

A review of the work of the London Foreign Exchange Joint Standing Committee in 2012

This article reviews the work undertaken by the London Foreign Exchange Joint Standing Committee during 2012.

Introduction

The London Foreign Exchange Joint Standing Committee (FXJSC — hereon, '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 (FX) market in London, representatives from brokers, trade associations including the Wholesale Markets Brokers' Association, the Association of Corporate Treasurers — representing corporate users of the foreign exchange market, the British Bankers' Association and the Financial Conduct Authority. A list of the members of the Committee as at end-2012, and a high-level organogram, can be found at the end of this article. The Committee held six meetings during 2012.

The evolving regulatory landscape for over-the-counter derivatives internationally, and the possible implications for the structure of FX markets, remained a key theme for the FXJSC in 2012. Guest speakers from Rolls Royce discussed the impact of the proposed regulatory changes on non-financial companies, while Currenex focused on non-wholesale FX markets. Developments in high-frequency trading were another area of discussion. The Committee also reviewed changes to the UK regulatory framework, in particular the creation of the new Prudential Regulation Authority and the remit of the Financial Policy Committee.

Non-Investment Products (NIPs) Code

The NIPs Code is a voluntary code of good market practice drawn up by market practitioners covering the FX 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 for the relevant sections. The current version of the Code was published in November 2011.⁽¹⁾

Work of the FXJSC operations subgroup

The operations subgroup was established in 2002. Its members are operational managers from many major banks active in the London wholesale FX market as well as representatives from service providers and trade associations.

In 2012, the operations subgroup sponsored a variety of workstreams including reviewing FX option confirmation and affirmation timelines (and their relation to emerging regulations) as well as improving its own understanding of the details of FX settlement processes.

Over the course of the year, the subgroup received presentations on themes relating to regulatory developments relevant to the FX market; on the FXJSC's turnover survey; and on business continuity planning.

Work of the FXJSC legal subgroup

The legal subgroup was established in 2004 with some fourteen professional members providing in-house legal counsel for many of the major institutions involved in the wholesale FX market in London. The group met three times in 2012. It continued to make an important contribution through its provision of legal support to the work of the FXJSC main Committee and its operations subgroup. During 2012, the legal subgroup welcomed guest speakers on topical issues of regulatory change affecting the FX markets from the Federal Reserve Bank of New York, Allen & Overy and Clifford Chance as well as member firms. The group also discussed recent developments in the global FX market.

The legal subgroup continued to liaise with a range of other domestic and foreign legal committees to keep abreast of developments in FX markets.

(1) The NIPs Code can be accessed at:
www.bankofengland.co.uk/markets/Documents/forex/fxjsc/nipscode.pdf.

Work of the FXJSC chief dealers' subgroup

The chief dealers' subgroup was established in July 2005. Its membership in 2012 comprised twelve chief dealers active in the London FX market.

The subgroup met three times during 2012 to discuss conjunctural and structural developments in the FX market. Topics of discussion included market conditions, particularly in the euro area, the evolution of the offshore renminbi market and regulatory developments impacting on FX markets globally.

International co-operation

Liaison between the eight FX committees based in different international financial centres (London, Frankfurt for the euro area, Hong Kong, New York, Tokyo, Singapore, Sydney and Toronto) continued during the year. In March 2012, the ECB Foreign Exchange Contact Group hosted the fifth global meeting of the FX committees. Topics discussed included developments in FX best practices, international regulatory reform initiatives, and developments in FX transaction reporting, including the semi-annual turnover surveys.

