

Minutes

Global Foreign Exchange Committee Meeting

23 September 2020

Location: Videoconference

Chair: Guy Debelle (Reserve Bank of Australia)

Vice-Chairs: Akira Hoshino (Citi) and Neill Penney (Refinitiv)

Attendees: AUSTRALIA – Australian Foreign Exchange Committee

Public Representative: Christopher Kent (Reserve Bank of Australia)

Private Representative: Stuart Simmons (QIC)

Other Attendees: Matthew Boge and Jason Griffin (Reserve Bank of Australia)

BRAZIL – Brazilian Foreign Exchange Committee

Public Representative: Patricia Dias and Daniel Nunes da Silva (Banco Central de Brazil)

CANADA – Canadian Foreign Exchange Committee

Public Representative: Grahame Johnson (Bank of Canada)

Private Representative: Lorne Gavsie (CI Investments)

Other Attendees: Zahir Antia and Harri Vikstedt (Bank of Canada)

CHINA – Foreign Exchange Committee

Public Representatives: Sun Guofeng (People's Bank of China) and Sun Jie (China Foreign Exchange Trade System)

Private Representative: Sun Yu (Bank of China)

Other Attendees: Qiao Linzhi (State Administration of Foreign Exchange) and Li Yuqing (China Foreign Exchange Trade System)

EURO AREA – Foreign Exchange Contact Group

Public Representative: Torsti Silvonen (European Central Bank)

Private Representative: Ankur Pruthi (Norges Bank Investment Management)

Euro Area Central Bank Observer: Jens Budde (Deutsche Bundesbank)

Other Attendees: Volker Enseleit and Roswitha Hutter (European Central Bank) and Stephane Malrait (ING).

GEORGIA – Financial Markets Treasuries Association

Public Representative: Archil Mestvirishvili and Giorgi Laliashvili (National Bank of Georgia)

Private Representative: Lasha Jugeli (GFMTA)

HONG KONG – Treasury Markets Association

Public Representative: Kim-Hung Li (Hong Kong Monetary Authority)

Private Representative: Chordio Chan (Bank of China)

INDIA – Foreign Exchange Committee

Public Representative: Radha Shyam Ratho (Reserve Bank of India)
Private Representative: Ashwani Sindhvani (FX Dealers' Association of India)

JAPAN – Tokyo Foreign Exchange Market Committee

Public Representative: Shuntaro Hara (Bank of Japan)
Private Representative: Naoto Nakamura (MUFG Bank)
Other Attendees: Misa Fujisaki (Bank of Japan)

MEXICO – Mexican Foreign Exchange Committee

Public Representative: Gerardo Garcia (Banco de Mexico)
Private Representative: Javier Alvarado (MONEX Brokerage House)

RUSSIA – Moscow Foreign Exchange Joint Standing Committee

Public Representative: Valeriy Lyakh (Central Bank of Russia)
Private Representative: Sergey Romanchuk (Metallinvest Bank)

SINGAPORE –Singapore Foreign Exchange Market Committee

Public Representative: Jaqueline Loh (Monetary Authority of Singapore)
Private Representative: Lam Kun Kin (OCBC Bank)
Other Attendees: Cindy Mok (Monetary Authority of Singapore)

SOUTH AFRICA – South African Foreign Exchange Committee

Public Representative: Zafar Parker (South African Reserve Bank)
Private Representative: Richard De Roos (Standard Bank of South Africa)

SOUTH KOREA – Seoul Foreign Exchange Committee

Public Representative: Jonghwan Gu (Bank of Korea)
Private Representative: Kyungho Kim (Woori Bank)

SWEDEN - Scandinavian Foreign Exchange Committee

Public Representative: Anders Gange (Sveriges Riksbank)
Private Representative: Svante Hedin (SEB)

SWITZERLAND – Swiss Foreign Exchange Committee

Public Representative: Marcel Zimmermann (Swiss National Bank)
Private Representative: Ernst Lienhard (Swiss Re)
Other Attendees: Barbara Döbeli (Swiss National Bank)

UK – London Foreign Exchange Joint Standing Committee

Public Representatives: Andrew Hauser (Bank of England)
Private Representative: Russell Lascala (Deutsche Bank)
Other Attendees: Grigoria Christodoulou, Rohan Churm and David Edmunds (Bank of England)

