

A review of the work of the London Foreign Exchange Joint Standing Committee in 2014

This article reviews the work undertaken by the London Foreign Exchange Joint Standing Committee during 2014.

Introduction

The London Foreign Exchange Joint Standing Committee (FXJSC — hereon, '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 wholesale foreign exchange (FX) market in London, representatives from brokers, trade associations including the Wholesale Markets Brokers' Association (WMBA), the Association of Corporate Treasurers (ACT) — representing corporate users of the FX market, the Investment Association — representing UK investment managers and the British Bankers' Association (BBA). The Financial Conduct Authority (FCA) is also a member. A list of the members of the Committee as at end-2014 can be found at the end of this article. The Committee met six times during 2014.

The Committee continued to focus on the main issues impacting the functioning of, and liquidity within, the FX market. The key items of discussion during 2014 were the Fair and Effective Markets Review⁽¹⁾ (FEMR), and the Financial Stability Board's (FSB's) FX Benchmark consultation and recommendations. The Committee continued to assess the impact of both EU and international regulatory reforms on FX markets. The Committee also discussed drivers of FX volatility during 2014, such as developments in emerging markets, the Scottish referendum and the implications of sanctions on Russia on over-the-counter (OTC) transactions.

The Committee received presentations from a number of guest speakers during the year. The Global Financial Markets Association's Global FX Division summarised the quantitative study they undertook on the OTC FX options market. A guest speaker from Bluecrest Capital provided an overview of their research into FX market liquidity trends. In addition the FCA gave a presentation on the revised Markets in Financial Instruments Directive and Regulation (MiFID2), while a guest speaker from Kingfisher plc provided a view of FX markets from a corporate perspective.

Non-Investment Products (NIPs) Code

The NIPs Code is a voluntary code of good market practice drawn up by market practitioners covering the FX market in the United Kingdom as well as the markets for wholesale bullion and wholesale deposits. The Code is published by the FXJSC, with contributions from the FXJSC Operations and Legal subgroups, the Sterling Money Markets Liaison Group and the Management Committee of the London Bullion Market Association for the relevant sections. The current version of the Code was published in November 2011.⁽²⁾

The FXJSC was one of eight FX committees in major financial centres to endorse the 'Global Preamble Codes of best market practice and shared global principles',⁽³⁾ which was finalised at the annual meeting of the global FX committees in Tokyo, Japan in March 2015. The Preamble seeks to provide high-level globally harmonised guidance and covers topics such as personal conduct, confidentiality and market conduct, and policies for execution practices reflecting a number of the FSB's FX Benchmark recommendations.

The FXJSC is also awaiting the recommendations of FEMR and the finalisation of the subordinate legislation for the European Market Infrastructure Regulation (EMIR) and MiFID2 before considering publishing an update to the NIPs Code.

Work of the FXJSC operations subgroup

The operations subgroup was established in 2002. Its members are operations managers from many major banks active in the London wholesale FX market, as well as representatives from service providers and trade associations and also from the FCA. The group met six times in 2014.

(1) More information on the Fair and Effective Markets Review can be found at: www.bankofengland.co.uk/markets/Pages/fmreview.aspx.

(2) The NIPs Code can be accessed at: www.bankofengland.co.uk/markets/Documents/forex/fxjsc/nipscode1111.pdf.

(3) The Global Preamble can be accessed at: www.bankofengland.co.uk/markets/Documents/forex/fxjsc/globalpreamble.pdf.

During the year, the subgroup continued to discuss themes impacting FX market operations, including developments in financial regulations and technology. The subgroup received presentations on MiFID2, and cyber security definitions and best practice. CLS provided a summary of their FX settlement survey results and SWIFT introduced FX trade volume analysis they had undertaken using their messaging data. The operations subgroup work plan for 2014 included topics such as analysing synergies between FX turnover surveys, exploring ways to improve EU trade reporting, and looking at ways to improve post-trade risk management processes. On the latter two working groups, the subgroup agreed to contribute their final findings and analysis completed in 2014 to other international forums following similar issues, such as the Global Financial Markets Association.

Work of the FXJSC legal subgroup

The legal subgroup was established in 2004 and comprises fifteen professionals providing in-house legal counsel for many of the major institutions involved in the wholesale FX market in London. The group met three times in 2014.

