

A review of the work of the London Foreign Exchange Joint Standing Committee in 2010

This article reviews the work undertaken by the London Foreign Exchange Joint Standing Committee during 2010.

Introduction

The London 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 (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 FX market, the British Bankers' Association and the Financial Services Authority (FSA). A list of the members of the Committee as at end-2010, and a high-level organogram, can be found at the end of this article. The Committee held six meetings during 2010.

A key feature at the FXJSC meetings during 2010 was the ongoing discussion on regulatory developments, both in Europe and the United States, and their possible impact on FX markets. Changes in the FX market infrastructure and the evolution of relatively new types of market participants were also areas of interest. Presentations by UBS and Citi on FX prime brokerage, and by Forex Capital Markets on retail trading, provided the Committee with an overview of two growing segments of the FX market. Furthermore, the Chicago Mercantile Exchange Group, IntercontinentalExchange, ICAP's EBS and CLS Bank (CLS) gave presentations on their services and outlook for the FX market.

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 2010, the 'option confirmations automation' working group of the operations subgroup concluded its work on establishing best-practice standards for 'exotic' FX options such as

single barrier and double barrier options. Two new working groups were established to formulate best-practice standards for standard settlement instructions and FX novations respectively. The existing CLS working group expanded its scope to consider ways of increasing CLS usage and system capacity.

During the second part of the year, the operations subgroup invited a number of major FX vendors to present on their products and the challenges facing the FX market. These presentations are expected to continue in 2011.

The operations subgroup has also continued to strengthen its co-operation with other international committees by joint membership of some of its working groups and by regular liaison conference calls, as well as a joint meeting in May, to discuss the workstreams of the individual groups and establish global best practices for operational issues where possible.

Non-Investment Products Code

The Non-Investment Products (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 April 2009.⁽¹⁾ The FXJSC and its subgroups are working towards publishing an updated version in 2011.

Work of the FXJSC legal subgroup

The legal subgroup was established in 2004 with some 18 professional members providing in-house legal counsel

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

for many of the major institutions involved in the wholesale FX market in London. The group met three times in 2010. It continued to make an invaluable contribution through its provision of legal support to the work of the FXJSC main Committee and its operations subgroup; in particular reviewing and preparing the updated NIPs Code for publication. During 2010, the legal subgroup welcomed guest speakers on topical issues from Shearman & Sterling, Simmons & Simmons, the FSA, the Bank of England as well as member firms, and kept updated on developments in the global FX market.

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

Work of the FXJSC chief dealers' subgroup

The chief dealers' subgroup was established in July 2005. Its membership in 2010 comprised twelve chief dealers active in the London FX market.

The subgroup met four times during 2010 to discuss conjunctural and structural developments in the FX market. There was considerable focus on potential developments in financial market regulation and how the industry was engaging with the relevant authorities to discuss specific foreign FX issues. The group also discussed developments in FX market infrastructure, including system capacity and resilience, as well as e-trading.

Work of the FXJSC investor subgroup

The FX investor subgroup was established in its current form in 2010 and comprises 16 members representing asset managers, hedge funds and a subset of members from the main Committee. The key focus of the subgroup in 2010 was regulatory developments in the United States and Europe and their possible impact on the investment management industry.

International co-operation

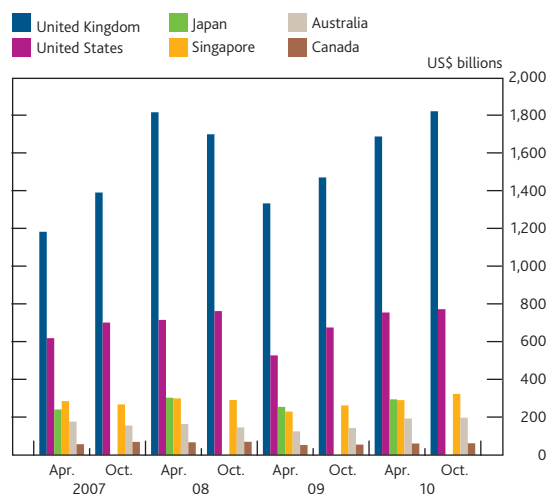
Liaison between the eight FX committees based in different international financial centres (London and Frankfurt for the euro area; Hong Kong; New York; Singapore; Sydney; Tokyo; and Toronto) continued during the year.

