

Minutes of the Global Meeting of Foreign Exchange Committees Tokyo, 23 March 2015

Present

AUSTRALIA – The Australian Foreign Exchange Committee

Matthew Boge	Reserve Bank of Australia
Guy Debelle	Reserve Bank of Australia
Luke Marriott	Australia and New Zealand Banking Group

CANADA – Canadian Foreign Exchange Committee

Paul Chilcott	Bank of Canada
Ed Monaghan	RBC Capital Markets
Rob Ogrodnick	Bank of Canada

EURO AREA – ECB Foreign Exchange Contact Group

Volker Enseleit	European Central Bank
Patrick Fleur	PGGM
Guy-Charles Marhic	European Central Bank
Roberto Schiavi	European Central Bank

HONG KONG – Treasury Markets Association

Jack Cheung	Treasury Markets Association
Enoch Fung	Hong Kong Monetary Authority
Keith Kwok	Hong Kong Monetary Authority

JAPAN – Tokyo Foreign Exchange Market Committee

Hiro Inoue	Bank of Japan
Hirochika Iwadare	Bank of Tokyo-Mitsubishi UFJ
Tomoo Onishi	Deutsche Securities
Koichi Takenaka	Mizuho Bank

SINGAPORE – Singapore Foreign Exchange Market Committee

Lam Kun Kin	OCBC Bank
Cindy Mok	Monetary Authority of Singapore

UK – Foreign Exchange Joint Standing Committee

Frederic Boillereau	HSBC Bank
Mike Cross	Bank of England
Jacqueline Joyston-Bechal	Bank of England
Robert Spillett	Bank of England

USA – Foreign Exchange Committee

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

Background

Each year, the global meeting of foreign exchange committees brings together representatives of foreign exchange committees from 8 major financial centers to discuss issues related to the foreign exchange market. At the meeting, each committee is represented by both the private sector and the relevant central bank or monetary authority, with their chairperson, the secretary and one or more other members in attendance. The Tokyo Foreign Exchange Market Committee hosted the March 2015 meeting.

1. Global Preamble: Codes of Best Market Practice and Shared Global Principles

Participants unanimously endorsed the new global preamble to the respective industry codes entitled “Global Preamble: Codes of Best Market Practice and Shared Global Principles” (hereafter the “Global Preamble”). The committees agreed on two further actions to build on this work. First, there will be work to discuss the scope for further harmonization of the various codes of conduct adopted by the committees (hereafter “Codes”) based on analysis of the similarities and differences of the existing Codes. Second, there will be work examining ways to promote consistent adherence by foreign exchange (FX) market participants to the Global Preamble and the various Codes.

2. Implementation of the Financial Stability Board (FSB) report on Foreign Exchange Benchmarks¹

The Chair of the FSB had recently written to all the committees requesting a progress update on the implementation of the recommendations in the report on Foreign Exchange Benchmarks (hereafter “FXBG report”) as at end June 2015.² In that regard, there was a discussion on the current status of implementation by FX market participants of the FXBG report.

The fixing window for the WM Reuters has been widened to five minutes with effect as of 15 February 2015. While the effect of the wider window on volatility seemed to be limited so far, participants agreed that continued monitoring was warranted as the full impact might not yet be apparent, particularly around quarter-ends.

¹ http://www.financialstabilityboard.org/2014/09/r_140930/

² The letter from the FSB Chair is posted on the websites of the 8 foreign exchange committees. The letter to the Tokyo FXC Chair is posted [here](#).

Participants shared the view that, so far, experience had been mixed in regard to charging for transactions executed at the main fixes. While a reportedly significant number of large dealers have begun applying bid-offer spreads or charging fixed fees, it was thought that not all have yet done so. It was also noted that fees needed to reflect the level of risks associated with transactions executed at fixes.

There was also a discussion on the separation of fixing orders from other orders, as recommended in the FXBG report. It was reported that many dealers have established internal guidelines and/or procedures for separating orders. It was acknowledged, however, that physical separation is often problematic for smaller banks or less liquid currency pairs. It was also reported that an increasing share of fixing orders are being executed by algorithms.

The committees agreed to commission responses from their members on the implementation of the FXBG report's recommendations, and reply to the Chair of the FSB by the end of July 2015. In the light of the results of that exercise, the committees stood ready to consider whether further guidance was needed, in particular, in regard to small banks and less liquid currency pairs.

3. Codes of Conduct

Each committee reported its work on reviewing local Codes to incorporate the spirit of the FXBG report and the Global Preamble. Participants discussed how to incentivize adherence to the Codes by FX market participants, including buy-side institutions.

4. Liquidity in the foreign exchange market

There was a broad discussion on liquidity in the FX market. Participants discussed the impact of an increased use of electronic trading platforms and High Frequency Trading (HFT) on market liquidity, noting the reaction to the Swiss National Bank (SNB) policy decision on 15 January 2015 as an example. They noted that the prevalence of algorithmic and HFT trading on electronic platforms could have contributed to the initial sharp price action in the Swiss franc but also could have enabled the market to stabilize faster than otherwise expected. Some suggested that lower liquidity could be partly attributed to new regulations, since the liquidity of the forward market has also deteriorated (where electronic trading is not as prevalent). In addition, it was noted that transaction volumes and bid-offer spreads are not always good indicators of the level of market liquidity, and that there are many other metrics to take into account when measuring liquidity. Participants shared the view that FX market liquidity would warrant continued attention, including the potential impact of regulatory developments and changes in market structure and market participants' behaviour.

5. Fair and Effective Markets Review by the UK authorities

The representatives from the Bank of England updated participants on the Fair and Effective Review (FEMR)³ as regards the main themes of the responses⁴ and the timeline of the project.

³ <http://www.bankofengland.co.uk/publications/Pages/news/2014/140.aspx>

⁴ <http://www.bankofengland.co.uk/markets/Pages/femrresponses.aspx>

6. Retail foreign exchange market

Participants discussed reports of the recent developments in retail FX market, particularly in the context of trading after the SNB's policy actions, with a view toward assessing whether developments and practices in the retail FX markets have material impact on liquidity in the wholesale FX markets.

7. Other updates by individual foreign exchange committees

Each committee provided an update on recent activities and issues, including in relation to governance structures, the improvement of semi-annual surveys on market activity, deepening relationships with other committees, and conducting Business Continuity Plan drills.

It was agreed that the next annual meeting will be hosted by the New York Foreign Exchange Committee, tentatively in the first half of 2016.