



Minutes of the Foreign Exchange Committee Meeting

Meeting: March 27, 2024

FXC Attendees

Yudhveer Chaudhry (Blackrock) - Chair
Maria Douvas (Morgan Stanley) – Vice Chair
Carlos Fernandez-Aller (Bank of America)
Hemant Bajjal (Invesco)
Chris Chattaway (Goldman Sachs)
Anna Faustini (Societe Generale)
Andrew Haning (Jump Trading)

Akiko Hayata (Payden & Rygel)
Paul Houston (CME Group)
Ben Klibull (XTX Markets)
Robert Kim (JPMorgan Chase)
David Leigh (Deutsche Bank)
Dan Lennon (CLS)
Chris Pizzotti (State Street)

Yan Pu (Vanguard)
Ankit Sahni (Element Capital)
Jodi Schenck (Citibank)
Jill Sigelbaum (LSEG)
Bob Tull (Fifth Third)
Jason Vitale (BNY Mellon)
Aaron Wells (Coca-Cola)

Federal Reserve Bank of New York (New York Fed)

Michelle Neal
Roberto Perli
Anna Nordstrom
Lisa Chung
Pertshuhi Torosyan

Thomas Noone
Shawei Wang
Sanja Peros
Dan Reichgott
Daniella Faura
Ira Selig

FRS Board of Governors

Alain Chaboud

Guests

Hayden Melton (LSEG)

The Chair opened the meeting and welcomed FXC members.

1. 2024 FX Global Code Review

The FXC was updated on the Global Foreign Exchange Committee's ("GFXC") priorities that were selected for the three-year FX Global Code ("Code") Review. The GFXC outlined its priorities in a letter to local foreign exchange committees, noting that it is in the final stages of organizing three working groups that will focus on (i) Motivation for Code Adherence, which will aim to improve access to Code education materials and further promote the Code among rating agencies and audit firms; (ii) FX Settlement, which will review the Code's settlement risk and trade confirmation principles and examine if their language can be strengthened to promote the adoption of settlement risk mitigation mechanisms and (iii) FX Data, which will analyze the Code's principles with an aim to improve data transparency related to delegated execution and custodian and prime broker execution and the sharing of client data. The GFXC will also examine the implications of including links to the Pre-Hedging and Last Look guidance papers within the Code. The next GFXC meeting will take place on July 1st and 2nd in Frankfurt, Germany, during which the GFXC will discuss a preliminary draft of the proposed Code changes. The GFXC is expected to complete the Code review by December 2024.

2. U.S. securities transition to T+1 settlement update

The FXC then discussed FX market readiness in preparation for the transition of [U.S. securities settlement to T+1](#). The Chair recalled three key implications for FX that members raised during the November 2023 meeting: FX operational readiness, shifts in demand for FX liquidity, and increases in FX settlement risk amid the shortened settlement window and potential for increased settlement outside of CLS. In general, members noted that market readiness seemed to be divided ahead of the transition, estimating that only about half have implemented the necessary changes to their FX operations. Some members noted that a number of custodial banks have extended their CLS cutoff times in an effort to accommodate clients and help mitigate FX settlement risk; however, FX settlement risk remains a watch point for many. One member shared that the Tokyo Foreign Exchange Committee ("TFEMC") has issued a summary of the [results](#) of its survey of market participants examining the impact of the U.S. securities transition to T+1. The survey results indicate an expected increase in trade settlement on T+0, which both buy- and sell-side firms will look to mitigate through pre-funding trades.

The FXC will hold an intermeeting call on May 3rd to discuss any new developments that may arise as we approach the T+1 settlement transition date of May 28th.

3. Topical Discussion – FX Market Structure

The meeting then transitioned to a topical discussion examining one of the FXC's 2024 strategic priorities, FX market structure. Members were asked to examine the evolution of FX market structure and how those changes may be impacting price discovery. Members examined the increased rates of trade internalization among dealers and its impact on price discovery. Some members noted that although trade internalization activity has increased, it is not viewed as an impediment to price discovery. The relationship between internalization and price discovery is considered intertwined since dealers leverage external markets to create pricing. One member noted that

decentralized liquidity can still support price discovery, citing the example that internalizing trade flow can result in both better pricing and less information slippage for clients.

Members then examined the shift in volumes on primary venues over the last several months, noting that the recent decline in primary venue volumes appears to have stabilized. However, some expressed concern that further decentralization away from primary venues could potentially have an impact on price discovery and should therefore be monitored. It was observed that primary venues play an important role during times of market volatility as volumes tend to shift into the primary venues from other venues. The FXC will continue to monitor the evolution of FX market structure at future meetings.

4. Markets Discussion

The meeting then moved to a discussion of market developments since the February FXC meeting. The discussion primarily focused on members' views on the U.S. macroeconomic and monetary policy outlook and global market developments.

- With respect to the outlook for the U.S. economy and monetary policy, members perceived the March FOMC meeting communications as more accommodative than expected. In terms of inflation, members observed signs of deceleration in goods inflation; however, it was noted that services disinflation has continued to lag. Some members anticipate that U.S. growth will remain quite strong despite recent employment data, which has exhibited signs of slowing.
- Committee members then discussed international market developments, focusing on Japan and the recent depreciation of the yen. Members attributed the depreciation of the yen to the continuation of wide interest rate differentials and its popularity in funding carry trades amid low volatility. Members highlighted Japanese officials' communications on the yen, noting the similarities in officials' recent communications around the yen with previous communication that occurred in September and October 2022 when authorities intervened in FX markets. As such, some members see the possibility of another intervention in the near term as likely. Nevertheless, members viewed intervention as having only a short-term market impact on the yen because intervention would not necessarily be able to address the fundamental drivers of yen depreciation.
- With respect to China, members discussed the recent volatility in the Chinese renminbi following shifts in the PBoC's daily fixings. The stronger-than-expected fixings were viewed by members as an attempt by the PBoC to initially resist depreciation pressures in the onshore renminbi against the dollar. Given that the PBoC later reversed course by setting the daily fixing weaker than expected, leading to a sharp depreciation in both the onshore and offshore renminbi, members highlighted that attention on the currency will remain heightened over the near term.

The next FXC meeting will be held on May 22, 2024.