Minutes

Foreign Exchange Joint Standing Committee

09 May 2019

Location: Bank of England, 20 Moorgate, London, EC2R 6DA

Attendees: **Association of Corporate Treasurers:** Sarah Boyce
Bank of China: Wang Yan
Barclays: Fabio Madar
Citigroup: Giles Page
Deutsche Bank: Russell Lascala
European Venues and Intermediaries Association (EVIA): David Clark
FICC Markets Standards Board (FMSB): James Kemp
Financial Conduct Authority (FCA): Alan Barnes
Goldman Sachs: Kayhan Mirza, Dan Parker (Chair, Legal Sub-committee)
HSBC: Richard Bibbey
RBC: Sian Hurrell, Isabelle Dennigan (Chair, Operations Sub-committee)
Refinitiv: Neill Penney
Schroders: Robbie Boukhoufane
Shell: Frances Hinden
The Investment Association: Hugo Gordon (Alternate)
XTX Markets: Zar Amrolia
Bank of England: Andrew Hauser (Chair), Jonathan Grant (Legal Secretariat), James O'Connor, Grigoria Christodoulou (Secretariat), David Edmunds (Secretariat), James Manchester (Secretariat)

Apologies: **Bank of England:** Rohan Churm
Insight Investment: Richard Purssell
JP Morgan: Stephen Jefferies
The Investment Association: Galina Dimitrova

Minute no.	Minute	Action owner and due date

1. **Welcome and apologies**

Andrew Hauser (Chair, Bank of England) noted the apologies received and welcomed new members Richard Bibbey (HSBC) and Sian Hurrell (RBC) to the FXJSC.

2. **Minutes of 8 February 2019 meeting**

The minutes of the 8 February 2019 meeting were agreed. There were no matters arising.

3. **Market developments**

James O'Connor (Bank of England) introduced the discussion on market developments focusing on key themes and events since the last FXJSC meeting in February 2019. A notable trend had been the multi-year lows in implied volatility across FX, and some other asset classes. Members discussed some of the idiosyncratic events and wider macro factors driving the low level of volatility, and how different parts of the volatility term structure had reacted. Members also examined trends in FX volatility across various points over the last two decades, and discussed how this might inform developments in FX markets in the coming months.

Members felt that one significant factor had been evolving monetary policy expectations, and in particular the more accommodative US monetary policy stance since the beginning of 2019. This was thought to have had a particular impact on trends in USD and other G10 currency pairs. Technical factors, including systematic selling of volatility by some market participants, were also felt to have played a role.

While low volatilities had depressed activity in the major currency pairs, focus had shifted to China and other emerging market currencies, where the economic outlook appeared relatively stronger than Ain developed markets. Members felt that US/China trade negotiations had so far weighed less on spot prices than might have been anticipated. However material uncertainty remained as to when and how this would conclude.

Members also discussed the high levels of volatility in Turkish Lira markets towards the end of March 2019, and debated the extent to which market conditions had subsequently normalised.

4. **Global Foreign Exchange Committee**

Grigoria Christodoulou (Secretariat, Bank of England) noted that the Global Foreign Exchange Committee ("GFXC") would be meeting on 22-23 May 2019 in Tokyo, and provided a high-level outline of the GFXC meeting agenda[1].

Neill Penney (Refinitiv) introduced the draft paper from the GFXC's Cover and Deal Working Group. Mr Penney noted that the Cover and Deal Working Group had been commissioned to draft examples that related to key aspects of 'cover and deal' to be considered for possible inclusion in the Code.

Members remarked that most of the top tier banks did not undertake cover and deal practices. Rather it was predominantly used by some smaller regional banks. Usage of the term 'cover and deal' was also somewhat elastic. Members therefore noted that there still needed to be a better understanding among market participants as to what types of trading behaviours were captured under 'cover and deal'.

Members discussed the merits of the draft examples and supported the

[1] https://www.globalfxc.org/events/20190522_agenda.pdf

inclusion of one example, designed to illustrate an unacceptable behaviour in which an intermediate provider only passed on part of the volume traded in the last look window to the client, capitalising on price moves during the window.