It continued to make an important contribution through its provision of legal support to the work of the FXJSC main Committee and its subgroups. During 2014, the legal subgroup welcomed guest speakers from the International Swaps and Derivatives Association and Allen & Overy on Ukraine and Russian sanctions, as well as speakers from member firms to discuss how regulatory change affects the FX market. The group also discussed developments in the global FX market including the ongoing FEMR work.

The legal subgroup continued to liaise with a range of other foreign legal committees to keep abreast of developments in FX markets.

Work of the FXJSC buy-side subgroup

The buy-side subgroup met four times in 2014, following the subgroup's reconstitution in November 2013. The subgroup membership includes representatives from the buy-side institutions active in wholesale FX markets.

The subgroup discussed changes in market conditions, including FX market liquidity in domestic and emerging markets. Initiatives such as the FSB FX Benchmark consultation and FEMR were also discussed. The subgroup continued to consider the impact of a changing regulatory environment on market conditions, including the implementation of the EMIR.

Work of the FXJSC chief dealers' subgroup

The chief dealers' subgroup was established in July 2005. The subgroup did not meet in 2014 and has formally been disbanded.

International co-operation

Liaison between the eight FX committees based in different international financial centres (London, Frankfurt for the euro area, Hong Kong, New York, Tokyo, Singapore, Sydney and Toronto) continued during the year. In April 2014, the Australian Foreign Exchange Committee hosted an annual global meeting of the FX committees.⁽¹⁾ Topics discussed included assessing changes in market structure and the evolving execution landscape, the FSB's FX Benchmark work, FX industry codes of conduct and international regulatory reform initiatives such as new EU trade reporting requirements for derivatives and US Swap Execution Facility regulations.

International survey results overview

Thirty banks representing the most active participants in the UK FX market contributed to the 20th and 21st FXJSC semi-annual surveys of UK FX turnover in April and October 2014. Total UK turnover rose 19% in the year to October 2014, 11% higher than in April 2014. This is the highest level of turnover since survey inception and 5% higher than previous highs recorded in April 2013 (**Chart 1**).

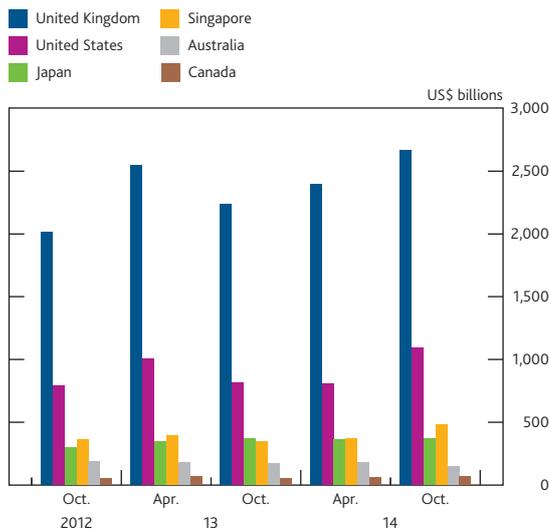
This trend was broadly consistent with other global centres: total turnover across the six reporting centres rose 21% year-on-year in October 2014. In particular, Singapore registered the largest relative increase in turnover (up 40%), followed by the United States (up 34%), Canada (up 20%) and United Kingdom (up 19%). In contrast, turnover in Australia fell 11% and turnover in Tokyo was stable.

Average daily turnover in the majority of FX products increased in October 2014 (**Chart 2**). Average daily spot turnover in the United Kingdom rose to US\$1,110 billion in October 2014, 44% higher than the previous year. This was consistent with a broad global increase in spot activity, including in the United States (up 48%). Conversely, FX swap turnover fell back in October 2014, to April 2013 levels, following a temporary increase to survey highs in April 2014.

The proportion of FX trades with 'other financial institutions' (OFIs), including hedge funds, non-reporting banks, central banks and sovereign wealth funds continued to rise. This increase was particularly prominent in FX spot markets, where

(1) Full minutes of the 2014 meeting can be found here: www.rba.gov.au/afxc/meetings/gfxc/2014/gfxc-minutes-20140411.html.