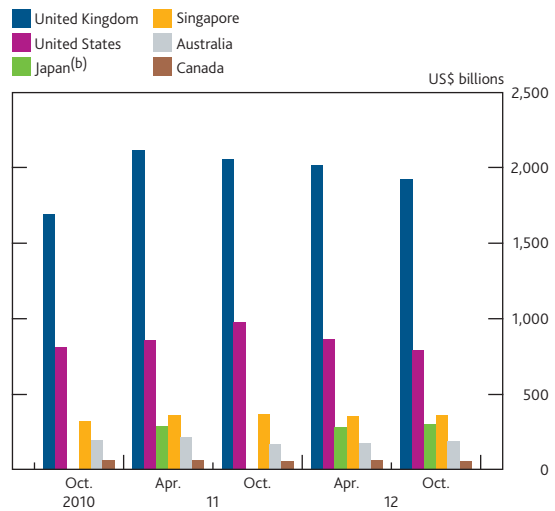
International survey results overview

Thirty banks representing the most active participants in the London FX market contributed to the 16th and 17th semi-annual surveys of FX turnover in London in April and October 2012. Total turnover fell 7% in the year to October 2012, 9% below the April 2011 survey high. This extended the fall recorded between April and October 2011 and took total turnover to its lowest level since October 2010, at US\$1.9 trillion per day (**Chart 1**).

Similarly, most other global centres reported a fall in total turnover in the year to October 2012: the United States registered the largest fall (down 19%), followed by the United Kingdom (down 7%), Canada (down 3%) and Singapore (down 2%). In contrast, turnover in Australia rose by 11%, driven by increased FX swap volumes. Between April and October 2012, global turnover trends were less consistent: the United States, United Kingdom and Canada reported falls in turnover, while slight increases were recorded in Singapore, Japan and Australia. Overall, global volumes between April and October 2012 were down 4%.

The broad upwards trend in FX spot turnover over the past few years showed signs of reversing in 2012. Average daily spot turnover in the United Kingdom fell to US\$678 billion in October 2012, 17% lower than the previous year (**Chart 2**). This was echoed in other global centres, and US spot turnover fell 33% in the year to October 2012. UK FX swaps turnover rose close to survey highs in April 2012, before falling 4% in

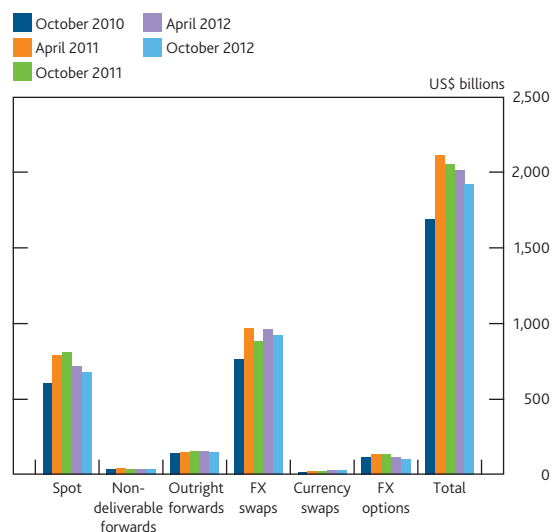
Chart 1 Global FX^(a) daily average turnover



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

- (a) This includes spot, non-deliverable forwards, outright forwards, FX swaps, currency swaps and FX options.
- (b) The Tokyo Foreign Exchange Market Committee began reporting turnover data on a semi-annual basis from October 2012. Previously they collected data annually in April.

Chart 2 UK daily average turnover by product

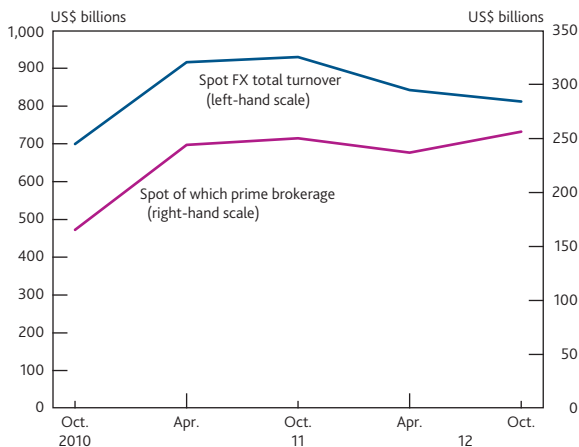


Source: London Foreign Exchange Joint Standing Committee.

October to US\$920 billion per day. FX option turnover fell 24% in the year to October 2012. Turnover in other products was little changed.

