



Minutes of the Foreign Exchange Committee

Meeting, May 10, 2012

Host: Bank of America Merrill Lynch

Joint Meeting FXC Attendees

Daniel Gleizer	Banco Itau BBA
Tom Gillie	Bank of America Merrill Lynch
Robert Bogucki	Barclays
Jeff Feig	Citigroup
Robert Catalanello	Credit Agricole CIB
Zar Amrolia	Deutsche Bank AG
Phil Weisberg	FXall
Troy Rohrbaugh	JP Morgan Chase
David Steck	Nomura
Tim Carrington	RBS
Anthony Bisegna	State Street Corporation
Gil Mandelzis	Traiana
Paul Richards	UBS

Joint Meeting OMWG Attendees

Robin Perlen	Bank of America Merrill Lynch
Keri Peacock	Bank of America Merrill Lynch
Joe Demetrio	BNY Mellon
Joanne Brower	Barclays Capital
Kenneth Rozycki	Brown Brothers Harriman
Murali Enamandram	Citigroup
Raphael Demaizieres	Credit Agricole
Michael Mulholland	Credit Suisse
Stephen Dobson	Deutsche Bank
Daniel Ruperto	Goldman Sachs & Co.
Deborah Cunningham	HSBC
Andy Bria	ICAP
Jason Conn	ICAP
Robert Eby	Morgan Stanley
Denise Sommerville	Morgan Stanley
Mike Hanlon	Standard Chartered
Nancy Riyad	UBS
Patrick Stutz	UBS

Federal Reserve Attendees

Patricia Mosser	Brian Sack
Michael Nelson, Counsel	Geza Sardi
Anna Nordstrom	Shawei Wang, Counsel
Jamie Pfeifer	



Welcome

The FXC Chair welcomed the members of the Operations Managers Working Group (OMWG) to the meeting and thanked the group for all of its contributions.

OMWG Update

Daniel Ruperto, Chair of the OMWG, provided an update on the various work efforts underway by the OMWG as well as an update on the status of the initiatives related to the [commitments being made to the global supervisory community](#). Work streams cited included the ongoing review of the Management of Operational Risk in Foreign Exchange document, outreach to the Buy Side to improve operational efficiencies and promote greater straight-through-processing, and work to expand the set of data related to confirmations beyond the G14 banks. He also provided an update on efforts related to the regulatory commitments, with a focus on the development of the foreign exchange standardization matrix under development.

In addition, the OMWG has designated members to be points of contact for the group on specific pertinent topics. These members are to keep the members abreast of developments related to these topics from an operational risk perspective and to work across the groups (including the FXC, Financial Market Lawyers Group, and the Chief Dealers Working Group) as appropriate. These topics include Dodd Frank implementation issues broadly, trade reporting, central clearing and prime brokerage, and electronic confirmations. In addition, particular members have been tasked with tracking developments by other related industry groups on related issues as well.

FXC Update

The Secretary noted several efforts underway by the FXC. An FXC working group continues to develop a generic template to help in facilitating a more systematic analysis of the impact of any given risk scenario on the structure and function of the foreign exchange market. Another working group is considering the implications of a foreign exchange market that spans cleared and non-cleared transactions as well as multiple clearing frameworks. A third workgroup is preparing a revision of the paper released on algorithmic trading developments originally published by the FXC in 2006.

Various FXC members shared views on questions submitted by the operations managers.

- Members were asked about the potential impact of Basel III requirements on the FX market. Members generally suggested that the impact from Basel III was less pronounced in FX than in other asset markets because foreign exchange business makes less use of a firm's balance sheet, which may increase interest in the FX business and thus promote increased competition. That said, the additional modeling, pricing, and valuation needs were certain to require more resources. Some suggested that the new capital requirements might negatively impact customer hedging behavior as the costs associated with such activity would rise in line with increasing collateral requirements.
- Members were asked about the potential impact of mandated clearing on the NDF market. Members provided a broad update on the status of NDF clearing citing clearing efforts at various stages of implementation from SGX, LCH, CME, and ICE. Mixed views were expressed about the impact on the NDF market, with some suggesting that the increased



cost will force a decline in the business while others felt that the availability to clear NDFs would attract increased interest in the market, especially from those participants used to dealing in futures markets.

- Members were asked about the potential impact of multiple clearing houses on the FX market. While some noted the importance of having multiple clearing offerings for contingency and competition purposes, others noted that it may be difficult for many firms to make the up-front investment required to connect to multiple clearers and thus many firms will not be able to support the clearing business, instead becoming customers of larger entities. In addition, members discussed the dimensions upon which the clearing offerings were likely to compete. Some suggested that there is a risk that clearinghouses may compete on initial margin terms, risking a race to the bottom scenario. Some members mentioned the challenges of inter-operability across clearing houses and the increased demand on collateral.

Market Discussion

The FXC Chair facilitated a discussion on recent market developments. Members discussed a number of topics including those featured below.

Members discussed recent developments in Europe and expectations for the upcoming elections in Greece and the possible impact those elections could have on the potential for a Greek exit from the euro. Given these developments, members expressed some surprise at the recent resiliency of the euro versus other currencies. Various factors were cited as possibly stemming euro depreciation, such as offsetting developments out of core Europe, reserve diversification needs, and concerns in the U.S. related to weaker-than-expected economic data, fiscal challenges, and the upcoming Presidential election. Members also discussed developments in Brazil, highlighting recent signs of a significant shift toward more active central bank policy. Several members also noted general declines in trading volumes.

Other Business

- The next OMWG meeting is scheduled to take place Tuesday June 26th at 3 PM and will be hosted by Morgan Stanley.
- The next FXC meeting is scheduled to take place on Wednesday June 27th at 4 PM and will be hosted by UBS.