

Minutes

Foreign Exchange Joint Standing Committee

19 November 2020

Location: Teleconference

Committee **Alan Barnes** – *Financial Conduct Authority*

Attendees: **Andrew Hauser (Chair)** – *Bank of England*

David Clark – *European Venues and Intermediaries Association*

Frances Hinden – *Shell*

Giles Page – *Citigroup*

James Kemp – *FICC Markets Standards Board*

John Blythe (Chair, Operations Sub-committee) – *Goldman Sachs*

Kevin Kimmel – *Citadel Securities*

Lisa Dukes – *Drax*

Marc Bayle de Jesse – *CLS*

Neehal Shah – *BNP Paribas*

Neill Penney – *Refinitiv*

Richard Bibbey – *HSBC*

Richard Purssell – *Insight Investment*

Rohan Churm – *Bank of England*

Russell Lascala – *Deutsche Bank*

Sarah Boyce – *Association of Corporate Treasurers*

Sharon Blackman (Chair, Legal Sub-committee) – *Citigroup*

Sian Hurrell – *RBC*

Simon Manwaring – *Natwest Markets*

Sophie Rutherford – *State Street*

Stephen Jefferies – *JP Morgan*

Wang Yan – *Bank of China*

Zar Amrolia – *XTX Markets*

Guest **Harri Vikstedt** – *Bank of Canada*

Attendees: **Jon Relleen** – *Bank of England*

Paul Meggyesi – *JP Morgan*

FXJSC **David Edmunds** – *Bank of England*

Secretariat: **Grigoria Christodoulou** – *Bank of England*

James O'Connor – *Bank of England*

Jonathan Grant (Legal Secretariat) – *Bank of England*

Lauren Hustwitt – *Bank of England*

Apologies: **Galina Dimitrova** – *The Investment Association*

Robbie Boukhoufane – *Schroders*

Minute no.**Minute**

1.

Welcome and apologies

Andrew Hauser (Chair, Bank of England) welcomed the new Chair of the Legal Sub-committee Sharon Blackman (Citigroup). The Chair also welcomed guest presenters Harri Vikstedt (Bank of Canada) and Paul Meggyesi (JP Morgan).

The Chair also welcomed Jon Relleen (Bank of England) who was providing temporary cover for Rohan Churm (Bank of England).

2.

Minutes of the 10 September meeting

The minutes of the 10 September meeting were agreed. There were no matters arising.

3.

GFXC Discussion

The FXJSC Secretariat provided an overview on the upcoming Global Foreign Exchange Committee (GFXC) meeting on 8 December, with the main focus on the three-year review of the Code. Members discussed the GFXC materials and proposals.

Disclosures: The GFXC Disclosures working group had proposed the creation and adoption of standardised disclosure cover sheets to help Market Participants navigate what could be lengthy and complex disclosures documents. They had also put forward proposals for new Code text to support the provision of clear information around trade rejections and proposed new Code text on Disclosures on handling Confidential Information. Overall, FXJSC members gave a positive reception to the disclosures cover sheets, and recommended that clear instructions be provided for market participants on how to fill them in. The Committee was also in favour of proposed Code text on trade rejection information as well as handling Confidential Information.

Anonymous Trading: Members discussed the material provided by the Anonymous Trading working group relating to trading activity within semi-and fully anonymous environments. The FXJSC were broadly in favour of more transparency and would value the ability to filter for Code compliant liquidity but discussed whether a protocol for cross-venue credit checks was a matter for the Code.

Riskless Principal: The working group had proposed: glossary additions to define 'Riskless Principal'; minor amendments to Principle 8 (Principal / Agent); and two illustrative examples: one of 'good' behaviours and one of 'bad'. The Committee discussed the proposed glossary addition and whether it would be helpful to be more explicit on what duties riskless principals may owe to clients. The proposed 'bad' example was briefly discussed, in particular in connection to the use of confidential information.

Pre-hedging: Harri Vikstedt (Bank of Canada) introduced a paper on pre-hedging. The FXJSC discussed the approach to anchor pre-hedging more clearly to Request for Quote (RFQ) orders, and whether the existing Code example on stop-loss orders might need to be reviewed as a result.

Last Look: FXJSC members were in favour of improving transparency and understanding around last look. They agreed the draft paper contained a wealth of useful material and had a number of suggestions to enhance it further, including increasing the focus on the client side.

