

# Minutes

## Global Foreign Exchange Committee Meeting

29 March 2021

Location: Videoconference

Chair: Guy Debelle (Reserve Bank of Australia)

Vice-Chairs: Richard De Roos (Standard Bank of South Africa) 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 (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:** William Kellett (Scotiabank)

**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)

DENMARK - Scandinavian Foreign Exchange Committee

**Public Representative:** Michal Nielsen (National Bank of Denmark)

**Private Representative:** Svante Hedin (SEB)

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, Roswitha Hutter and Toma Tomov (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 Representatives:** Radha Shyam Ratho and Gunturu Seshsayee (Reserve Bank of India)**Private Representative:** Ashwani Sindhvani (FX Dealers' Association of India)INDONESIA – Indonesian Foreign Exchange Market Committee**Public Representative:** Donny Hutabarat (Bank of Indonesia)ISRAEL**Public Representative:** Tal Biber (Bank of Israel) and Francoise Ben-Zur (Bank of Israel)**Other Attendees:** Mickey Blank (Bank of Israel)JAPAN – Tokyo Foreign Exchange Market Committee**Public Representative:** Shuntaro Hara (Bank of Japan)**Private Representative:** Naoto Nakamura (MUFG Bank)**Other Attendees:** Akira Hoshino (Citi) and Misa Fujisaki (Bank of Japan)MEXICO – Mexican Foreign Exchange Committee**Public Representative:** Gerardo Garcia (Banco de Mexico)**Private Representative:** Javier Alvarado (MONEX Brokerage House)**Other Attendees:** Mayte Rico (Banco de Mexico)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:** David Lynn (Deutsche Bank)**Other Attendees:** Cindy Mok (Monetary Authority of Singapore)SOUTH AFRICA – South African Foreign Exchange Committee**Public Representative:** Zafar Parker (South African Reserve Bank)SOUTH KOREA – Seoul Foreign Exchange Committee**Public Representative:** Jonghwan Gu (Bank of Korea)**Private Representative:** Taehyun Sang (Woori Bank)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 and Rohan Churm (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:** Alain Chaboud (Federal Reserve Board), Alex Cohen, Michelle Ezer, Sanja Peros, Dan Reichgott and Shawei Wang (Federal Reserve Bank of New York)Guests**Settlement Risk:** Mark Bayle De Jesse and Dino Kos (CLS) and Takeshi Shirakami (Secretariat of the Committee of Payments and Market Infrastructures (CPMI), Bank for International Settlements).

<b>Item no.</b>	<b>Minute</b>
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1.	<b>Welcome and Competition Guidelines</b>
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Guy Debelle (the Chair) welcomed the members of the Global Foreign Exchange Committee (GFXC, or 'the Committee').

Volker Enseleit (European Central Bank) gave an overview of the [Competition/Antitrust Law Guidelines for Members of the GFXC](#).

As the terms of the Chair and Neill Penney (as co-Vice Chair) are due to conclude at the end of this year, the Chair noted that nominations for their replacements will be sought after the GFXC's June meeting. The Leadership Selection Committee will consider the nominations and propose candidates for endorsement by the GFXC at the December meeting.

2.	<b>GFXC Working Group updates</b>
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The Chair outlined the timeline for completing the GFXC's three-year review of the FX Global Code ('Code'). A public Request for Feedback would be launched on the proposed Code changes and related templates on Thursday, 8 April. An accompanying press statement would be released at the same time.

The feedback period will run for 3-4 weeks, following which the Working Groups will incorporate the feedback into their final proposals for distribution to the local FXCs in late May. Only 'fatal flaw' comments will be sought from the local FXCs at that point. Following that review, the GFXC will endorse the final proposals at their June meeting.

Anonymous Trading

The Working Group on Anonymous Trading put forward their recommendations for enhancements to the existing Code text to address key issues related to trading activity within semi- and fully-anonymous environments. In particular, they proposed additional guidance for best practices to promote greater disclosure and transparency of data policies; introduced references to tags and tag-related policies; proposed more targeted language around credit policies; and put forward a set of options around the identification of Code-signatories on anonymous trading platforms. The Committee were supportive of the recommendations and discussed the different options for the identification of Code-signatories. They concluded that it was important to encourage anonymous trading platforms to make available the Code-signatory status of their users but allow them flexibility on how to achieve that. It was also noted that the burden of conveying accurate and up-to-date Code signatory status should be placed on the users, whereas the platforms would be responsible for storing and reporting the information presented to them.

### Algorithmic Trading / Transaction Cost Analysis (TCA)

The Working Group on Algorithmic Trading and TCA provided an overview of their work and presented their proposals including: the introduction of a TCA Data Template to support the disclosure of the necessary information for analysing trade execution in a standardised way; and the introduction of an Algo Due Diligence Template that would include information on, amongst others, how execution algorithm providers deal with conflicts of interest, what their allocation, routing and segregation policies are, their safety features, etc. The Working Group also put forward suggested Code text amendments supporting the use of the TCA and Algo Due Diligence Templates as well as introducing the terms *TCA*, *Algorithmic Execution* and *Aggregation Services* into the Code's Glossary. The GFXC were supportive of these proposals, noting the significant benefits of greater transparency by improving data accessibility and standardisation.

### Execution Principles

The Chair clarified the nature of the guidance papers that the Execution Principles Working Group were drafting on Last Look and Pre-Hedging. These materials are designed to enhance knowledge and understanding of particular aspects of the FX market and highlight how they relate to the Code's principles of good practice in these areas.

