

A review of the work of the London Foreign Exchange Joint Standing Committee in 2013

This article reviews the work undertaken by the London Foreign Exchange Joint Standing Committee during 2013.

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 market in London, representatives from brokers, trade associations including the Wholesale Market Brokers' Association, the Association of Corporate Treasurers (ACT) — representing corporate users of the foreign exchange market, the British Bankers' Association and the Financial Conduct Authority (FCA). A list of the members of the Committee as at end-2013 can be found at the end of this article. The Committee held six meetings during 2013.

The implementation of over-the-counter derivatives regulation internationally, and the possible implications for the structure of foreign exchange (FX) markets, remained a key theme for the FXJSC in 2013. A guest speaker from Millennium Global discussed the impact of the proposed regulatory changes on investment management firms, while EBS and Thomson Reuters discussed how trading venues were adapting to the new regulatory landscape. The Global Financial Markets Association's Global FX Division and the ACT gave presentations on their work programme. The Committee also discussed the results of the 2013 Bank for International Settlements triennial turnover survey, focusing on the evolution in trade execution methods and market participants since the previous survey in 2010.

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⁾ The FXJSC is awaiting clarity on how the European Market Infrastructure Regulation (EMIR) and the Market in Financial Infrastructure Directive will impact the FX market before considering publishing an update to the NIPs Code.

Work of the FXJSC operations subgroup

The operations subgroup was established in 2002. Its members are operations managers from many major banks active in the London wholesale FX market, as well as representatives from service providers and trade associations. The group met six times in 2013.

In 2013, the operations subgroup sponsored workstreams including continued work to improve 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 in the FX market, changes in Russian rouble settlement processes, how broader macroeconomic conditions impact the FX market and developments in FX market infrastructure. CLS gave a presentation on FX transaction settlement methods and SWIFT discussed its work in relation to the EMIR implementation.

Work of the FXJSC legal subgroup

The legal subgroup was established in 2004 and comprises fourteen professionals 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 2013. It continued to make an important contribution through its provision of legal support to the work of the FXJSC main

(1) The NIPs Code can be accessed at: www.bankofengland.co.uk/markets/Documents/forex/fxjsc/nipscode1111.pdf.

Committee and its subgroups. During 2013, the legal subgroup welcomed guest speakers from the Federal Reserve Bank of New York and Allen & Overy, as well as speakers from member firms to discuss how regulatory change affects the FX market. The group also discussed developments in the global FX market as well as the new prudential supervision framework in the United Kingdom.

The legal subgroup 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 February 2013 comprised fourteen chief dealers active in the London FX market.

The subgroup met once during 2013 to discuss conjunctural and structural developments in the FX market. Topics of discussion included market liquidity, developments in Japan and their impact on yen markets and the impact of regulatory developments impacting on FX markets globally. No further meetings are scheduled, and the future of the subgroup is under review.

Work of the FXJSC buy-side subgroup

The buy-side subgroup held its inaugural meeting in November following its reconstitution. Its membership comprises ten buy-side institutions active in wholesale FX markets as well as the Chair of the main Committee.

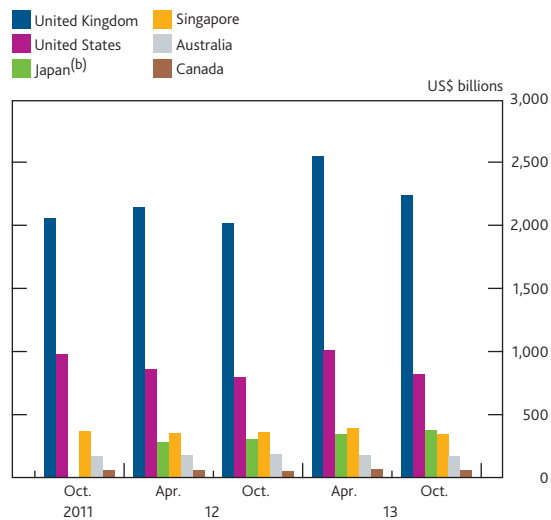
The subgroup discussed how regulatory initiatives in Europe and abroad, including the introduction of mandatory trade reporting requirements in the United States, were likely to impact their operations and market liquidity more broadly.

International survey results overview

Thirty banks representing the most active participants in the UK FX market contributed to the 18th and 19th FXJSC semi-annual surveys of UK FX turnover in April and October 2013. Total turnover rose 11% in the year to October 2013, although it was 12% below the April 2013 survey high (Chart 1).

This trend was broadly consistent with other global centres: total turnover across the six reporting centres rose 8% year-on-year in October 2013. In particular, Tokyo registered the largest increase in turnover (up 24%), followed by the United Kingdom (up 11%), Canada (up 4%) and United States (up 3%). In contrast, turnover in Australia and Singapore fell by 9% and 5% respectively.

