

# A review of the work of the London Foreign Exchange Joint Standing Committee in 2008

This article reviews the work undertaken by the London Foreign Exchange Joint Standing Committee during 2008.

## Introduction

The Foreign Exchange Joint Standing Committee (FXJSC — ‘the Committee’) was established in 1973, under the auspices of the Bank of England, as a forum for banks and brokers to discuss broad market issues. The Committee comprises senior staff from many of the major banks operating in the wholesale foreign exchange market in London, representatives from brokers, the Wholesale Market Brokers’ Association (WMBA), the Association of Corporate Treasurers (ACT) — representing corporate users of the foreign exchange market, the British Bankers’ Association (BBA) and the Financial Services Authority (FSA). A list of the members of the Committee as at end-2008, as well as a high-level organogram, can be found at the end of this article.

The Committee held six regular meetings during 2008, as well as a number of *ad hoc* liaison teleconferences. A key feature at the FXJSC meetings during 2008, was the ongoing discussion of market conditions especially those relating to the deterioration in liquidity in FX and swap markets. There was also increased focus by market participants on counterparty risk. There were presentations to the group about the new facilities and operations offered by the Bank of England and their potential impact on the market. The work programme of the main Committee and its subgroups included: reviewing the Non-Investment Products Code (NIPs Code); considering issues in FX settlement risk and possible measures for risk reduction; and the publication of the semi-annual turnover survey of the UK foreign exchange market in April and October 2008. Much of this work was progressed by subgroups, in particular those representing operations managers, legal representatives and other *ad hoc* specialist working groups. The November meeting included a guest speaker who opened the main topic of discussion on lessons from recent market developments and the future challenges facing foreign exchange wholesale markets.

Members of the Committee also met with asset managers and members of the hedge fund community during 2008 to discuss market developments.

## Non-Investment Products Code

The NIPs Code is a voluntary code of good market practice drawn up by market practitioners covering the foreign exchange market in the United Kingdom as well as the markets for wholesale bullion and wholesale deposits. The Code is published by the FXJSC, with contributions from the FXJSC operations and legal subgroups, the Sterling Money Markets Liaison Group and the Management Committee of the London Bullion Market Association (LBMA) for the relevant sections.

A new version of the code was published in April 2009,<sup>(1)</sup> primarily to update references to the FSA Handbook. The Code also included a new paragraph encouraging market participants to utilise settlement services that reduce their exposures to settlement risk.

## Work of the FXJSC operations subgroup

The operations subgroup was established in 2002 and its membership consists of operational managers from many major banks active in the London wholesale foreign exchange market as well as representatives from service providers and banking associations.

During 2008, the operations subgroup and its working groups, in conjunction with the legal subgroup, worked on reviewing and providing updates to sections of the NIPs code. A working group of the operations subgroup was set up to establish best practice standards for FX option confirmations and considered issues such as FX settlement risk, claims processing and the standardisation of Standard Settlement Instructions. The operations subgroup has also strengthened its co-operation with other international committees by regular liaison conference calls to discuss the workstreams of the individual groups. It also held a joint meeting with the members of the New York Operational Managers Working Group (OMWG) to discuss common areas of interest, such as option

(1) See [www.bankofengland.co.uk/markets/forex/fxjsc/nipscode.pdf](http://www.bankofengland.co.uk/markets/forex/fxjsc/nipscode.pdf).

confirmations, settlement risk and novations. The operations subgroup also reviewed training and education initiatives for operations managers available in the market place.

### Work of the FXJSC contingency subgroup

The contingency subgroup, which was established in 2005, continued to highlight business continuity issues relevant to the foreign exchange market, including settlement deadlines and reviewing processes in times of high volumes. The operations subgroup conducted a business continuity test during the year which was successful.

