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Report

A review of the work of the London Foreign Exchange
Joint Standing Committee in 2016



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This article reviews the work undertaken by the London Foreign Exchange Joint Standing Committee during 2016.

Introduction

The London Foreign Exchange Joint Standing Committee (FXJSC — hereon, 'the Committee') was established in 1973 and is chaired and administered by the Bank of England. The Committee provides a forum for market participants, infrastructure providers and the relevant UK public authorities to discuss conjunctural and structural issues concerning the wholesale foreign exchange (FX) market in the United Kingdom and the associated supporting infrastructure.⁽¹⁾ The Committee held four regular and four additional meetings during 2016. A full list of Committee members as at end-December 2016 can be found at the end of this report.

Work of the Main Committee and the FX Global Code

The Committee has been actively involved in the creation of the FX Global Code ('the Code'), an initiative under the auspices of the Bank for International Settlements (BIS) Markets Committee to set out good practices for wholesale FX markets globally.⁽²⁾ FX committees globally, including the FXJSC in the United Kingdom, were asked to provide feedback on draft materials. The FXJSC organised itself into different working groups tasked with collecting member comments on different sections of the draft Code text, for discussion and approval by the Committee during a series of additional Code-focused meetings. The collective FXJSC comments were submitted to the FX Global Code authors for consideration.

In May 2016 the first phase of the Code material was published on the BIS website.⁽³⁾ The FXJSC, alongside seven other FX committees from major financial centres, issued a statement welcoming and supporting the publication of the Code material and expressed their commitment to promote the integrity and effective functioning of the foreign exchange market.⁽⁴⁾

In addition to their Code contribution, the Committee continued to monitor the main issues impacting the

functioning of, and liquidity within, the FX market. The depreciation of sterling and heightened levels of short-term volatility during the first quarter of 2016 were topics of conversation, as were the declining levels of activity in FX markets and their likely impact on overall liquidity. The referendum on European Union (EU) membership, and its immediate aftermath, was a particular focus and the Committee concluded that there were a few contributing factors to the FX market's resilience around the event, including the extensive planning that firms had undertaken and appropriate adjustments in risk appetite and active management of client expectations by banks. It was noted, however, that the market's reaction and resiliency might differ in the case of an unexpected event.

The Committee received three guest presentations during the year. Greenwich Associates presented the initial findings from a pilot survey they conducted on conduct and fair outcomes in the FX market. The Bank of England presented external research that purported to show predictable trading patterns during the five-minute WM/Reuters fixing window. Following the October 2016 sterling 'flash event', the Bank of England shared some initial findings of the work undertaken for the BIS Markets Committee.⁽⁵⁾ The Committee also discussed the results of the 2016 BIS triennial turnover survey, focusing on the evolution in trade execution methods and market participants since the previous survey in 2013.

Work of the FXJSC Operations sub-committee

The Operations sub-committee was established in 2002. Its members are operations managers from many major banks active in the London wholesale FX market, as well as

(1) The FXJSC webpage can be accessed at www.bankofengland.co.uk/markets/Pages/forex/fxjsc/default.aspx.

(2) More information on the FX Global Code can be found at www.bis.org/about/factmktc/fxwg.htm?m=3%7C332%7C610.

(3) The phase 1 material for the FX Global Code can be found at www.bis.org/about/factmktc/fxwg.htm?m=3%7C332%7C610.

(4) The full statement can be found at www.bankofengland.co.uk/markets/Documents/forex/fxjsc/globalfxc_may16.pdf.

(5) The BIS paper on the sterling 'flash event' can be found at www.bis.org/publ/mktc09.pdf.

representatives from service providers and trade associations and also from the Financial Conduct Authority. The sub-committee met four times in 2016.

During the year, the sub-committee continued to discuss themes impacting FX market operations, including developments in financial regulations, recent trends in cyber risk, the continued evolution of digital currencies and growing innovation such as distributed ledger technology. The sub-committee received presentations on the proposed shape of the next generation Real-Time Gross Settlement infrastructure and how the Bank of England engages with the financial industry to ensure business resiliency, while a guest speaker from Shell provided an overview of FX operations from a corporate perspective.