Chart 1 Global FX^(a) daily average turnover



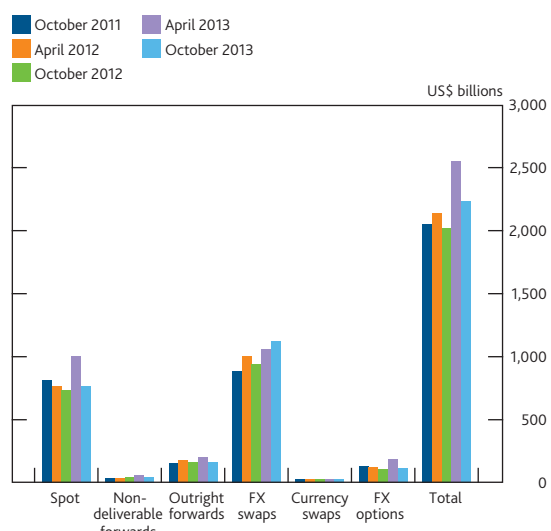
Sources: Australian Foreign Exchange Committee, Canadian Foreign Exchange Committee, London Foreign Exchange Joint Standing Committee, New York Foreign Exchange Committee, Singapore Foreign Exchange Market Committee and Tokyo Foreign Exchange Market Committee.

- (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.

The April 2013 surveys recorded a marked increase in global FX turnover. In the United Kingdom, turnover rose 26% from October 2012 to fresh survey highs, the second largest six-monthly rise in the survey's history. This was consistent with growth in other international centres: for example activity in the United States rose 27%, and in Tokyo by 16%. But the October 2013 surveys showed that turnover had fallen across all centres, retracing around two thirds of the April 2013 increase. Tokyo was a notable exception, with total FX turnover rising by 7%, largely driven by increased FX swap volumes.

By instrument, average daily spot turnover in the United Kingdom rose to US\$767 billion in October 2013, 5% higher than the previous year (Chart 2). While this was

Chart 2 UK daily average turnover by product



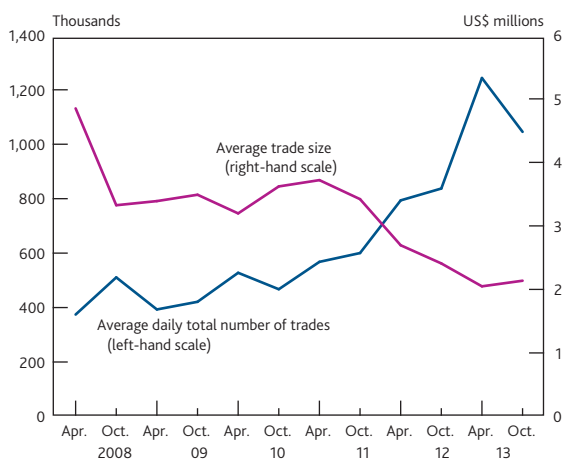
Source: London Foreign Exchange Joint Standing Committee.

consistent with the broader global trend, there was significant variation across the major global centres in spot FX turnover: Tokyo saw a 39% rise in FX spot turnover while Australia reported a fall of 8%. In terms of counterparty types, turnover with reporting dealers (major banks) fell in the year to October 2013. Consequently, the proportion of deals accounted for by this group of market participants fell to a record survey low of 36% (down from 43% in October 2012). Conversely, FX spot deals with 'other financial institutions' (such as hedge funds, central banks and sovereign wealth funds) and 'other banks' (smaller non-reporting banks) rose, accounting for 36% and 24% of October 2013 spot turnover respectively. Over the year, prime brokerage turnover was little changed accounting for around 15% of total turnover and a third of all spot trades in October 2013.

Similar to the headline figures, turnover in most products rose markedly in April 2013, before retracing at least some of the gains in October 2013. The exception was FX swaps where turnover rose to new survey highs in October 2013, at US\$1,125 billion per day.

The average FX trade size continued to fall in the year to October 2013 to US\$2.1 million (Chart 3). This was reflected by an increase in the number of spot trades, with the average spot trade size falling to US\$0.8 million in October 2013 (from US\$1.0 million a year earlier).

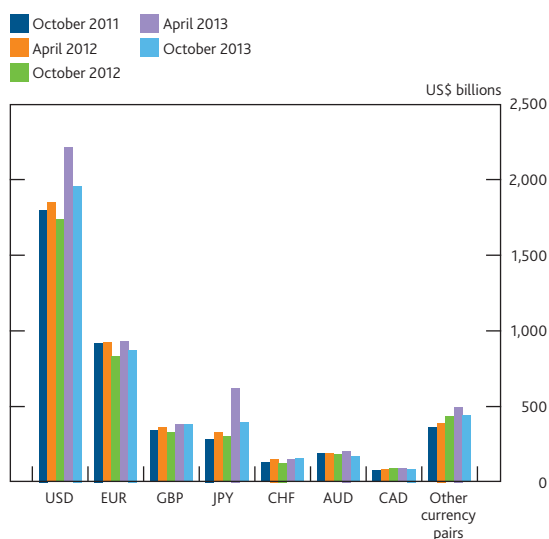
Chart 3 Average daily number of trades and average trade size (all products)



Source: London Foreign Exchange Joint Standing Committee.