### Work of the FXJSC legal subgroup

The legal subgroup was established in 2004 and comprises 17 members offering in-house counsel for many of the major institutions involved in the wholesale foreign exchange markets in London. The group met three times in 2008. It continued to make an invaluable contribution through its provision of legal support to the work of the FXJSC main Committee and operations subgroup; in particular through advising on and drafting the sections to update the NIPs Code. During 2008, the legal subgroup welcomed guest speakers from EMTA, CLS, Allen and Overy, and the FSA.

In addition, the legal subgroup participated in the FXJSC operations sub working group on FX Options Confirmations which continued to work on standardising the master documentation on non-deliverable forward (NDF)<sup>(1)</sup> confirmation. The group also considered the treatment of FX forwards in the Markets in Financial Instruments Directive ('MiFID') and reviewed and updated references in the NIPs code which had been superseded by the introduction of MiFID. The legal subgroup continued to liaise with a range of other domestic and foreign legal committees to keep abreast of topical issues relating to foreign exchange markets.

### FXJSC Chief Dealers' subgroup

The Chief Dealers' subgroup was established in July 2005. Its membership in 2008 comprised twelve chief dealers active in the London foreign exchange market.

The subgroup met three times during 2008 to discuss conjunctural and structural developments in the foreign exchange market, focusing on volatile market conditions and their impact on trading. The group also discussed developments in e-commerce with a particular focus on the provision of liquidity and exchange rate fixings.<sup>(2)</sup>

### International co-operation

Liaison between the eight foreign exchange committees based in different international financial centres (London, Frankfurt

for the euro area, Hong Kong, New York, Singapore, Sydney, Tokyo and Toronto) continued during the year. In April 2008 the London Committee hosted the second global meeting of the FX committees. Topics discussed included current market developments and foreign exchange activity in volatile market conditions, algorithmic trading, the growth of retail activity — with a particular focus on the impact on liquidity and the FX turnover surveys produced by some of the committees.

### International survey results overview

Thirty two banks, drawn from committee members and the most active participants in the London foreign exchange market, contributed to the eighth and ninth semi-annual surveys of foreign exchange turnover in London conducted by the FXJSC. In April 2008 a revised and more comprehensive survey was introduced. The new survey includes additional currency information, counterparty types (eg retail activity), maturities, modes of execution eg electronic trades transacted, and product (eg derivatives). In April 2008 the survey continued to show strong growth in London foreign exchange turnover, however given further deterioration in the global economic environment turnover in October declined by 8%. Average daily turnover<sup>(3)</sup> recorded in the October 2008 survey was \$1,679 billion, 8% lower than the April survey, but still some 21% higher than in October 2007 (**Chart 1**). By comparison, turnover growth recorded by the New York Foreign Exchange Committee was 9% on the year to October 2008, while Singapore and Canada rose 9% and 1% respectively. Turnover growth recorded in Australia was down 7% on the year to October 2008.

The decrease in London turnover in October compared to April was more than accounted for by a 23% fall in foreign exchange swaps turnover (**Chart 2**). This reflected ongoing strains in international money markets. Spot and outright forward products continued to grow.

Turnover in most major currencies fell, with the exception of the Japanese yen and euro (**Chart 3**). Turnover in sterling decreased 7%, while turnover in the US dollar dropped 11% in October from April. Turnover concentration in the top five banks rose markedly to 53% from 45% in April 2008, while the number of banks accounting for 95% of turnover remained broadly consistent at 21 for October 2008.

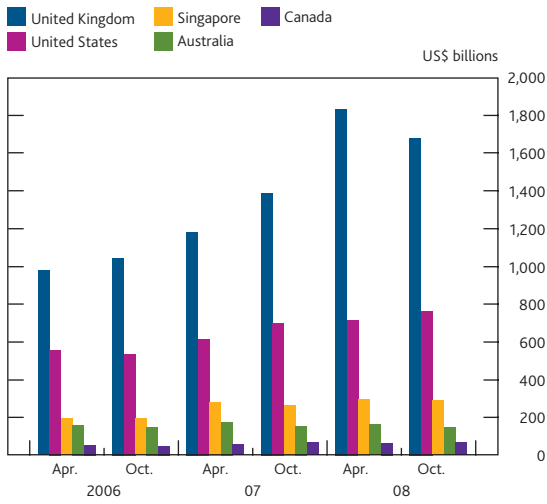
The forthcoming FXJSC survey results for April 2009 will be published in Summer 2009.