In 2016 the sub-committee completed its work on the resiliency working group, established in 2015, focusing on infrastructure transparency and FX contingencies. The resiliency working group designed a playbook outlining practices for business continuity planning, which was endorsed by the sub-committee. The sub-committee continued to contribute to the ongoing FX Global Code work led by the Main Committee and other FX committees around the world, inputting into work on the confirmation and settlement sectors.

Work of the FXJSC Legal sub-committee

The Legal sub-committee was established in 2004 and comprises legal professionals providing in-house counsel for many of the major institutions involved in the wholesale FX market in London. The sub-committee met four times in 2016.

The sub-committee continued to make an important contribution through its provision of legal support to the work of the Committee and the operations sub-committee. During 2016, the legal sub-committee welcomed a guest speaker from Clifford Chance LLP who provided an update on regulatory issues relevant to the foreign exchange market, including the EU Benchmark Regulation, OTC margining rules and Basel implementation.

The sub-committee continued to contribute to the ongoing FX Global Code by reviewing certain sections of the draft Code (Ethics and Information Sharing). Two additional meetings of the sub-committee were held for this purpose in 2016 and a number of additional attendees were invited to contribute based on their ongoing involvement in the FX Global Code initiative.

International co-operation

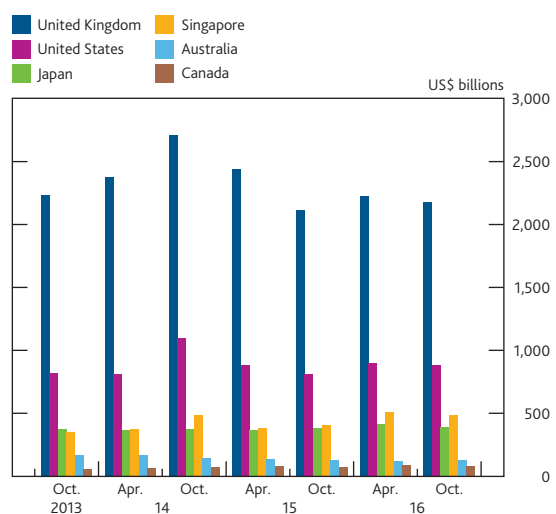
Liaison between the eight FX committees based in different international financial centres (London, Frankfurt for the euro area, Hong Kong, New York, Singapore, Sydney, Tokyo and Toronto) continued during the year. In May 2016, the New York Foreign Exchange Committee hosted an annual global meeting of the FX committees. The meeting was also attended by representatives from Brazil, France, Mexico, South Korea, Sweden and Switzerland, as well as market participant representatives, that have been actively involved in the FX Global Code initiative.

At the meeting, the committees unanimously supported the publication of phase 1 material of the Code and discussed the timeline for work during phase 2 and the publication of the Code in May 2017. In addition to an update on the adherence workstream, which was tasked with developing proposals to promote and incentivise adherence to the Code, there were presentations on developments in electronic trading in the FX market as well as on prime brokerage.⁽¹⁾

International survey results overview

Twenty-nine banks representing the most active participants in the UK FX market contributed to the 24th and 25th FXJSC semi-annual surveys of UK FX turnover in April and October 2016. Total UK turnover was relatively steady over the past year, up 3% in the year to October 2016 (Chart 1). This period followed a marked fall in turnover in the year to October 2015.

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.

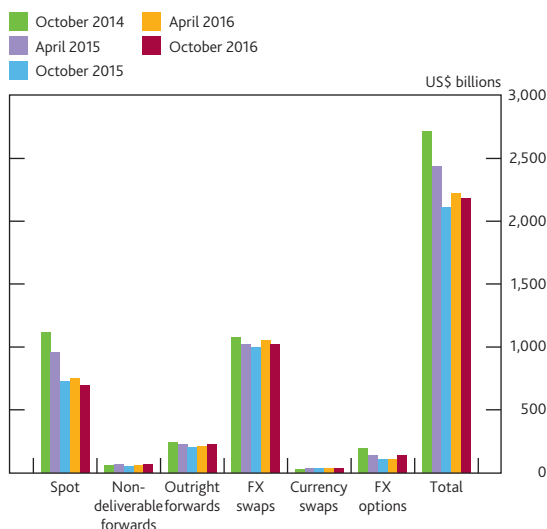
(a) This includes spot, non-deliverable forwards, outright forwards, FX swaps, currency swaps and FX options for the United Kingdom and most other centres.

