London Code of Conduct for Non-Investment Products (NIPS). In the latter months of the year, and partly prompted by the terrorist attacks of 11 September in the United States, the Committee considered whether the London market should form a group to focus specifically on operational issues in the foreign exchange market. The Committee also discussed the impact of e-commerce developments, which will be a recurring theme of discussions during 2002.

The Committee's work in 2001

Code of Conduct for Non-Investment Products

During the year the Committee, in conjunction with its sister committees in the London bullion and sterling deposit markets, completed the production of the Code for Non-Investment Products.⁽²⁾ The Code sets out standards of good market practice and guidance for market participants, although it has no statutory basis.

In November 2000 a draft of the Code had been published for public consultation and the Committee spent the early part of last year finalising the Code in the light of the comments received from a range of interested parties. A new version of the Code was placed on the Bank of England's web site in August, largely unchanged from the first draft in content but with a number of changes to its format and presentation. For example, a number of references were included to improve the read-across to the relevant publications produced by the FSA, in particular to the Inter-Professionals Conduct chapter of the *FSA Handbook* and the FSA's *Conduct of Business Sourcebook*. While the products covered by the NIPS Code are outside the scope of the FSA's remit, many of the institutions undertaking transactions in non-investment products have been authorised by the FSA for other parts of their business and thus it is important for relevant sections in the NIPS Code and the FSA's regulations to be consistent with one another.

The Code became operational at the end of November 2001 when the FSA assumed its full statutory powers under the Financial Services and Markets Act. As well as being made available on the Bank's web site, 4,500 hard copies of the Code were distributed directly to market participants.⁽³⁾ A number of trade organisations⁽⁴⁾ endorsed the Code, which reflected the market's involvement in and support for the development of the Code. Looking ahead, the FXJSC, together with the other committees that coordinated the production of the Code, will maintain a watching brief to ensure that

(1) The review of the FXJSC's work in 2000 was published in the Summer 2001 edition of the *Bank of England Quarterly Bulletin*.

(2) That is, transactions conducted in the sterling, foreign exchange and bullion wholesale deposit markets, and in the spot and forward foreign exchange and bullion markets.

(3) Further hard copies are available on request from the Secretary of the FXJSC on 020 7601 5976 or by e-mail at nipscode@bankofengland.co.uk

(4) The trade organisations that endorsed the Code were the Association of Corporate Treasurers, the British Bankers' Association, the Building Societies Association, the Chartered Institute of Public Finance and Accountancy, the London Bullion Market Association, the London Investment Banking Association and the Wholesale Market Brokers' Association.

the Code is kept up to date to reflect market developments.

The creation of an operations group for the foreign exchange market

Since September, much of the Committee's time has been spent discussing whether the London market should form a group to focus specifically on operational issues in the foreign exchange market. The Committee had discussed this in the past but the terrorist attacks of 11 September in the United States led market participants to consider the question again.

In the United States the Operations Managers Working Group, a sub-group of the New York Foreign Exchange Committee (a sister committee of the FXJSC), has existed for a number of years and meets regularly to discuss a wide variety of operational foreign exchange issues. As a well-established market-led group that fostered regular communication between market participants, the sub-group was in a position to play an important role in facilitating the effective operation of the foreign exchange market in New York following the terrorist attacks on 11 September. The profile of the group outside the United States was significantly raised by its work over this period.

Within the London foreign exchange market, there has been widespread support for the creation of a group that would meet regularly to focus specifically on operational matters, based partly on the New York model. In principle the group would be comprised mainly of senior professionals currently active on the operational (rather than trading) side of the foreign exchange market. It might also include representation from the international money markets given the synergies between that market and foreign exchange. Such a group would need to maintain close liaison with groups covering the United Kingdom's domestic wholesale markets and trade organisations more widely, and also co-operate closely with those in the major overseas markets. If such a group became established in London then it might also be in a position to undertake a suitable role in times of market stress, for example in coordinating information flow and liaison with the financial authorities, although this would not be the group's primary function. Further discussions on this proposal will continue during 2002 and it is hoped that the first meeting of the operations group might take place in the first half of this year.

E-commerce

During 2000 the Committee discussed developments in e-commerce and their potential impact on the foreign exchange market. The development of Internet-based trading platforms had been identified as a possible driver of structural change in the foreign exchange industry and, while these developments were still at a relatively early stage, they were evolving rapidly and were expected to have a significant impact on the market.

During the year, the Committee set up a sub-group to give some initial consideration to the impact of e-commerce developments on the foreign exchange market and to examine whether the NIPS Code needed to be updated to reflect these developments. The initial conclusion of the sub-group was that it was still early to assess precisely what impact e-commerce would be likely to have on the market, or to set out detailed guidance on market practice tailored specifically to the new trading platforms. Some minor drafting changes were nevertheless incorporated into the NIPS Code in order to emphasise that the Code encompassed all transactions in non-investment products irrespective of the means of execution. A number of issues were identified for further discussion, such as the way in which the relationship between a bank and its customers might change and the security implications of electronic trading. The Committee agreed that the sub-group would reconvene in 2002, once developments were further established, to undertake a more detailed review of e-commerce developments and the impact (actual or potential) on market practice.

Other issues discussed in 2001

The Committee discussed a number of other issues during the year. These included:

- The results of the latest BIS triennial survey of activity in the foreign exchange and derivative markets, which was undertaken in April 2001 and the results of which were published in October.⁽¹⁾ The results were broadly in line with the Committee's expectations.
- Whether confirmations are still necessary where foreign exchange trades are executed through electronic systems.

(1) A discussion of the UK results can be found in the Winter 2001 *Bank of England Quarterly Bulletin*, while the global results are available from the Bank for International Settlement's web site at www.bis.org

- The development of the Continuous Linked Settlement Bank (CLSB) and the implications for market practice.

Looking ahead: 2002

Looking ahead, most of the themes discussed during 2001 will continue to be active issues for the Committee this year. The Committee will aim to progress further the work developing the operations working group and continue to liaise closely on this initiative with relevant parties in the foreign exchange and other markets, both

in London and overseas. As noted previously, the e-commerce sub-group will reconvene to consider further how these developments have affected the foreign exchange market. This too is an area that lends itself to global co-operation and the results of the sub-group's work will therefore be shared with the FXJSC's sister committees abroad. The Committee will continue to monitor any other issues that arise in the foreign exchange market during 2002, such as any necessary changes to the NIPS Code, including those arising from the development of the CLSB.