

foreign exchange committee



Minutes of the Foreign Exchange Committee Meeting

Meeting: July 14, 2021

Host: Video Conference Meeting

FXC Attendees

Mark Bruce (Jump Trading)
Yudhveer Chaudhry (Blackrock)
Natalia Chefer (DE Shaw)
Chris Chattaway (Goldman Sachs)
Jose Luis Daza (QFR Capital)
Maria Douvas (Morgan Stanley)
Anna Faustini (Societe Generale)

Robert Kim (JPMorgan Chase)
Ben Klixbull (XTX Markets)
Jeffrey Knapp (Coca-Cola)
Marisa Kurk (Northern Trust)
Russell Lascala (Deutsche Bank)
Dan Lennon (CLS)
Jessica Sohl (HC Tech) - Vice Chair

Andrew Maack (Vanguard)
Neill Penney (Refinitiv)
Jodi Schenck (Citibank)
Chris Taendler (Barclays)
Bob Tull (Fifth Third)
Sean Tully (CME Group)
Adam Vos (BNY Mellon)

Federal Reserve Bank of New York (FRBNY)

Lorie Logan
Anna Nordstrom
Michelle Ezer
Robert Lerman
Alex Cohen

Sanja Peros
Martin Prusinowski
Thomas Noone
Dan Reichgott

Matthew Raskin
Ian Armstrong

Federal Reserve Board of Governors

Alain Chaboud

U.S. Dept. of Treasury

Susie Han

Other Attendees:

Thomas Wipf (Morgan Stanley)

The Vice Chair opened the meeting and welcomed Martin Prusinowski (FRBNY), who will serve as temporary FXC Secretary.

1. Update on the Global Foreign Exchange Committee (GFXC) Meeting

Members were provided with a readout of the GFXC's June 2021 meeting, where the GFXC approved the proposed enhancements to the [FX Global Code](#) and completed the three-year review. In this summary, it was noted that:

- Eleven of the Code's 55 principles were amended in order to enhance the Code's guidance on the topics of anonymous trading, algorithmic trading and transaction cost analysis, disclosures, and settlement risk.
- The GFXC approved the publication of the [pre-hedging guidance paper](#), which is intended to provide further clarity on the appropriate use of this trading practice.
- The GFXC will publish [templates](#) for industry participants to use in improving disclosures and assisting with transaction cost analysis.¹ With the publication of the updated Code, the GFXC has encouraged market participants to consider renewing their Statements of Commitment within a 12-month timeframe.

Members then reviewed the revised version of the [last look guidance paper](#).¹ Some members shared views on the proposed level of guidance in the paper, particularly in the context of existing language on last look in Principle 17 of the Code.

2. Markets Discussion

The meeting then transitioned to a discussion of market developments since the June FXC meeting. Major topics included members' views on inflation, developments related to the COVID-19 delta variant, recent movements in U.S. interest rates, assessment and outlook on U.S. monetary policy, and broad outlooks for the U.S. dollar against G10 and emerging market (EM) currencies.

- On inflation, members shared a variety of views regarding expectations that recent high readings might be "transitory" in nature, and the ultimate impact that higher inflation could have on monetary policy. Some members commented that the uncertain duration of supply-side constraints remained a primary concern.
- Members also highlighted the growing market concern regarding the COVID-19 delta variant, suggesting that it has likely contributed to the recent decline in U.S. Treasury yields as well as volatility in equity market sectors sensitive to virus-related restrictions. Positioning-related technical factors were also cited as contributing to the decline in U.S. Treasury yields.

¹ The GFXC published the disclosures templates and last look guidance paper on August 18th.

- Various views were expressed related to the outlook for U.S. monetary policy, as members debated the potential for asset-purchase tapering by the FOMC given the current macroeconomic backdrop, particularly related to inflation and the labor and housing markets.
- On the outlook for the U.S. dollar, some members suggested that a more sustained move in the rates market would likely be necessary to affect the medium-term trend in the dollar. It was further suggested that the G10 currency pairs would likely be more sensitive to short-dated rate moves, whereas EM currencies would likely take more direction from longer-dated rates.

3. Topical Discussion: Transition from LIBOR

The Chair of the [Alternative Reference Rates Committee](#) (ARRC) joined the meeting and walked members through an updated industry timeline to transition away from LIBOR. In this presentation, it was noted that the two primary developments for U.S. dollar LIBOR have been: (i) the recent U.S. regulatory [guidance](#) encouraging banks to cease entering into new contracts that use USD LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021, and (ii) the [announcement](#) that more frequently used USD LIBOR settings will continue through the end of June 2023 to allow for the roll-off of legacy contracts maturing by that time. It was also noted that, over the next six months, LIBOR liquidity is expected to decrease as trading in the Secured Overnight Financing Rate (SOFR) continues to increase. Other updates included the selection of the Chicago Mercantile Exchange Group (CME) as the administrator of term SOFR rates.

4. FXC Strategic Objectives

As a follow-up from the February FXC discussion on the Committee's strategic objectives, members proffered potential topics of interest that the Committee should focus on in upcoming meetings. One of the main themes discussed was the further exploration of digital currencies, such as stablecoins and the developing market infrastructures linked to such assets.

The next FXC meeting is scheduled for September 29, 2021.