(1) NDFs are forward contracts in foreign exchange where one currency is not easily traded. The contract is priced by reference to a particular source for the bilateral exchange rate but is settled entirely in the more freely available currency, usually dollars.

(2) The fixing rate of a particular currency pair is a reference rate at a specific point in time and is used, for example, in the settlement of forward foreign exchange contracts.

(3) Based on spot, outright forwards, FX swaps and other OTC foreign exchange instruments.

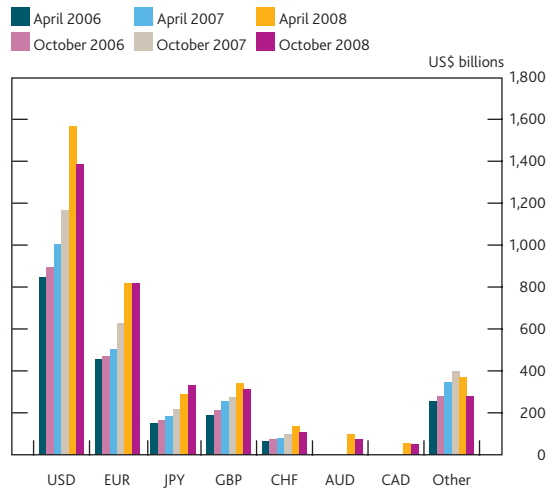
**Chart 1 Global FX<sup>(a)</sup> daily average turnover**



Sources: Canadian Foreign Exchange Committee, London Foreign Exchange Joint Standing Committee, New York Foreign Exchange Committee and Singapore Foreign Exchange Committee.

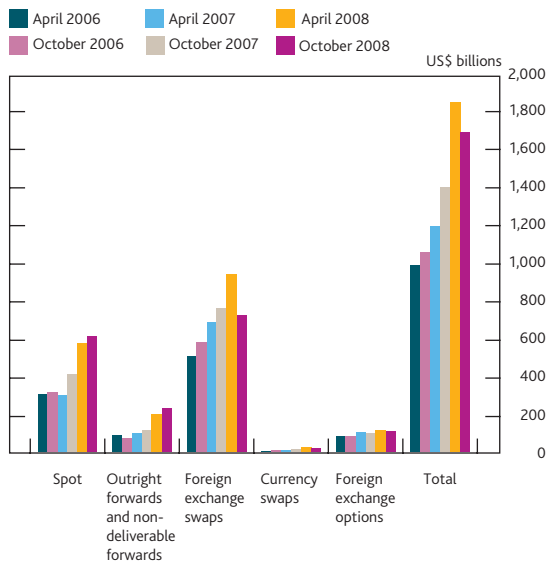
(a) This includes spot, outright forwards, FX swaps, currency swaps and FX options.

**Chart 3 UK daily average turnover by currency**



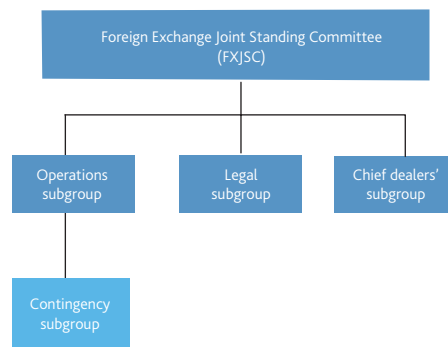
Source: London Foreign Exchange Joint Standing Committee.

**Chart 2 UK daily average turnover by product**



Source: London Foreign Exchange Joint Standing Committee.