The fall in FX spot turnover can be partly attributed to a decline in deals with 'other banks', a category that includes smaller banks not participating in the FXJSC survey. The proportion of spot deals accounted for by other banks fell to 24% in October 2012, from 28% a year earlier. FX spot deals with 'other financial institutions' — such as hedge funds, central banks and sovereign wealth funds — also declined after rising markedly in recent years. Despite the overall fall in spot volumes, reported prime brokered spot transactions rose to a record high in October, accounting for almost a third of all spot trades during the month (**Chart 3**).

Chart 3 UK average daily spot and prime brokered spot turnover^(a)

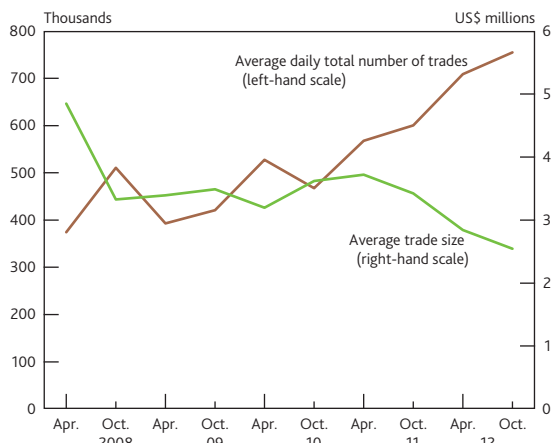


Source: London Foreign Exchange Joint Standing Committee.

(a) Prime brokerage data are not adjusted for double counting of reporting dealers.

The average daily number of trades continued to rise, increasing 6% in the six months to October 2012 (Chart 4). This was driven by an 8% increase in the number of spot trades, which combined with lower turnover reduced the average spot trade size to US\$1.0 million in October 2012 (from US\$1.5 million a year earlier), a survey low.

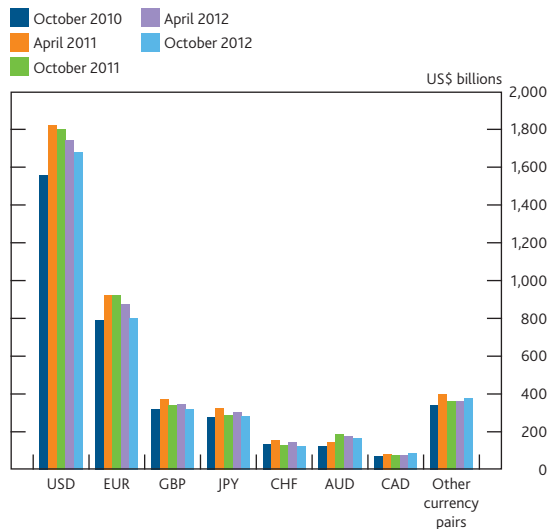
Chart 4 Average daily number of trades and average trade size (all products)



Source: London Foreign Exchange Joint Standing Committee.

Turnover in most major currencies fell broadly in line with the headline fall in FX turnover (Chart 5). The largest change was turnover in transactions against the euro, which as a proportion of total turnover, fell to a record survey low (41.7% of deals involved the euro in October 2012, versus 44.8% in October 2011). Turnover in sterling and US dollar pairs was little changed. Canadian dollar activity rose markedly: turnover in USD/CAD increased 10% from a year earlier. A number of emerging market currencies' turnover rose to record survey highs in October 2012, with particularly strong growth in the Indian rupee (up 71% from a year earlier) and

Chart 5 UK daily average turnover by currency



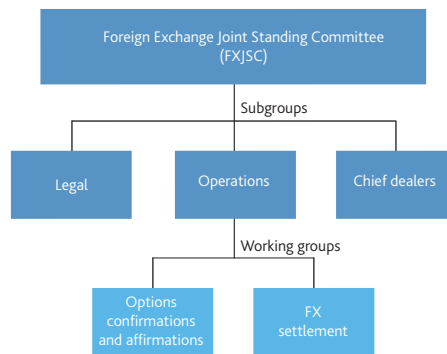
Source: London Foreign Exchange Joint Standing Committee.

South Korean won (up 48%). But turnover in some emerging market currencies fell, in particular the Turkish lira (down 31%).

Overall turnover concentration for the survey was broadly similar to that recorded in October 2011; the top five banks participating in the survey accounted for 51% of overall turnover. Between April and October 2012 there was a marked increase in turnover concentration for spot trades, and for the first time since the survey was launched in 2004, the top three spot contributors accounted for over half of total turnover.