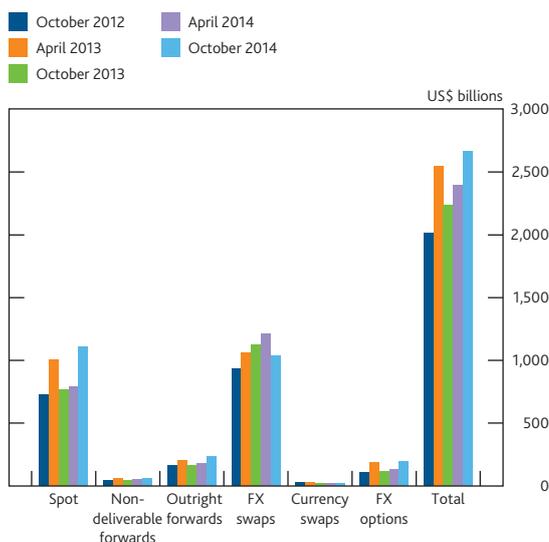
Chart 1 Global FX^(a) daily average turnover



Sources: Australian Foreign Exchange Committee, Canadian Foreign Exchange Committee, London Foreign Exchange Joint Standing Committee, New York Foreign Exchange Committee, Singapore Foreign Exchange Market Committee and Tokyo Foreign Exchange Market Committee.

(a) This includes spot, non-deliverable forwards, outright forwards, FX swaps, currency swaps and FX options.

Chart 2 UK daily average turnover by product



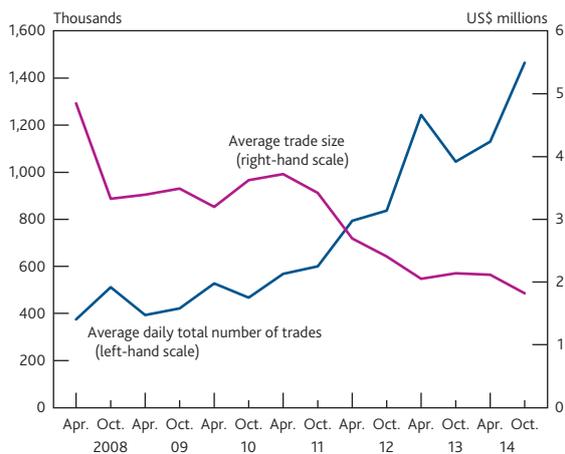
Source: London Foreign Exchange Joint Standing Committee.

44% of trades were with OFIs in October 2014. The rise came at the expense of interbank trading, particularly with 'other banks' (smaller non-reporting banks).

The average daily total number of trades continued to grow faster than total turnover, with the average FX trade size decreasing to US\$1.8 million in the year to October 2014 (Chart 3). As at October 2014, the average spot trade size remained broadly unchanged to 2013 levels at US\$0.8 million.

In general turnover in most currencies rose in line with overall turnover in the past year. EUR/USD activity rose by 20% in October 2014 from a year earlier and activity in USD/JPY rose 34% from a year earlier, with turnover in the latter remaining

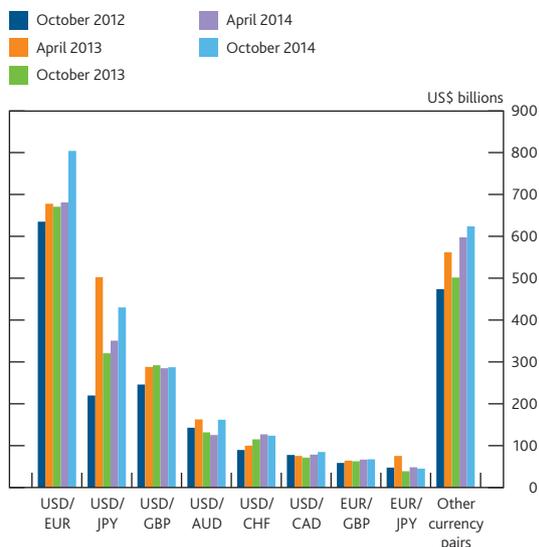
Chart 3 Average daily number of trades and trade size



Source: London Foreign Exchange Joint Standing Committee.

below April 2013 levels (Chart 4). Turnover in emerging market currencies rose by 26%. In particular USD/RMB turnover rose 96% in the six months to April 2014, before settling in October 2014. The RMB is now the thirteenth largest currency reported on the survey, from sixteenth a year ago, accounting for 1.3% of trades.

