foreign exchange committee

FXC

Minutes of the Foreign Exchange Committee

Meeting, August 28, 2013

Host: CLS

ADNAN AKANT	Fischer Francis Trees & Watts
ZAR AMROLIA	Deutsche Bank AG
ROBERT BOGUCKI	Barclays
ERIC BUSAY	CalPERS
TIM CARRINGTON	RBS
ROBERT CATALANELLO	Credit Agricole CIB
LYNN CHALLENGER	Mellon Capital
STEVEN CHO	Goldman Sachs
JOSE LUIS DAZA	QFR Capital Management
JEFF FEIG	Citigroup
DANIEL GLEIZER	Banco Itau BBA
MOHAMMED GRIMEH	Standard Chartered
MOTI JUNGREIS	TD Bank
GIL MANDELZIS	EBS
DAVID PUTH	CLS
PAUL RICHARDS	UBS
TROY ROHRBAUGH	JP Morgan Chase
DAVID RUSATE	GE

Federal Reserve Bank of New York Attendees

CHRISTINA GETZ
ROSWITHA HUTTER
ANNA NORDSTROM
JAMIE PFEIFER
SIMON POTTER

MICHAEL NELSON, Counsel

1. Discussion of April 2013 FXC Survey of North American Foreign Exchange Volume

The Secretary provided a brief summary of the FX volume survey results, based upon the press release published on July 29, 2013. She noted the significant increase in volumes versus the prior survey, noting the particular rise in Japanese yen volumes and activity by other financial institutions. According to the BIS, global average daily turnover in foreign exchange markets rose to $5.3 trillion from $4.0 trillion in 2010.

http://www.newyorkfed.org/fxc/2013/VolumeSurveyPressRelease07292013.pdf

2. Member Presentation: European Commission's Financial Transaction Tax proposal and impact on the foreign exchange market

Zar Amrolia discussed the European Commission's proposed Financial Transaction Tax (FTT) and its potential implications for the foreign exchange market should the tax apply to foreign exchange transactions. It was noted that the original FTT proposal released in 2011 and the subsequent February 2013 council directive both excluded currency spot transactions from the scope of the FTT. Those documents did, however, list derivatives contracts based on currency transactions as being covered by the FTT.

Private sector members discussed concerns about the impact that the FTT could have on foreign exchange market activity and liquidity conditions. It was noted that applying a tax to these transactions would generate a very significant rise in the transaction cost which could result in far lower FX trading volumes as well as less robust risk management practices for example, through less frequent hedging of foreign exchange risk. Private sector members also raised concerns about the tax's potential application to central counterparties, to collateral transfers, and to portfolio compression transactions noting that this policy seemed inconsistent with other policies seeking to encourage central clearing and more robust credit and risk management practices.

Private sector members noted that they would continue carefully monitoring the evolution of the scope of the FTT and its impact on the foreign exchange market. It was suggested that further guidance on the potential scope may emerge later this year.

3. Member Update: DTCC's work to consider a shortened settlement cycle for trades in equities and certain debt securities and implications for FX market investors

David Puth and Adnan Akant provided a summary of the call held with DTCC earlier that week to discuss DTCC's work to consider a shortened settlement cycle for various financial transactions including equities, corporate and municipal bonds. DTCC was interested in hearing about what challenges such a change may pose to foreign investors who must simultaneously manage the currency risk associated with purchases and sales of those products. On the call, participants generally believed that shortening the settlement to a T+2 basis would be positive, and still consistent with the T+2 settlement window for most foreign exchange transactions. However, they raised concerns about shortening the settlement cycle to T+1 given the disconnect that would result. That is, FX transactions would have a longer settlement period than the equities and corporate and municipal bonds. Participants also raised more general concerns about a T+1 settlement window given that it would provide less time to allow for the resolution of trade disputes and could prompt a higher percentage of trade fails. Participants also noted the important role played by custodians in establishing cut off times and facilitating these transactions. DTCC indicated that they would be continuing to evaluate these and other potential obstacles to determine how best to address them while working to shorten the settlement cycle.

4. Dodd Frank Update: Cross Border Application of Rules

Jeff Feig facilitated a discussion on the cross border application of Dodd Frank rules. In particular, private sector members discussed a situation whereby a non-US person transacts with an offshore entity of a U.S. financial institution but a U.S. sales person is involved in the negotiation of the material terms of the swap transaction. Questions were raised about whether certain US regulations would apply to such a transaction and whether substituted compliance would be available. Private sector members suggested that there were differing interpretations of the impact of the involvement of US personnel in transactions under the cross border rules.

Private sector members also raised concerns regarding the US Swap Execution Facility (SEF) rules set to take effect on October 2. Under those rules, platforms that offer "swap" transactions with multiple liquidity providers to multiple liquidity takers would need to be registered with the CFTC as SEFs effective October 2nd and thus on-board clients under that new framework. It was suggested that some of the key liquidity providers in the NDF market were non-US persons and may be reluctant to on-board to a registered SEF, thus reducing the liquidity made available through that channel.

5. Market Discussion

Jeff Feig facilitated a discussion on market developments since the last meeting, held in May.

Private sector members indicated that U.S. monetary policy expectations had been a predominant theme in markets since the last meeting. They noted a building of expectations for the Federal Reserve to begin to scale back its asset purchases by the end of the year though they did not expect a change in policy rates until far later in the future.

Private sector members reported that the news reports regarding potential replacements for Chairman Bernanke upon the expiration of his term had garnered significant market attention, with some suggesting that these headlines had driven market price action at times.

Private sector members noted the volatility within financial markets, including the high degree of activity around emerging markets. Private sector members again cited shifting policy expectations in the U.S. as well as other factors, including funding conditions in China. Private sector members also suggested that factors, such as the Dodd-Frank regulation and Basel capital rules have reduced firms' willingness to warehouse risk and thus intermediate markets and thus has reduced some of the shock absorbers that exist in the market to handle periods of heightened volatility. They cited declining VAR limits and balance sheet pressure and suggested that the sell side of the market has effectively shrunk.

6. Other Business

The outgoing Committee Secretary introduced the incoming Secretary, Christina Getz.

The next meeting for the FXC is scheduled for Wednesday October 9th at **4:00 PM**. Goldman Sachs will be hosting.