The forthcoming FXJSC survey results for April 2013 will be published in Summer 2013.

Figure 1 Foreign Exchange Joint Standing Committee: structure



Tables of membership at end-2012

Members of the London Foreign Exchange Joint Standing Committee as at December 2012

Name	Firm/organisation
Brian Welch	Association of Corporate Treasurers
Christopher Bae	Bank of America Merrill Lynch
Rob Loewy	Bank of China
Richard Gill	Bank of New York Mellon
Mike Bagguley	Barclays
Eric Auld	BNP Paribas
Andrew Rogan	British Bankers' Association
James Bindler	Citi
Vincent Leclercq	Crédit Agricole CIB
Zar Amrolia	Deutsche Bank
Heather Pilley	Financial Services Authority
Phil Weisberg	FXAll
Nick Burgin	Goldman Sachs
Frederic Boillereau	HSBC
Gil Mandelzis	ICAP
Troy Rohrbaugh	JPMorgan Chase
Tim Carrington	Royal Bank of Scotland
James Potter	Tullett Prebon
George Athanasopoulos	UBS
Alex McDonald	Wholesale Markets Brokers' Association
Chris Allen	Barclays, Chair, legal subgroup
Jacqueline Joyston-Bechal	Bank of England, Secretariat, legal subgroup
Graeme Munro	JPMorgan Chase, Chair, operations subgroup
Nick Cox	BlackRock, Chair, FX investor subgroup
Michael Cross (Chair)	Bank of England
Elizabeth Wrigley	Bank of England
Grigoria Christodoulou, Jack Garrett-Jones and Sumita Ghosh (Secretariat)	Bank of England

Members of the London Foreign Exchange Joint Standing Committee chief dealers' subgroup as at December 2012

Name	Firm/organisation
Tatsuro Mitsui	Bank of Tokyo-Mitsubishi UFJ
Bob De Groot	BNP Paribas
Rohan Ramchandani	Citi
Danny Wise	Credit Suisse
Jon Pierce	Goldman Sachs
Stuart Scott	HSBC
Richard Usher	JPMorgan Chase
Ed Monaghan	Royal Bank of Canada
James Pearson	Royal Bank of Scotland
Chris Freeman	State Street
Niall O'Riordan	UBS
Martin Mallett (Chair)	Bank of England
James O'Connor	Bank of England

Members of the London Foreign Exchange Joint Standing Committee operations subgroup as at December 2012

Name	Firm/organisation
Nigel Brigden	Association of Foreign Banks
Louise Lee	Bank of England
Pamela Bald	Bank of New York Mellon
Duncan Lord	Barclays
Andrew Rogan	British Bankers' Association
Leigh Meyer	Citi
John Hagon	CLS Services
Nick Doddy	Deutsche Bank
Luke Cunningham	HSBC
Craig Stirling	Morgan Stanley
Stephen Nankivell	Nomura
Jeremy Hill	Royal Bank of Scotland
Ian Cowell	State Street
Joe Halberstadt	SWIFT
Daniel Haid	UBS
Graeme Munro (Chair)	JPMorgan Chase
Jacqueline Joyston-Bechal	Bank of England, Secretariat, legal subgroup
Grigoria Christodoulou, Andrew Forrest, Jack Garrett-Jones and Sumita Ghosh (Secretariat)	Bank of England

Members of the London Foreign Exchange Joint Standing Committee legal subgroup as at December 2012

Name	Firm/organisation
Gaynor Wood	Bank of America
Helen Oldfield	Barclays
Richard Haynes	Citi
Simon Goldsworthy	Deutsche Bank
Anne Moore-Williams	Financial Services Authority
Dan Parker	Goldman Sachs
Christian Bettley	HSBC
Patrick Palmer	JPMorgan Chase
Barra Little	Morgan Stanley
Joanna Wormell	Royal Bank of Scotland
Alistair Cleverly	Standard Chartered
Richard Lamb	UBS
Chris Allen (Chair)	Barclays
Jacqueline Joyston-Bechal (Secretariat)	Bank of England