Chart 4 UK daily average turnover across top eight currency bilaterals



Source: London Foreign Exchange Joint Standing Committee.

The forthcoming FXJSC survey results for April 2015 will be published in Summer 2015.

Tables of membership at end-2014

Members of the London Foreign Exchange Joint Standing Committee as at December 2014

Name	Firm/organisation
Brian Welch	Association of Corporate Treasurers
Christopher Bae	Bank of America Merrill Lynch
Rob Loewy	Bank of China
Richard Gill	Bank of New York Mellon
Fujio Nishio	Bank of Tokyo-Mitsubishi
Adrian McGowan	Barclays
Eric Auld	BNP Paribas
Andrew Rogan	British Bankers' Association
James Bindler	Citigroup
David Puth	CLS
Gil Mandelzis	EBS BrokerTec
Heather Pilley	Financial Conduct Authority
Tom Springbett	Financial Conduct Authority
Frederic Boillereau	HSBC
Troy Rohrbaugh	JPMorgan Chase
Tim Carrington	Royal Bank of Scotland
Richard Metcalfe	The Investment Association
Phil Weisberg	Thomson Reuters
James Potter	Tullett Prebon
George Athanasopoulos	UBS
Alex McDonald	Wholesale Markets Brokers' Association
Chris Allen	Barclays, Chair, legal subgroup
Jacqueline Joyston-Bechal	Bank of England, Secretariat, legal subgroup
Graeme Munro	JPMorgan Chase, Chair, operations subgroup
Lisa Scott-Smith	Millennium Global, Chair, FX buy-side subgroup
Michael Cross (Chair)	Bank of England
Robert Spillett and Joanna West (Secretariat)	Bank of England

Members of the London Foreign Exchange Joint Standing Committee operations subgroup as at December 2014

Name	Firm/organisation
Nigel Brigden	Association of Foreign Banks
Sarah Mullen	Bank of America Merrill Lynch
Louise Lee	Bank of England
Pamela Bald	Bank of New York Mellon
Duncan Lord	Barclays
Andrew Rogan	British Bankers' Association
Leigh Meyer	Citigroup
John Hagon	CLS Services
Damian Brett Kelly	Deutsche Bank
Kasia Abendan	Financial Conduct Authority
John Blythe	Goldman Sachs
Trevor Evans	HSBC
Graeme Munro (Chair)	JPMorgan Chase
Stephen Nankivell	Nomura
Isabelle Dennigan	RBC
Richard Norman	Royal Bank of Scotland
Ian Cowell	State Street
Joe Halberstadt	SWIFT
Nancy Riyad	UBS
Jacqueline Joyston-Bechal	Bank of England, Secretariat, legal subgroup
Robert Spillett, Joanna West and Christopher Hood (Secretariat)	Bank of England

Members of the London Foreign Exchange Joint Standing Committee buy-side subgroup as at December 2014

Name	Firm/organisation
Murray Steel	AHL
Alexis Blair	Aspect Capital
Lee Sanders	AXA
Jatin Vara	BlackRock
Marcus Browning	Bluecrest Capital
David Bowen	Goldman Sachs
Richard Pursell	Insight
Lisa Scott-Smith (Chair)	Millennium Global
Jonathan Griggs	Rogge
Aadarsh Malde	Tudor
John Dacosta	Wellington
Michael Cross	Bank of England
Robert Spillett (Secretariat)	Bank of England
Jacqueline Joyston-Bechal	Bank of England, Secretariat, legal subgroup

Members of the London Foreign Exchange Joint Standing Committee legal subgroup as at December 2014

Name	Firm/organisation
Jateen Shah	Bank of America Merrill Lynch
Alan Brewer	Barclays
Richard Haynes/Sharon Blackman	Citigroup
Gaynor Wood	CLS Services
Simon Goldsworthy/Charlotte Hannavy	Deutsche Bank
David Harris	Financial Conduct Authority
Dan Parker	Goldman Sachs
Christian Bettley	HSBC
Emma Rickett	JPMorgan Chase
Barra Little	Morgan Stanley
Joanna Wormell	Royal Bank of Scotland
Alistair Cleverly/Kate Binions	Standard Chartered
Richard Lamb/Sergey Likhoshesterov	UBS
Chris Allen (Chair)	Barclays
Jacqueline Joyston-Bechal (Secretariat)	Bank of England