A review of the work of the London Foreign Exchange Joint Standing Committee in 2004

This note reviews the work undertaken by the London Foreign Exchange Joint Standing Committee during 2004.

Introduction and overview

The Foreign Exchange Joint Standing Committee (FXJSC — 'the Committee') was established in 1973, under the auspices of the Bank of England, as a forum for banks and brokers to discuss broad market issues. The Committee comprises senior staff from many of the major banks operating in the foreign exchange market in London, representatives from brokers, the Association of Corporate Treasurers (ACT) — representing corporate users of the foreign exchange market, the Financial Services Authority (FSA) and the British Bankers' Association (BBA). A list of the members of the Committee, as at end-2004, may be found at the end of this review.

The Committee met six times during 2004. The year's work focused on the implementation of undisclosed principal trading, proposals for and implementation of a semi-annual survey of the UK foreign exchange market, the establishment of a legal subgroup for contingency planning and testing, and developing communication with other international foreign exchange committees.

Undisclosed principal trading

In September 2002, the Committee decided to consult with the foreign exchange market on whether the Non-Investment Products (NIPs) Code(1) should be amended to discourage the practice of undisclosed (or unnamed) principal trading. This is where a fund manager acts as an agent for clients who do not want their identity disclosed to a third party (usually a bank). The Committee was particularly concerned with this practice because the third party is unable to quantify accurately the counterparty credit, legal and operational risks in undertaking the trade. In addition, there is the possibility that anti money-laundering regulations might not be properly observed.

After consultation with the market, the Committee agreed in 2003 that revised wording should be introduced to discourage undisclosed trading. It also recommended that there should be a grace period of one year to allow banks and fund managers to amend their legal agreements and to make the IT system changes required to introduce the change. After further consultation among the other bodies that endorse the NIPs Code,(2) the Committee formally approved the change which was publicised on 28 May 2003.(3)

The Committee has continued to liaise with institutions and industry bodies to monitor banks' and fund managers' preparations to comply with the new requirements of undisclosed principal trading, while maintaining close contact with a number of trade associations, including the Investment Managers Association (IMA).

Reports from market participants indicate that the agreed procedures had been accepted and implemented by market practitioners by the time the one year's grace period ended in June 2004. The Committee received strong support for this initiative from all of the overseas committees that it consulted.

FXJSC semi-annual FX turnover survey of the UK foreign exchange market

The Committee has been aware for some time that there is a lack of timely and robust statistics on turnover in

(1) This is a code of good market conduct for the sterling foreign exchange and bullion wholesale deposit markets, as well as the spot and forward foreign exchange and bullion markets. It can be downloaded from: www.bankofengland.co.uk/markets/forex/fxjsc/nipscode.pdf. The Committee has lead responsibility for its maintenance.
(2) The Money Market Liaison Group and the London Bullion Market Association co-ordinate the NIPs Code in their relevant markets, jointly with the Committee. The Association of Corporate Treasurers, the British Bankers' Association, the Building Societies Association, the Chartered Institute of Public Finance and Accountancy, the London Investment Banking Association, and the Wholesale Markets Brokers' Association also endorse the code.
(3) See www.bankofengland.co.uk/publications/news/2003/058.htm for a copy of this press release.

the foreign exchange market, both in the United Kingdom and globally. The BIS co-ordinates a detailed survey of market turnover, but this only takes place every three years. Though a number of qualitative trade publication surveys are also available, no other regular quantitative analyses exist in this area.

Consultations with member banks suggested that more regular collection of a limited amount of turnover data in a format similar to that required by the BIS would not prove too onerous and would generate a number of benefits. The main advantage would be the provision of improved statistics on market turnover, thereby enabling the participating banks to monitor their own market share, and to view trends in foreign exchange market turnover. More frequent data would also be of wider interest and may help improve the quality of the BIS statistics.

The first data were collected by the FXJSC in April 2004 as a pilot exercise, alongside the BIS triennial survey, to enable some benchmarking. In October 2004, 31 financial institutions active in the UK foreign exchange market participated in the first turnover survey for the Committee. The results of this survey were published on 24 January 2005 and a summary of those results is presented in Tables A and B below (more detailed data are available at www.bankofengland.co.uk/markets/forex/fxjsc/index.htm). The results of subsequent surveys will continue to be published at six-monthly intervals.

The current format of collecting turnover data for one entire month split by five products, ten currency pairs, and six types of counterparty on a semi-annual basis was designed to give a balance between the need for timely and comprehensive data and the reporting burden placed upon financial institutions by the collection of the data.

As well as being collected more frequently than the data contained in the BIS triennial survey, there is one small difference in the reporting methodology in the FXJSC survey. The basis of reporting for the JSC survey is the location of the price-setting dealer. However, for the 2004 BIS triennial survey, the basis of reporting was changed to be the location of the sales desk for the trade. Figures from the April 2004 pilot JSC survey, when compared to the April 2004 BIS triennial survey, indicate that the alternative reporting basis used by the BIS may have been consistent with a slightly lower level of reported UK foreign exchange market turnover.

