

Minutes of the Meeting of Global Foreign Exchange Committees

Sydney – 11 April 2014

Present

AUSTRALIA – The Australian Foreign Exchange Committee

Guy Debelle	Reserve Bank of Australia (Chair)
Matt Boge	Reserve Bank of Australia
Vicki Newman	Reserve Bank of Australia
Paul Verschuer	Westpac

CANADA – Canadian Foreign Exchange Committee

Paul Chilcott	Bank of Canada
Rob Ogrodnick	Bank of Canada
Harri Vikstedt	Bank of Canada
C.J. Gavsie	BMO Capital Markets

EURO AREA – ECB Foreign Exchange Contact Group

Roberto Schiavi	European Central Bank
Guy-Charles Marhic	European Central Bank
Christophe Beuve	European Central Bank
Christopher Freeman	State Street

HONG KONG – Treasury Markets Association

Chordio Chan	Bank of China (Hong Kong)
Keith Chi Fung Kwok	Hong Kong Monetary Authority
Christopher Ka Yue Fong	Bank of China (Hong Kong)

JAPAN – Tokyo Foreign Exchange Market Committee

Akira Hoshino	Bank of Tokyo-Mitsubishi UFJ
Yuko Kawai	Bank of Japan

SINGAPORE – Singapore Foreign Exchange Market Committee

Leonard Feder	Standard Chartered Bank
Cindy Mok	Monetary Authority of Singapore

UK – Foreign Exchange Joint Standing Committee

Michael Cross	Bank of England
Robert Spillett	Bank of England
Tim Carrington	Royal Bank of Scotland
Jacqueline Joyston-Bechal	Bank of England

USA – Foreign Exchange Committee

Troy Rohrbaugh	JP Morgan Chase
Christina Getz	Federal Reserve Bank of New York
Jamie Pfeifer	Federal Reserve Bank of New York
Anna Nordstrom	Federal Reserve Bank of New York
Simon Potter	Federal Reserve Bank of New York
Michael Nelson	Federal Reserve Bank of New York

Others

Nigel Jenkinson	Financial Stability Board
Irina Leonova	Financial Stability Board
Alfredo Sordo	Banco de Mexico

Background

Each year, the meeting of global foreign exchange committees brings together representatives of foreign exchange committees from the major centres to discuss market developments.¹ At the meeting, each committee is represented by both the private sector and the relevant central bank or monetary authority, with their chairperson and one or more other members in attendance. The Australian Foreign Exchange Committee (AFXC) hosted the April 2014 meeting.

1. Changes in Market Structure

A summary was presented of key information from the BIS April 2013 turnover survey.² Topics highlighted included evolving patterns of turnover in the major trading centres and the overall growth in FX trading. Key trends discussed included growth in the share of activity reported with ‘other financial’ counterparts, as well as continued growth in electronic trading.³

Discussion then turned to the evolving execution landscape, focusing on trends related to the supply and demand of liquidity as well as the market participants that provide liquidity. Topics discussed in regards to liquidity included the concentration of activity amongst a small set of FX dealers, growth in activity with ‘other financial’ counterparts, a reduction in the share of activity with non-financial counterparts, and a rise in market-making activities by non-traditional market participants.

Concerning trade execution, topics discussed included the internalisation of FX flows within banks, continued growth in algorithmic execution, lower trade sizes, spread compression, growth in the number of execution venues, and the gravitation towards a market structure where dealers were assuming more of an agency (rather than principal) role. Potential vulnerabilities during periods of stress associated with the increased use of electronic execution were also discussed.

¹ Committees represented were: AFXC; Canadian Foreign Exchange Committee; ECB Foreign Exchange Contact Group; Hong Kong Treasury Markets Association; Tokyo Foreign Exchange Market Committee; Singapore Foreign Exchange Market Committee; UK Foreign Exchange Joint Standing Committee; and the Foreign Exchange Committee sponsored by the Federal Reserve Bank of New York.

² Bank for International Settlements (2013), ‘Triennial Central Bank Survey – Foreign Exchange Turnover in April 2013: Preliminary Global Results’, September. Available at <<http://www.bis.org/publ/rpfx13fx.pdf>>.

³ The ‘other financial institutions’ category was expanded in the 2013 Triennial survey to provide a more detailed breakdown of this increasingly large segment of the foreign exchange market.

2. Trade Reporting

Participants discussed the recent introduction of trade reporting requirements for OTC derivatives in many jurisdictions (in line with the G20's commitments in this area). It was noted that variations in the reporting frameworks that had been adopted across jurisdictions had complicated the task of compliance for some reporting entities. Furthermore, such fragmentation made it difficult to aggregate data across the various trade repositories, which may have implications for how regulatory and supervisory authorities could make use of the information.

The Financial Stability Board (FSB) has been consulting on this issue and the FSB Secretariat updated the meeting on the work of the FSB's *Aggregation Feasibility Study Group*, which is due to issue its final report in May.

3. FX Reference Rates

There was a discussion of the various business purposes for which FX benchmarks are used and how this influences trading activity around the time the benchmarks are set. The different methods by which FX benchmarks are being calculated were also discussed.

The AFXC Chair outlined the work of the FSB's Foreign Exchange Benchmark Group (FXBG)⁴ which he is co-chairing with Paul Fisher of the Bank of England. The FXBG is reviewing the construction and use of FX benchmarks with a draft report due to be submitted to the FSB in the coming months. The FXBG is not involved in, nor did participants at this meeting discuss, any of the investigations concerning FX rate-setting that are currently underway in several jurisdictions.

4. Codes of Conduct

There was a general discussion about FX industry 'codes of conduct' published by many of the committees, with three key questions raised:

- Does use of the codes need to be strengthened?
- Do the codes themselves need amending?
- Do we need further harmonisation across the committees?

There was discussion of the FX committees jointly issuing a global 'high-level principles' statement on FX trading and agreement that the committees should work jointly on developing such uniform principles. There was also recognition that, when the investigations into FX rate-setting have been concluded, the committees may need to revisit the wording of their codes. The committees will also consider whether further harmonisation of the codes would be appropriate.

5. Market Implications of the Implementation of SEF Regulation

The impact of the recent introduction of the SEF (swap execution facility) registration requirement on the foreign exchange market in the US was discussed. Although non-deliverable forwards (NDFs) and FX options have not yet become subject to mandatory clearing or SEF-trading requirements, the share of market activity being transacted on SEFs is increasing, particularly during New York trading hours. Some noted that the bifurcation between SEF and non-SEF trading had led to a fragmentation of liquidity, particularly in NDFs. Given this segmentation, concerns were also expressed by some participants about how underlying liquidity would react to future periods of market stress.

⁴ FSB (Financial Stability Board) (2014), 'FSB to Review Foreign Exchange Benchmarks', Press Release, 14 April. Available at <http://www.financialstabilityboard.org/press/pr_140213.htm>.

6. Focus of Individual FXCs in Coming Year

Aside from the issues already noted above, areas of focus for some committees included reviewing the membership of FX committees and the structure of semi-annual surveys of market activity. Issues concerning the liquidity and depth of markets and monitoring developments in regulation and market structure were also flagged as priorities. Deepening relationships with other market committees, and reviewing retail FX regulations, will also be items of interest in the coming year for certain FX committees.