Committee members were invited to provide written comments on the GFXC papers. An aggregated summary would be provided to the GFXC Secretariat ahead of the 8 December meeting.

4.

Market Conditions: US Election & Brexit

Paul Meggyesi and Stephen Jefferies (JP Morgan) delivered a presentation on the impact of recent events, including the US election and the end of the Brexit transition period on the FX Market. FX market functioning around the US election has been strong. The picture for traded

volumes was mixed: somewhat above normal baselines in Asian hours, but closer to average in other windows, and across a range of market participants. Events around the election result had led to modest declines in the USD; and results for the congressional elections were seen by market participants as likely to result in future USD fiscal stimulus falling in the middle to lower range of pre-election expectations.

It was observed that progress on the Covid-19 vaccine developments had resulted in an increase in positive sentiment and demand for risky assets which in turn had kept some downward pressure on USD. Broader market functioning had so far been largely unaffected by rising Covid-19 cases and imminent lockdowns, with remote working and contingency planning well established.

Members discussed how anticipating the FX impact of the end of the Brexit transition period was complicated by ongoing uncertainty over the final negotiated outcome. Meanwhile the primary focus for investors had remained on the pandemic in recent months.

5. **Special Discussion: Price Transparency & Transaction Cost Analysis (TCA)**

Kevin Kimmel (Citadel Securities) delivered a presentation on post trade transparency in FX. Some members highlighted the potential benefits of post trade transparency in financial markets and how public reporting of transaction data could reduce information asymmetries in the market. These included: enabling investors to assess execution quality accurately; allowing market makers to price risk more precisely; and contributing to market resiliency by ensuring changes in supply and demand were more efficiently reflected in current price levels.

Members discussed the current state of transparency in FX and the types of TCA, including: in-house solutions; individual liquidity provider / venue solutions; and third parties. Members discussed some of the challenges each type of TCA could encounter, including, achieving real-time price discovery; the challenge in less liquid currencies which had a lower degree of electronic trading; and how post trade reporting compared to other asset classes. Drawing on the earlier discussion, some members noted that a lack of market-wide post-trade reporting in FX risked creating inefficiencies in the application of TCA, as there was no single reliable source to track market-wide activity or evaluate market performance during periods of volatility and against other asset classes. A 'central tape' had delivered a number of benefits in other asset classes, which could also apply for FX. Members discussed some of the challenges to replication this for FX, and possible features that might be built in to address potential concerns of certain market participants.

6. **Update from the FCA – Written Procedure**

The FCA provided an update on ESMA's MAR Review. The FCA encouraged attendees to refer to the information on its website preparing firms for the end of the Brexit transition period¹.

7. **Update from the FICC Markets Standard Board (FMSB) – Written Procedure**

The FMSB reported that the Large Trades paper was near completion and due to be discussed for Transparency Draft publication in early December. Work continued on the Anonymous Platforms paper to identify where it aligned with MIFID; the main change related to disclosures for single-dealer and multi-dealer platforms.

The FMSB updated that the Statement of Good Practice (SoGP) on Algorithmic trading was being revised to identify where it aligned with PRA and FCA guidance.

The FMSB also noted there would likely be a Spotlight Review in Q1 2021 on controls, competency and culture with regards to financial market conduct.

8. **Update from Operations Sub-committee – Written Procedure**

The Operations Sub-committee had met on 12 November 2020. Agenda items had included: a presentation from Bank of England colleagues on Diversity & Inclusion and an update on the

¹ <https://www.fca.org.uk/brexit/onshoring-temporary-transitional-power-ttp>

upcoming Meeting Varied People event; a joint presentation by the Bank of England and UK Finance on Outsourcing and Operational Resilience; an update on the GFXC 3-year review; and a discursive overview of a member firm's FX operations.

9. **Update from Legal Sub-committee – Written Procedure**

The Legal Sub-committee had met on 10 November 2020. Agenda items had included: an introductory presentation from UK Finance and Allen & Overy on settlement contingency options discussed by the Cross Market Business Continuity Group; a readout from the GFXC meeting in September; and an overview on the FX Settlement Crisis Playbook.

10. **Any other business**

The Chair noted that the FXJSC Secretariat would share a schedule for Main Committee meetings in 2021 by end 2020.