(1) Full minutes of the 2016 meeting can be found at www.newyorkfed.org/medialibrary/microsites/fxc/files/meetingagenda/Minutes-of-GFJC-meeting-NewYork-2016.pdf.

This trend was broadly consistent with global developments; total turnover across the six reporting centres rose 6% year on year in October 2016. There were however some underlying differences in the pace of regional turnover changes; Singapore registered the largest relative increase in turnover (up 20%), followed by Canada (up 13%), the United States (+9%), Japan (+1%) and Australia (-1%). UK turnover accounted for 53% of the overall FX turnover across the six reporting countries.

Most UK FX products saw small notional changes in the year to October 2016, aligned with steady headline turnover growth. FX swaps saw a 2% increase, and daily turnover was just over US\$1 trillion (Chart 2). There was a slight decline (-4%) in FX spot, though total spot turnover has remained close to US\$0.7 trillion per day. There were relatively large turnover increases in both outright forward and FX option products, up 15% and 31% respectively.

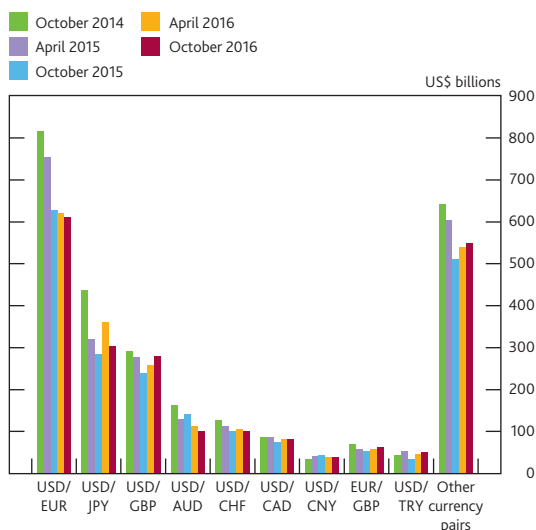
Chart 2 UK daily average turnover by product



Source: London Foreign Exchange Joint Standing Committee.

Turnover in most currencies was steady over the past year, consistent with headline turnover trends. Survey results showed strong growth in sterling turnover which became the third most traded currency, overtaking the Japanese yen in October 2016. Year on year, the daily traded notional value of sterling increased 15% to almost US\$369 billion, with strong gains in GBP/US\$ turnover recorded (+18%). The US dollar remained the most traded currency, and was one side of 88% of all currency pair turnover reported in October 2016. Turnover in the Chinese renminbi declined (-6%) on a year on year basis and is now the tenth most traded currency in the United Kingdom (Chart 3) (down from ninth a year earlier). Despite the overall decline, US\$/RMB FX spot turnover continued to increase (+9%).

Chart 3 UK daily average turnover across top nine currency bilaterals

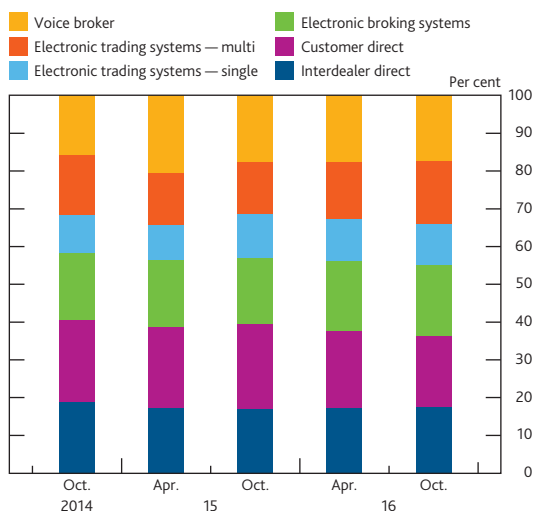


Source: London Foreign Exchange Joint Standing Committee.

The average daily number of trades fell 8% in the past year, driving the average trade size up 8% to US\$2.1 million. The average FX spot trade size was stable at US\$0.75 million.

In terms of execution method, there was a notable increase in trades being executed by via multi electronic trading systems⁽¹⁾ (+24% year on year in notional terms) accounting for 17% of overall turnover, from 14% in October 2015. In contrast, direct dealing (either by voice or chat) has declined 3%, now accounting for 36% of overall turnover (Chart 4).