**Figure 1 Foreign Exchange Joint Standing Committee: structure**



### Members of the London Foreign Exchange Joint Standing Committee as at December 2008

Name	Firm/Organisation
Brian Welch	Association of Corporate Treasurers
Vincent Delorenzo	Bank of America
Rob Loewy	Bank of China
Richard Gill	The Bank of New York Mellon
Sean Comer	Barclays
Cassandra Kenny	British Bankers' Association
Vincent Leclercq	Calyon
James Bindler	Citigroup
Rob Close	CLS
Zar Amrolia	Deutsche Bank
Heather Pilley	Financial Services Authority
Phil Weisberg	FXAll
Nick Burgin	Goldman Sachs
Andrew Brown	HSBC
Christopher Wilcox	JPMorgan Chase
Sara Edgington	Morgan Stanley
Marcus Nysten	SEB
James Potter	Tullet Prebon
Darren Coote	UBS
Ben Welsh	Unicredit
Stewart Lloyd-Jones	Wholesale Market Brokers' Association
Susan Balogh	Chair, operations subgroup
Susan Revell	Chair, legal subgroup
Paul Fisher (Chair)	Bank of England
Grigoria Christodoulou/Sumita Ghosh (Secretariat)	Bank of England

### Members of the London Foreign Exchange Joint Standing Committee operations subgroup as at December 2008

Name	Firm/Organisation
Dennis Sweeney	Association of Foreign Banks
Michael Douglas	Bank of America
Richard Gray	Bank of England
Duncan Lord	Barclays Capital
Cassandra Kenny	British Bankers' Association
Leigh Meyer	Citigroup
Phil Kenworthy	CLS Services
Andreas Gaus	Credit Suisse
Tony Beels	Deutsche Bank
Mike Neale	HSBC
Colin Perry	ICAP
Graeme Munro	JPMorgan Chase
Derrick Pearson	Lloyds
Kim Surendran	Mellon Bank
Andrew Harvey	Morgan Stanley
John Moorhouse	Reuters
Jeremy Hill	Royal Bank of Scotland
Ian Cowell	State Street
Alan Spalding	SWIFT
William Boss	UBS
Susan Balogh (Chair)	Goldman Sachs
Grigoria Christodoulou/Sumita Ghosh (Secretariat)	Bank of England

### Members of the London Foreign Exchange Joint Standing Committee Chief Dealers' subgroup as at December 2008

Name	Firm/Organisation
Ichei Kuki	Bank of Tokyo-Mitsubishi UFJ
Danny Wise	Barclays Capital
Robert de Groot	Citigroup
Bernie Kipping	Commonwealth Bank of Australia
Angus Grieg	Deutsche Bank
Gary Nettleingham	HSBC
Geoff Thorpe	JPMorgan Chase
Chris Nicoll	Morgan Stanley
Mark Iles	Royal Bank of Canada
Roger Hawes	Royal Bank of Scotland
Chris Freeman	State Street
Nial O'Riordan	UBS
Martin Mallett (Chair)	Bank of England
James O'Connor	Bank of England

### Members of the London Foreign Exchange Joint Standing Committee legal subgroup as at December 2008

Name	Firm/Organisation
Gaynor Wood	Bank of America
Chris Allen	Barclays Capital
Richard Haynes	Citigroup
Julia Elliot	Citigroup
Leonie Miller	Credit Suisse
Carl Husselmann	Deutsche Bank
Anne Moore-Williams	FSA
Dan Parker	Goldman Sachs
Felicity White	HSBC
Patrick Palmer	JPMorgan Chase
Stephen Potts	Lloyds TSB
Ed Bracken	Morgan Stanley
Martin Oakley	Reuters
Alex Bouchier	Royal Bank of Scotland
Alistair Clevely	Standard Chartered
Kate Binions	Standard Chartered
Kurt Crommelin	UBS
Susan Revell (Chair)	Morgan Stanley
Jacqueline Joyston-Bechal (Secretary)	Bank of England