In May, the FXJSC operations subgroup, together with the New York operations managers working group and the European Central Bank operations managers group, held a joint meeting to discuss topical issues and current workstreams. The members of the three subgroups agreed to work together as far as possible to improve efficiency further and introduce additional best-practice standards in the FX market.

International survey results overview

Twenty nine banks representing the most active participants in the London FX market, including members of the FXJSC, contributed to the twelfth and thirteenth semi-annual surveys of FX turnover in London in April and October 2010, conducted by the FXJSC. Both surveys showed marked increases in London FX turnover.⁽¹⁾ Average daily turnover rose 15% in April 2010 and 8% in October 2010 from six months earlier (**Chart 1**). Average daily turnover recorded in the October 2010 survey was \$1,821 billion, 24% higher than a year earlier. This was the highest level of turnover recorded since the survey began,⁽²⁾ surpassing the high previously recorded in April 2008. These developments were broadly in line with FX activity in other global centres, with most committees reporting record highs for turnover in October 2010. The New York Foreign Exchange Committee reported an increase of 14% in the year to October 2010, while activity in the Singapore and Australia FX markets rose by 23% and 39% respectively. Canadian turnover rose by 13% on the year. Japan does not conduct a survey in October,⁽³⁾ but data for April 2010 showed turnover increased by 16% from the April 2009 survey.

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 Committee and Tokyo Foreign Exchange Market Committee.

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

Increases in turnover in the London FX market continue to be driven by rises in spot FX trading. In October 2010, spot turnover rose by 11% from the previous survey in April 2010, and by 38% from a year earlier (**Chart 2**). FX swap turnover also rose markedly, up 19% on the year, although turnover remains below the April 2008 highs. Most other products posted similar turnover increases over the two surveys, with

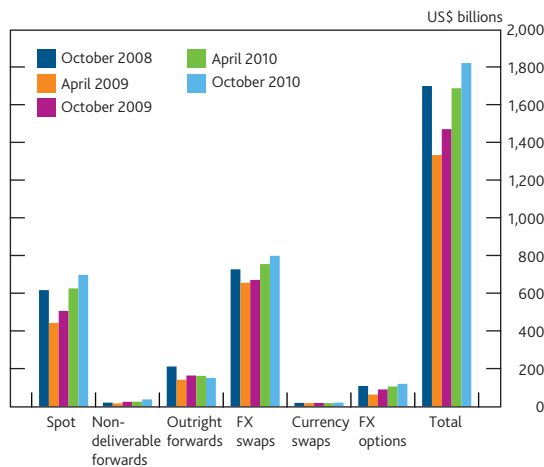
(1) Based on spot, outright forwards, non-deliverable forwards, FX swaps, FX options and currency swaps.

(2) The first published FXJSC survey results were in October 2010.

(3) The Tokyo Foreign Exchange Market Committee publishes annual turnover results.

outright forwards the outlier, falling by 8% in October 2010 from a year earlier.

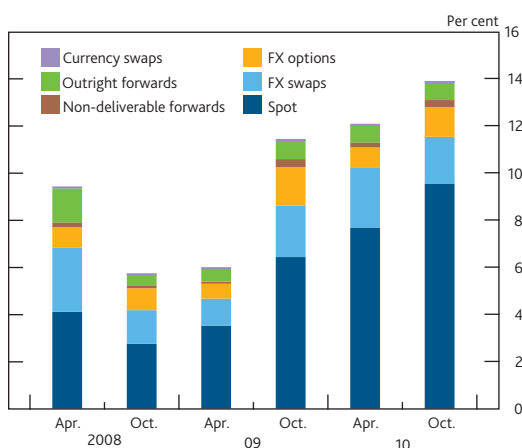
Chart 2 UK daily average turnover by product



Source: London Foreign Exchange Joint Standing Committee.