Chart 4 Execution method of FX trading



Source: London Foreign Exchange Joint Standing Committee.

The forthcoming FXJSC survey results for April 2017 will be published in Summer 2017.

(1) Multi electronic trading systems refers to trades executed via a single-bank proprietary platform or a multi-bank dealing system. These systems are generally geared toward customers. Examples of multi-bank systems include FXAll, Currenex, FXConnect, Globalink and eSpeed.

Tables of membership at December 2016

Members of the London Foreign Exchange Joint Standing Main Committee as at December 2016

Name	Firm/organisation
Sarah Boyce	Association of Corporate Treasurers
Lee Sanders	AXA Investment Managers
Wang Yan	Bank of China
Richard Gill	Bank of New York Mellon
Tetsuro Kono	Bank of Tokyo-Mitsubishi UFJ
James Hassett	Barclays
Adrian Boehler	BNP Paribas
Ronald Kent	British Bankers' Association
James Bindler	Citigroup
David Puth	CLS
Russell Lascala	Deutsche Bank
James Kemp	FICC Markets Standards Board
Jamie Black	Financial Conduct Authority
Kayhan Mirza	Goldman Sachs
Frederic Boillereau	HSBC
Richard Pursell	Insight Investment
Stephen Grady	Legal and General Investment Management
Lisa Scott-Smith	Millennium Global Investments
James Harvey	Rolls-Royce
Kurt Vom Scheidt	Saxo Bank
Frances Hinden	Shell
Galina Dimitrova	The Investment Association
Neill Penney	Thomson Reuters
James Potter	Tullett Prebon
George Athanasopoulos	UBS
David Clark	Wholesale Markets Brokers' Association
Zar Amroliya	XTX Markets
Chris Allen	Barclays, Chair, Legal sub-committee
Jonathan Grant	Bank of England, Secretariat, Legal sub-committee
Isabelle Dennigan	RBC, Chair, Operations sub-committee
Chris Salmon (Chair)	Bank of England
Rebecca Jackson	Bank of England
Grigoria Christodoulou (Secretariat)	Bank of England
Lisa Gupta (Secretariat)	Bank of England

Members of the London Foreign Exchange Joint Standing Committee Operations sub-committee as at December 2016

Name	Firm/organisation
Nigel Brigden	Association of Foreign Banks
Steve Miller	Bank of America Merrill Lynch
Jennifer Ashton	Bank of England
Jon Goddard	Bank of New York Mellon
Kerry Peacock	Bank of Tokyo-Mitsubishi
Duncan Lord	Barclays
Andrew Rogan	British Bankers' Association
Leigh Meyer	Citigroup
John Hagon	CLS
Darran Olive	Deutsche Bank
Monica Rodriguez-Sanchez	Financial Conduct Authority
John Blythe	Goldman Sachs
Trevor Evans	HSBC
Gavin Platman	Insight Investment
Phil Glackin	JPMorgan Chase
Isabelle Dennigan (Chair)	RBC
Joel Sleight	Record Currency Management
Will Deighton	Société Générale
Joe Halberstadt	SWIFT
David Broadway	The Investment Association
Nancy Riyad	UBS
Jonathan Grant	Bank of England, Secretariat, Legal sub-committee
Cameron Brooks (Secretariat)	Bank of England
Lisa Gupta (Secretariat)	Bank of England
James Manchester (Secretariat)	Bank of England

Members of the London Foreign Exchange Joint Standing Committee Legal sub-committee as at December 2016

Name	Firm/organisation
Jateen Shah	Bank of America Merrill Lynch
Jacqueline Joyston-Bechal	Bank of New York Mellon
Chris Allen (Chair)	Barclays
Elisa Kerr	Barclays
Sharon Blackman	Citigroup
Gaynor Wood	CLS
Simon Goldsworthy	Deutsche Bank
David Harris	Financial Conduct Authority
Dan Parker	Goldman Sachs
Christian Bettley	HSBC
Patrick Palmer	JPMorgan Chase
Barra Little	Morgan Stanley
Baljit Saini	Royal Bank of Scotland
Rakesh Shah	Standard Chartered
Richard Lamb	UBS
Jonathan Grant	Bank of England
Jan Lasik	Bank of England
Jonny Keane (Secretariat)	Bank of England