Table A
Reported UK foreign exchange and OTC foreign exchange derivatives market turnover(a)

Daily averages in US$ billions

Instrument	October 2004
Spot transactions	207
Outright forwards	40
Foreign exchange swaps	335
Total 'traditional' foreign exchange turnover	**582**
Currency swaps	5
Foreign exchange options	70
Total OTC foreign exchange derivatives turnover	**75**

(a) Adjusted for double counting of deals between survey contributors.

Table B
Reported UK foreign exchange and OTC foreign exchange derivatives market turnover by currency pair(a)

Daily averages in US$ billions and percentage shares

Currency pair	October 2004	
	Amount	Proportion of total (%)
USD/EUR	239	36
USD/GBP	110	17
USD/JPY	78	12
USD/CHF	31	5
USD/AUD	28	4
USD/CAD	20	3
EUR/GBP	26	4
EUR/JPY	14	2
EUR/CHF	13	2
GBP/JPY	2	0
Other currency pairs	96	15
All currency pairs	**657**	**100**

(a) Adjusted for double counting of deals between survey contributors.

A similar survey was also conducted for the New York market in October 2004 by the New York Foreign Exchange Committee, the results of which can be found on their website: www.newyorkfed.org/fxc/. The two committees maintained contact during the preparations for their surveys and co-ordinated on the timing of their releases.

The work of the legal subgroup

In Summer 2004, a legal subgroup of the FXJSC was established. The subgroup comprises approximately 15 members.

The key objective of the legal subgroup is to advise the main Committee on issues relating to the foreign exchange market and to progress the work of the operations subgroup.

In the latter part of 2004, the legal subgroup considered draft wording on confirmations, and issues relating to mandates and prime brokerage raised by the relevant working groups.

The work of the operations subgroup(1)

The operations subgroup has received regular updates of developments in and the impact of Continuous Linked Settlement(2) (CLS) on the foreign exchange market. CLS is a payment-versus-payment settlement system for foreign exchange transactions that has eliminated the principal risk for those trades that it settles. CLS volumes and values have grown strongly since the system was launched in September 2002 and the daily value of transactions settled now frequently exceeds $2 trillion — a significant proportion of the interbank market. Third-party membership of CLS, the introduction of new currencies and opportunities to expand the CLS service to provide a bilateral netting service for non-eligible currencies have been discussed by the subgroup.

The subgroup has also set up working groups chaired by FXJSC members of the subgroup, as a useful mechanism for allowing experts at member banks and in the wider market to participate in, and progress, the work of the subgroup. This includes, for example, a working group to review existing NIPs Code guidance relating to Standard Settlement Instructions (SSIs) and to study the possibility of standardisation in the provision, delivery and structure of SSI data.

The subgroup has also continued to keep the special recommendations of the Financial Action Task Force on Money Laundering (FATF)(3) under review, monitored discussions regarding the possible introduction of a central clearing counterparty for the London foreign exchange market and reviewed developments in the outsourcing of settlement functions abroad. It has also investigated the possibility of amending or augmenting the guidance on best market practice for confirmations contained in the NIPs Code with a particular focus on enhancing the use of confirmations in post-trade processes and best practice for non-bank foreign exchange trade confirmations.

In November, a working group was established to review mandate letters in circulation in the market. The review concluded that it would be helpful if the legal subgroup could draft three standard documents: a basic market-standard mandate template for providing operational information to which companies and banks could refer; a standard rebuttal letter to be sent by banks when they receive mandate requests to which they do not wish to agree; and a letter for the JSC along the lines of the letter sent by the New York Foreign Exchange committee, restating the NIPs Code. As a result of this work, the language in the NIPs Code may be updated.

Contingency planning

During 2004, the Committee and its operations subgroup continued to focus on the issue of contingency planning. The contingency subgroup of the FXJSC continues to play an active role in the arena of contingency planning. The subgroup is focusing on facilitating and refining the contingency plans for the group, including conference calls, and highlighting issues relevant to members of the committee on business continuity issues. The Committee and the operations subgroup have set up a secure website, access to which is restricted to members of the two groups. This website contains members' emergency contact details and would be used to exchange information during times of market disruption.

Both the main committee and operations subgroup participated in a market-wide business continuity test held on 22 November 2004. This was organised by the United Kingdom's tripartite financial authorities (HM Treasury, the Bank of England and the Financial Services Authority) and included a wide range of market participants. The main committee and operations subgroup successfully conducted conference calls as part of the test scenario, and another such exercise is to take place in November 2005 as part of the tripartite authorities' longer-term strategy for market-wide exercises.