US – New York Foreign Exchange Committee

Public Representative: Anna Nordstrom (Federal Reserve Bank of New York)
Private Representative: Christopher Vogel (TD Securities)
Other Attendees: Alex Cohen, Michelle Ezer, Sanja Peros, Dan Reichgott and Shawei Wang (Federal Reserve Bank of New York)

Guests

Full meeting: Donny Hutabarat (Bank of Indonesia), Tal Biber, Francoise Ben-Zur and Mickey Blank (Bank of Israel)

Session 4: Jenny Hancock and Takeshi Shirakami (Secretariat of the Committee of Payments and Market Infrastructures (CPMI), Bank for International Settlements); Alan Marquard (CLS); Lawrence Sweet (Federal Reserve Bank of New York and the CPMI).

Item no. Minute**1. Welcome and Competition Guidelines**

Guy Debelle (the Chair) welcomed the Global Foreign Exchange Committee (GFXC, or ‘the Committee’) members. Shawei Wang (Federal Reserve Bank of New York) gave an overview of the [Competition/Antitrust Law Guidelines for Members of the Global Foreign Exchange Committee](#). The need for the Committee to take care to ensure that the GFXC did not facilitate or act as a focal point of any anti-competitive behaviour was noted.

The Chair referred to the draft changes to the GFXC’s Terms of Reference that had been distributed to members. The Chair requested that any objections to the proposed changes be sent to the GFXC Secretariat in the week following this meeting.

2. Market Conditions

GFXC Co-Vice Chair Akira Hoshino (Citi, [presentation](#)) analysed recent market developments, noting that corrective movements in currencies had become less correlated with movements in asset markets, suggesting that central bank liquidity provision and asset purchases were providing support to markets more broadly. In G7 currencies it was noted that indicators of liquidity such as bid-offer spreads were approaching more normal levels, although measures of market depth remained below pre-pandemic levels. Market liquidity had also improved in emerging market currencies, but the performance there was more diverse with top-of-book spreads and market depth generally worse than pre-pandemic levels. Volatility was also beginning to rise, reflecting uncertainties such as renewed Covid-19 concerns, the US election, and Brexit.

GFXC members made several broader observations regarding trading activity, noting that the share of trading on primary market venues had declined back to pre-pandemic levels. Additionally, the significant increase in algorithmic execution observed in March had also moderated in recent months.

Richard De Roos (Standard Bank, [presentation](#)) also noted disparities in the performances of emerging market currencies, suggesting that this reflected idiosyncratic factors. As an illustration, the relative performance of option volatilities in the Mexican peso and South African rand were considered. Although option volatilities in both currencies had moderated significantly since March, the rand’s volatility had remained more elevated, likely due to ongoing concerns regarding Turkey, for which the rand was sometimes used as a risk proxy.

Although retail accounts had been very active recently in a range of markets (such as the NASDAQ and crypto currencies), De Roos reported that the significance of the retail sector in emerging market currencies such as the South African rand had declined, suggesting the correlation with equities in any near-term market reversals may be reduced.

Lam Kun Kin (OCBC, [presentation](#)) focussed on recent trends in capital flows in discussing conditions in emerging markets. The sharp outflows from emerging markets observed over March had abated, but inflows had been relatively limited in recent months. There had been some exceptions such as inflows into Asian government bonds, particularly China. These flows were likely driven by the low interest rate environment globally and the higher yields achievable at longer tenors in Asian markets.

Sun Guofeng (PBC) summarised the recent performance of Chinese markets. China's FX markets had recovered strongly and the RMB had remained resilient amid the resumption of economic activity. Liquidity had returned to pre-pandemic levels while interbank trading volumes had increased to exceed levels observed at the same time last year. The positive experience was also reflected in capital inflows into the stock market through Stock Connect, while bond inflows had been particularly strong.

The Committee also discussed cases where currency controls in various countries caused pricing disruptions in Non-Deliverable Forwards markets. In this regard, local Foreign Exchange Committees will consider existing fallback mechanisms and whether there may be benefits to clarifying best practices for calculation agents.