Zar Amrolia (XTX Markets) noted that the GFXC's Disclosures Working Group, which he co-led, had focused on two areas since the November 2018 GFXC meeting: developing a framework to map the key flows of information throughout a Client's experiences on anonymous trading platforms, and identifying key areas to understand when engaging on such platforms. Members felt that this was an important topic to make progress on, given the increasing use of such platforms, not least because it posed a number of potential challenges for the application of the principles of the Code.

David Clark (EVIA) updated members on the work of the GFXC's Buy-side Outreach Working Group, of which he was a member. Mr Clark noted some of the recent outreach events that had focused on the case for the buy-side to sign on to the FX Global Code. It was noted that proportionality had been considered an important pre-requisite by some buy-side firms, but that it was important to underscore that this was recognised in the Code, and that the Code itself was a product of both buy-side and sell-side market participants. Mr Clark noted that the Code 'armed' buy-side firms to challenge their counterparties, and many of the buy-side firms that had so far signed up to the Code had noted significant improvements in internal controls and processes. Mr Clark noted that the Group had produced material explaining the merits for signing up to the Code and a roadmap on potential steps towards adherence. The Chair noted the importance that he, the Bank and the GFXC attached to making progress in this area over the coming period: the Code had been written, and needed to be recognised as, for the whole market. Significant progress was still required to achieve this goal, amongst both large and medium-sized buyside firms.

5. **Disclosure: Reject codes**

Robbie Boukhoufane (Schroders) shared some of his observations on the current state of play relating to reject codes. Mr Boukhoufane noted that the provision of consistent, accurate and timely reject codes was important because offering more transparency helped market participants understand why trades were being rejected. This information would enable market participants to make more informed decisions with regard to trade and counterparty evaluation. In turn, that was important for best execution purposes, something increasingly demanded by end-investors, and helped to ensure that buy side participants had a robust governance process for electronic trading.

James O'Connor observed that there was currently inconsistency in the reject codes provided across the market with a diverse set of justifications for rejecting a trade, and that the information provided may not in some cases be particularly informative. Members agreed that there was a relatively limited set of common reasons for trades being rejected, such as clients not being on-boarded properly, issues with credit limits, and prices being stale.

Hugo Gordon (the Investment Association) noted that the IA had recently published a position paper that outlined six high-level reject code categories in a hierarchical fashion that it was proposing be adopted consistently by execution providers. Mr Gordon noted that the position paper was asking execution providers to map their existing reject codes to the six proposed categories. The IA planned to convene a forum of industry participants, including key liquidity providers and trading venues during May 2019 to discuss feedback on the proposals. Members remarked that this was a core industry issue and it was important to ensure a solution was implemented effectively and consistently across the industry.

6. **Update from the FICC Markets Standard Board (FMSB)**

James Kemp (FMSB) provided an update on some of the key focus areas of the FMSB. Mr Kemp noted that the FMSB was considering options in relation to third party provision of training and education on its standards and statements of good practice. Mr Kemp also noted that FMSB groups were working on topics including managing large trades and disclosures, and that there was also systematic work ongoing to identify potential market vulnerabilities across FICC markets. Mr Kemp noted the goal of ensuring a consistent approach in the FMSB's work with other existing codes such as the FX Global Code.

7. **Update from the FCA**

Alan Barnes (FCA) provided a regulatory update to the group. Mr Barnes noted that the FCA had been considering whether the FX Global Code should be recognised by the FCA and an announcement would be made before the summer.

8. **Update from the Operations Sub-committee**

Isabelle Dennigan (Operations Sub-committee Chair, RBC) updated on the work of the Operations Sub-committee. Ms Dennigan noted that the last meeting was held on 2 May 2019, where a member bank had delivered a presentation on their approach to operations, with a key focus covering how the application of digitisation could help address some of the common challenges that market participants face.

Ms Dennigan also noted that the Operations Sub-committee had discussed the events in the Turkish Lira market towards the end of March 2019, and its operational implications. One of the key challenges had been around settling interest claims, where counterparties had started from somewhat different assumptions. Overall common observations shared were that cross-collaboration among counterparties throughout this period had been positive.

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

Dan Parker (Legal Sub-committee Chair, Goldman Sachs) noted that the Legal Sub-committee had not formally convened in the first half of 2019, but would next be meeting next month.

10. **Any other business**

None discussed.

The next FXJSC meeting was scheduled to be held on 6 September 2019.