The Execution Principle Working Group leads presented the updated papers on Pre-Hedging, Last Look and Riskless Principal which incorporated earlier feedback received by the GFXC. On pre-hedging, the Committee discussed the local FX committees' feedback on the latest draft and how Principle 11 of the Code applied to different order types, and, in particular, stop-loss orders. Members shared different perspectives and agreed that this was a complex, but important topic for the Working Group to explore further. The GFXC was also supportive of including a table of illustrative examples in the pre-hedging paper. It was agreed that an updated draft of the paper would be shared publicly for comment.

The Committee discussed the Last Look guidance paper and how best to capture the spectrum of views market participants have on this practice. The GFXC recognised that the topic could be quite technical in nature and the draft paper highlighted a number of key aspects of the last look mechanism. Ultimately, it was important that Market Participants that employ last look, as well as those that have the practice applied to their trades, understand how last look works; are clear about what constitutes good market practice as set out in Principle 17; and have appropriate information to evaluate the service they receive. It was agreed that an updated draft of the paper would be shared publicly for comment.

The updated guidance paper on Riskless Principal was reviewed and the GFXC were content with the progress made. There were mixed views around the inclusion of a definition for *Direct Market Access (DMA) Algorithm* in the Code's Glossary. The Committee concluded that it was not essential to include the definition but were supportive of the Working Group adding an example on DMA algos. The GFXC were also in favour of the minor amendment to Principle 8 that was proposed.

## Disclosures

The Working Group on Disclosures and Transparency updated the Committee on the design of the Liquidity Provider (LP) and FX Platform Cover Sheets. Completing the Cover Sheets would be voluntary and it was envisaged that they could be posted alongside Statements of Commitment on the various public registers. This would be a significant step in increasing the clarity and accessibility of disclosures. The GFXC were supportive of the proposals, noting that the more widespread the use of Cover Sheets, the easier it would be for Market Participants to make informed decisions about the counterparties and platforms they engage with. For the LP Cover Sheet, it was suggested that the section on pre-hedging could be expanded to include an explicit question on whether opting out from pre-hedging for a specific order was an option offered. The Committee asked the Working Group to continue refining the design of the FX Platform Cover Sheet.

The Working Group also put forward the final proposed changes to the Code text incorporating specific references to trade rejection information and enhancing the existing Principle on Handling Confidential Information. The GFXC were content with the proposed Code text changes.

## Settlement Risk

In discussing changes to the Code's principles on Settlement Risk, it was noted that there had been strong support from the local FXCs for the draft text. The proposed changes would be included in the public Request for Feedback, with only minor changes to the draft reviewed by the local FXCs.

Marc Bayle de Jesse (CLS) outlined recent data analysis CLS had conducted with a large global bank (a Settlement Member of CLS) for the purpose of understanding how FX trades are settled in CLS-eligible currencies. The analysis found more than half of eligible trades were settled via CLS, with a significant portion of the remainder being either inter-branch trades or trades with clients that were settled via a net single currency cash flow. To validate their findings, CLS intended to undertake similar data analysis with two other Settlement Members. Separately, the guest noted that CLS was considering methods to reduce settlement risk in those currency pairs not eligible for CLS settlement. A working group comprising twelve global bank Settlement Members had been formed to engage with this issue.

At its September 2020 meeting, the Committee recommended that central banks should work with market participants to enhance their surveys of market activity to regularly capture data on settlement methods. The GFXC Secretariat reported progress in this regard: the 2022 BIS Triennial Survey will contain an expanded section collecting data on FX settlement. In addition, those local Foreign Exchange Committees conducting regular FX turnover surveys<sup>1</sup> will also begin to collect FX settlement data from 2022.

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<sup>1</sup> Local FX Committee surveys are conducted in Australia, Canada, Hong Kong, Japan, Singapore, United Kingdom and the United States.

### 3. **Buy-side Outreach**

Shuntaro Hara (Bank of Japan) introduced a paper discussing effective means of engagement with buy-side market participants. The paper drew on feedback obtained from current buy-side adherents to the Code. Several recommendations were made for the local FXCs to consider when engaging with the buy-side: get the relevant local authorities and the local industry associations involved, focus on targeted outreach and on clarifying the proportional application of the Code, and have regard to any jurisdiction-specific factors. Members supported these recommendations. Relatedly, the Chair noted that additional work from the GFXC work to provide guidance on proportionality will commence in the 2nd half of the year (following the conclusion of the Code review) and that at future GFXC meetings, local FXCs would be invited to provide updates on their engagement efforts.

### 4. **Reviewing Statements of Commitment**

The Chair noted that Annex 3 of the Code provides guidance that when updates are made to the Code, “... *Market Participants should consider renewing their Statement of Commitment, having regard to the nature of those updates, as well as the size and complexity of their FX market activities and the nature of their engagement in the FX Market.*”

The Chair proposed reiterating that guidance when the Code is updated at the conclusion of the 3-year review, acknowledging that the changes to the Code will affect certain parts of the market more than others. Members discussed the likely period of time that adherents would need to review their practices in light of the Code changes. Members thought that a timeframe of 6 to 12 months was reasonable for those affected by the changes.

Regardless of any changes to the Code, members also discussed that Market Participants should consider regularly reviewing their Statement of Commitment, to ensure their practices remain in alignment with the Code’s principles.

### 5. **Wrap up and Next steps**

The public Request for Feedback on the proposed Code changes will be launched on Thursday, 8 April. An accompanying press statement would be released at the same time.

The GFXC’s next videoconference will be held on 28 June 2021.