3. **GFXC Working Group updates**

The Committee discussed the progress the respective working groups had made in addressing the focus areas of the FX Global Code review: buy-side engagement, trade execution principles, disclosures, anonymous trading and algorithmic trading.

The Working Group on Buy-Side Engagement presented its response to feedback from some market participants for a buy-side version of the FX Global Code and Statement of Commitment. The Committee agreed with the working group's conclusion that a single Code remains important in ensuring a common market standard on what constitutes good practice, and that a single Statement is easier to understand and acts as a clear benchmark for adoption. Noting that the Code should be applied by each Market Participant in a manner that is proportionate to the nature of their engagement in the market, the Committee agreed that it would develop further guidance to assist firms in identifying those principles of the Code that are the most appropriate for them to evaluate.

The Committee reviewed trends in the buy-side's adoption of the Code (as evidenced by published Statements of Commitment), noting that while much progress had been made, greater engagement from the buy-side was still needed and would remain a priority for the GFXC.

The Working Group is also continuing to assess the feasibility of a study to analyse the Code's impact on the FX market. The conclusions of that assessment will be presented at the December GFXC meeting.

The Working Group on Trade Execution Principles updated the Committee on the guidance material it is developing on last look, pre-hedging and riskless principal. Draft materials will be distributed to

the local FXCs for comment ahead of December's GXFC meeting. In discussing the concept of 'riskless principal' (a term not currently referenced in the FX Global Code) members noted that any guidance developed by the GFXC in this area needs to be mindful of regulation (such as MiFID in Europe). It was commented that last look rejection rates in many emerging market currencies had increased significantly earlier in the year, and it was not clear that sufficient clarity was always being provided to clients around the reasons for trade rejections.

The Working Group on Disclosures and Transparency presented its work in identifying the key issues in the disclosures landscape and next steps for developing solutions to those issues. The working group noted particular challenges Market Participants faced in accessing and evaluating the large amount of varied disclosure information that was being made available to clients. Disclosure information was often provided in an inconsistent manner with varied structures and levels of detail. The GFXC agreed that the working group should focus efforts in this space, with the aim of developing solutions that would mitigate issues in comparing information across different disclosure documents and facilitating access to disclosure information.

The Working Group on Anonymous Trading set out their five areas of focus: cross venue credit checks and monitoring; trade and market data sharing policies; disclosures between anonymous platforms and users; platforms identifying Code adherents; and tag management and counterparty identification. A summary of key issues around anonymous trading and potential next steps for the Code review are expected to be discussed in greater detail at the December GFXC meeting.

The Working Group on Algorithmic Trading and Transaction Cost Analysis were planning a series of sessions to discuss transaction cost analysis and data availability; control mechanisms and liability; conflicts of interest; and disclosures and user education. The group would also leverage the recent analysis the Bank for International Settlement (BIS) Markets Committee conducted on algorithmic trading and their conclusions would inform the Working Group's recommendations for next steps.

4. **FX Settlement Risk**

Guests from the CPMI and CLS again joined with GFXC members to discuss settlement trends within the foreign exchange market and how the associated risks were being managed. The Committee also discussed recent settlement issues in the market for Turkish lira, noting that it served to highlight the importance of market participants making the maximum effort to complete their settlements to avoid exacerbating liquidity strains or otherwise disrupting the market.

Members discussed the importance of managing settlement risk and the need for ongoing engagement from Market Participants in this area. The Committee resolved to discuss settlement risk at least once per year as a standing agenda item. The Committee agreed that central banks should work with market participants to enhance their surveys of market activity to regularly capture data on settlement methods. Members also agreed that the Code's guidance on settlement risk should be strengthened. The Reserve Bank of Australia will draft text for consideration at the GFXC's December meeting.

5. **Wrap up and Next steps**

The Chair noted that a [press statement](#) summarising the main points from the videoconference would be published on 25 September. The report on Operational Resilience prepared by Neill Penney (Co-Vice Chair) would be [published](#) alongside the press statement.

The Chair updated members on the process for selecting a new Co-Vice Chair, with Akira Hoshino's term set to expire in December.

The GFXC's next videoconference will be held on 8 December.