In terms of currencies, the rise in activity in USD/JPY (particularly during the October 2012 to April 2013 period) was most noticeable. Turnover in the pair rose by 46% in October 2013 from a year earlier. This was mainly accounted for by an increase in spot transactions (up by 71%). Indeed, turnover in both US dollars and Japanese yen rose (Chart 4), with the proportion of all deals involving the US dollar growing to 87.7% from 86.0% in October 2012. The proportion of turnover in euros fell to 39.1%, down 2.1 percentage points from a year earlier, while turnover in sterling rose slightly to 17.1%. Average daily turnover in some emerging market currencies continued to rise, with particularly strong growth in the Chinese renminbi (up 57% from a year earlier) and Turkish lira (up 36%). But turnover in other emerging market currencies fell. Examples include the Indian rupee (-35%), South Korean won (-26%), and Polish zloty (-22%).

Chart 4 UK daily average turnover by currency



Source: London Foreign Exchange Joint Standing Committee.

Overall turnover concentration for the survey was slightly higher than recorded in October 2012; the top three banks participating in the survey accounted for 44% of total turnover.

The forthcoming FXJSC survey results for April 2014 will be published in Summer 2014.

Tables of membership at end-2013

Members of the London Foreign Exchange Joint Standing Committee as at December 2013

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	Citigroup
Vincent Leclercq	Crédit Agricole CIB
Kevin Rodgers	Deutsche Bank
Heather Pilley	Financial Conduct Authority
Paddy Boyle	Goldman Sachs
Frederic Boillereau	HSBC
Gil Mandelziz	ICAP
Troy Rohrbough	JPMorgan Chase
Darren Coote	Lloyds Banking Group
Tim Carrington	Royal Bank of Scotland
Phil Weisberg	Thomson Reuters
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
Lisa Scott-Smith	Millennium Global, Chair, buy-side 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 2013

Name	Firm/organisation
Nigel Brigden	Association of Foreign Banks
Sarah Mullen	Bank of America Merrill Lynch
Louise Lee	Bank of England
Pamela Bald	Bank of New York Mellon
Duncan Lord	Barclays
Andrew Rogan	British Bankers' Association
Leigh Meyer	Citigroup
John Hagon	CLS Services
Nick Doddy	Deutsche Bank
John Blythe	Goldman Sachs
Trevor Evans	HSBC
Tony Platt	Morgan Stanley
Stephen Nankivell	Nomura
Richard Norman	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 chief dealers' subgroup as at February 2013^(a)

Name	Firm/organisation
Kazuyuki Takami	Bank of Tokyo-Mitsubishi UFJ
Bob De Groot	BNP Paribas
Rohan Ramchandani	Citigroup
Danny Wise	Credit Suisse
Jon Pierce	Goldman Sachs
Stuart Scott	HSBC
Richard Usher	JPMorgan Chase
David Jones	National Australia Bank
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

(a) No further meetings of the chief dealers' subgroup are currently scheduled pending completion of the FCA's investigation into the FX markets (see FCA press release dated 16 October 2013; www.fca.org.uk/news/forex-investigation-statement).

Members of the London Foreign Exchange Joint Standing Committee buy-side subgroup as at December 2013

Name	Firm/organisation
Murray Steel	AHL
Alexis Blair	Aspect Capital
Jatin Vara	BlackRock
Marcus Browning	Bluecrest Capital
David Bowen	Goldman Sachs
Eric Dannheim	Moorecap
Peter Maltz	Rubicon—UK
Aadarsh Malde	Tudor
John Dacosta	Wellington
Lisa Scott-Smith (Chair)	Millennium Global
Michael Cross	Bank of England
Grigoria Christodoulou and Jack Garrett-Jones (Secretariat)	Bank of England
Jacqueline Joyston-Bechal	Bank of England, Secretariat, legal subgroup

Members of the London Foreign Exchange Joint Standing Committee legal subgroup as at December 2013

Name	Firm/organisation
Janet Wood	Bank of America Merrill Lynch
Helen Oldfield/Alan Brewer	Barclays
Richard Haynes/Sharon Blackman	Citigroup
Gaynor Wood	CLS Services
Simon Goldsworthy/Charlotte Hannavy	Deutsche Bank
Paul Dodd	Financial Conduct Authority
Dan Parker	Goldman Sachs
Christian Bettley	HSBC
Patrick Palmer	JPMorgan Chase
Barra Little	Morgan Stanley
Joanna Wormell	Royal Bank of Scotland
Alistair Cleverly/Kate Binions	Standard Chartered
Richard Lamb/Sergey Likhoshevstov	UBS
Chris Allen (Chair)	Barclays
Jacqueline Joyston-Bechal (Secretariat)	Bank of England