The 2010 *Quarterly Bulletin* article on the BIS triennial survey results for the United Kingdom in April 2010⁽¹⁾ noted marked growth in FX transactions financed by prime brokerage. The October 2010 FXJSC survey suggests this growth has continued; total prime brokerage turnover increased by 45% in October 2010, from a year earlier, and accounted for 14% of total turnover, compared to 11% in October 2009 (Chart 3). Prime brokered spot transactions continue to lead this trend, and in October 2010 a quarter of all spot turnover was transacted via a prime brokerage service.

Chart 3 UK prime brokerage turnover as a proportion of total turnover

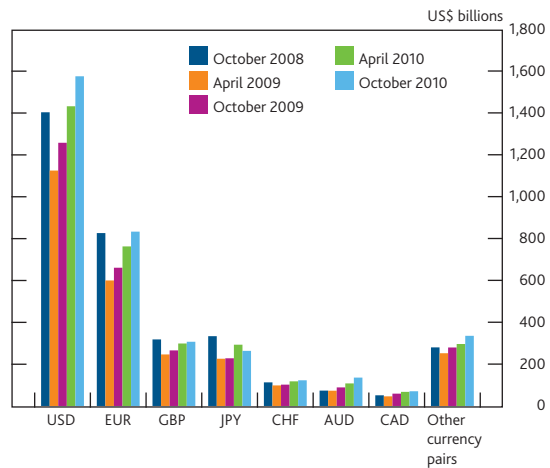


Source: London Foreign Exchange Joint Standing Committee.

Turnover in all major currencies increased since October 2009, although there was little change in the market share of each currency (Chart 4). Turnover in sterling pairs rose by 16% in October 2010 from a year before, while turnover in US dollars and euros rose by 25% and 26% respectively. Turnover in the Australian dollar continued to increase markedly over the year (+53%), and became the fifth largest currency recorded in the

survey. Emerging market currencies also showed relatively strong turnover growth, led by increased turnover in Chinese yuan, Turkish lira, Korean won and Singapore dollar. Turnover concentration for the survey was broadly similar to that seen in October 2009; the top five banks participating in the survey accounted for 52% of overall turnover.

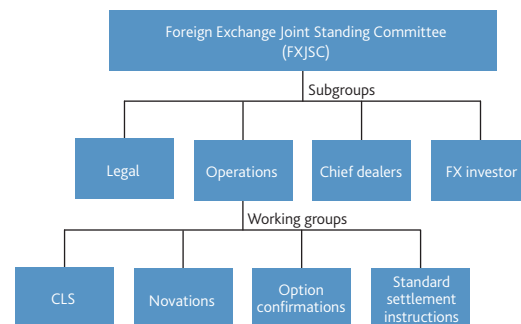
Chart 4 UK daily average turnover by currency



Source: London Foreign Exchange Joint Standing Committee.

The forthcoming FXJSC survey results for April 2011 will be published in Summer 2011.

Figure 1 Foreign Exchange Joint Standing Committee: structure



(1) Broderick, T and Cox, C (2010), 'The foreign exchange and over-the-counter interest rate derivatives markets in the United Kingdom', *Bank of England Quarterly Bulletin*, Vol. 50, No. 4, pages 354–65, available at www.bankofengland.co.uk/publications/quarterlybulletin/qb100410.pdf.