Other subgroups

Following the report included in the Summer 2003 edition of the *Quarterly Bulletin*(4) on e-commerce developments in the foreign exchange market, the

(1) In 2002 the Committee decided that an operations subgroup, consisting of technical settlement experts including the main infrastructure providers, should be created. Its remit is to cover issues relating to contingency planning; to act as a forum for the discussion of technical operational issues; to raise with the Committee the potential or actual implications of developments in these operational issues for market practice; and where appropriate to suggest actions to improve procedures or update the NIPs Code.
(2) For more details see the *Bank of England Quarterly Bulletin*, Autumn 2002, pages 257–58. For more information on CLS see www.cls-group.com.
(3) Particularly Special Recommendation VII, which covers customer information to be included in cross-border payment messages. See www.fatf-gafi.org for further details of the FATF Special Recommendations.
(4) See www.bankofengland.co.uk/publications/quarterlybulletin/qb030208.pdf.

Committee has paid particular attention to developments in this area with a focus on the distribution of liquidity in the market. In 2004, the Committee began to prepare terms of reference for the formation of a new subgroup to monitor and report on developments in e-commerce and prime brokerage. Also, planning began for an inaugural meeting of chief foreign exchange dealers.

The operations subgroup set up a working group to prepare for the global operations conference to be hosted by the FXJSC operations subgroup in London in 2005.

International co-operation

Following the Joint Standing Committee's 30-year anniversary conference in November 2003, the Committee has been pursuing its objective of fostering and improving links with the other international foreign exchange committees in 2004. To this end, the Secretary of the Committee set up a quarterly liaison conference call with the secretary of the New York Foreign Exchange Committee, the Canadian Foreign Exchange Committee and the secretariat of the ECB committees. It is hoped that the secretaries of some of the other international sister foreign exchange committees may be able to participate in these conference calls in 2005.

Turkish lira conversion

Following a presentation by the London representative of the Turkish central bank, the operations subgroup consulted with firms on their plans for the confirmation of Turkish lira trades after the conversion from old Turkish lira to the new Turkish lira. The conversion entailed the removal of six noughts from the quoted currency using the conversion rate of 1 YTL = 1,000,000 TRL) and was effective 1 January 2005. It was most relevant to forward FX transactions. The operations subgroup co-ordinated with the New York Foreign Exchange Operations group, a subgroup of the New York Foreign Exchange Committee, to release recommendations on the post-conversion arrangements.

The joint international statement released by the FXJSC operations subgroup and the New York Foreign Exchange committee operations managers working group reported the results of the consultation. This consultation found that the majority of members intended to cancel old Turkish Lira (TRL) trades with a value date after the effective conversion date (1 January 2005) and they suggested re-submitting and re-confirming these trades. The original value date for a trade would then be used when re-submitting it for settlement. The statement was published on 7 December 2004.

Members of the London Foreign Exchange Joint Standing Committee as at December 2004

Name	Firm/Organisation
John Nelson	ABN Amro
Shigeyasu Kobayashi	Bank of Tokyo-Mitsubishi
Ivan Ritossa	Barclays
John Simmonds	Calyon
Jeff Feig	Citigroup
Matthew Spicer	CSFB
Gordon Wallace	Deutsche Bank
Andrew Brown	HSBC
Adam Burke	JPMorgan Chase
Marcus Browning	Merrill Lynch
Paul Blain	Morgan Stanley
Peter Nielsen	Royal Bank of Scotland
Nick Beecroft	Standard Chartered
Michael Kahn	State Street
Darren Coote	UBS
Jack Jeffery	EBS
Phil Weisberg	FXAll
John Herbert	ICAP
Brian Welch	Association of Corporate Treasurers
Alex Merriman	British Bankers' Association
Mike Beales	Wholesale Markets Brokers' Association
David Bloom	HSBC Chair, legal subgroup
Oonagh O'Neill	Morgan Stanley Chair, operations subgroup
David Hacon	Financial Services Authority
Paul Fisher (Chair)	Bank of England
Sumita Ghosh/Howard Jones (Secretariat)	Bank of England

Members of the Foreign Exchange Joint Standing Committee operations subgroup as at December 2004

Name	Firm/Organisation
Jos Dijsselhof	ABN Amro
Michael Douglas	Bank of America
Chris Mann	Bank of England
Barry Holland	Barclays
Leigh Meyer	Citibank
Robert Bishop	CSFB
Darryl Webb	Deutsche Bank
Susan Balogh	Goldman Sachs
Chris Roberts	HSBC
Mike Neale	JPMorgan Chase
Derrick Pearson	Lloyds
Kim Serendran	Mellon Bank
Richard White	Royal Bank of Scotland
Stephen Smith	State Street
William Deighton	UBS
John Hagon	CLS Services
Neil Penney	FXAll
Colin Perry	ICAP
John Moorhouse	Reuters
Adrian Walton	SWIFT
John Whelan	Association of Foreign Banks
Alex Merriman	British Bankers' Association
Oonagh O'Neill (Chair)	Morgan Stanley
Sumita Ghosh/Howard Jones (Secretariat)	Bank of England

During the year, the following members stood down from the main committee: Robert Loewy (HSBC), Peter Murray (Morgan Stanley), Geoff Grant (Goldman Sachs) and Simon Hills (BBA).