Tables of membership at end-2010

Members of the London Foreign Exchange Joint Standing Committee as at December 2010

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
Vincent Leclercq	Calyon
James Bindler	Citi
Alan Bozian	CLS Bank
Martin Wiedmann	Credit Suisse
Zar Amrolia	Deutsche Bank
Heather Pilley	Financial Services Authority
Phil Weisberg	FXAll
Nick Burgin	Goldman Sachs
Frederic Boillereau	HSBC
John Nixon	ICAP
Troy Rohrbaugh	JPMorgan Chase
Richard Gladwin	Nomura
Roger Hawes	Royal Bank of Scotland
James Potter	Tullett Prebon
Alex McDonald	Wholesale Markets Brokers' Association
Susan Revell	Morgan Stanley, Chair, legal subgroup
Graeme Munro	JPMorgan Chase, Chair, operations subgroup
Nick Cox	BlackRock, Chair, outreach subgroup
Michael Cross (Chair)	Bank of England
Grigoria Christodoulou and Sumita Ghosh (Secretariat)	Bank of England

Members of the London Foreign Exchange Joint Standing Committee operations subgroup as at December 2010

Name	Firm/organisation
Dennis Sweeney	Association of Foreign Banks
Simon Bruce	Bank of America
Richard Gray	Bank of England
Pamela Bald	Bank of New York Mellon
Duncan Lord	Barclays
Andrew Rogan	British Bankers' Association
Leigh Meyer	Citi
Phil Kenworthy	CLS Services
Andreas Gaus	Credit Suisse
Tony Beels	Deutsche Bank
Graham Warby	Goldman Sachs
Mike Neale	HSBC
Anna Box	ISDA
Andrew Harvey	Morgan Stanley
Matthew Norris	Nomura
Jane Collins	Reuters
Jeremy Hill	Royal Bank of Scotland
Ian Cowell	State Street
Joe Halberstadt	SWIFT
Daniel Haid	UBS
Graeme Munro (Chair)	JPMorgan Chase
Grigoria Christodoulou and Sumita Ghosh (Secretariat)	Bank of England

Members of the London Foreign Exchange Joint Standing Committee chief dealers' subgroup as at December 2010

Name	Firm/organisation
Ichei Kuki	Bank of Tokyo-Mitsubishi UFJ
Danny Wise	Barclays Capital
Bob de Groot	BNP Paribas
Bernie Kipping	Commonwealth Bank of America
Angus Greig	Deutsche Bank
Jon Pierce	Goldman Sachs
Chris Nicoll	Morgan Stanley
Ed Monaghan	Royal Bank of Canada
Roger Hawes	Royal Bank of Scotland
Chris Freeman	State Street
Niall O'Riordan	UBS AG
Martin Mallett (Chair)	Bank of England
James O'Connor	Bank of England

Members of the London Foreign Exchange Joint Standing Committee FX investor subgroup as at December 2010

Name	Firm/organisation
Michael Cross	Bank of England
Girome Bono	BlueCrest Capital
Sam Finkelstein	Goldman Sachs Asset Management
Troy Rohrbaugh	JPMorgan Chase
Murray Steel	Man Investments
Lisa Scott-Smith	Millennium Global
Eric Dannheim	Moore Capital
Sarah Edgington	Morgan Stanley
Richard Gladwin	Nomura
Paul Lambert	Polar Capital
Neil Record	Record Currency Management
Collin Crownover	State Street Global Advisors
Andy Bound	Tudor
David Buckle	UBS Asset Management
Nick Cox (Co-Chair)	BlackRock
James Bindler (Co-Chair)	Citi
Grigoria Christodoulou and Sumita Ghosh (Secretariat)	Bank of England

Members of the London Foreign Exchange Joint Standing Committee legal subgroup as at December 2010

Name	Firm/organisation
Gaynor Wood	Bank of America
Chris Allen	Barclays Capital
Richard Haynes	Citi
Sharon Blackman	Citi
Carl Husselman	Deutsche Bank
Anne Moore-Williams	FSA
Dan Parker	Goldman Sachs
Mehboob Lakhany	HSBC
Patrick Palmer	JPMorgan Chase
Stephen Potts	Lloyds TSB
Alex Bouchier	Royal Bank of Scotland
Alistair Clevely	Standard Chartered
Kate Binions	Standard Chartered
Simone Paul	State Street
Martin Oakley	Thomson Reuters
Clara Pastor	UBS
Susan Revell (Chair)	Morgan Stanley
Jacqueline Joyston-Bechal (Secretary)	Bank of England