

Minutes

Scandinavian FX Committee meeting

12 November 2019



Location: Sveriges Riksbank, Stockholm

Attendees: Svante Hedin, SEB
Anders Thorsson, Swedbank
Lars Henriksen, Nordea
Niklas Karlsson, Danske Bank
Jørn Sodborg, Jyske Bank
Andreas Åkerlund, Svenska Handelsbanken
Marcus Alfredson, Volvo Cars
Thomas Bengtsson, ATP Arbejdsmarkedets Tillaegspension
Angelika Gyllenhoff, Alecta
Jason Need, Bloomberg LP
Arne Osnes, Norges Bank
Kim Winding Larsen, ACI
Jakob Hansen, Sedlabanki
Michal Nielsen, Danmarks Nationalbank
Anders Gånge, Sveriges Riksbank
Jens Vahlquist, Sveriges Riksbank
Amanda Nordström, Sveriges Riksbank
Sofie Carlsson, Sveriges Riksbank

External speakers:

Rui Correia, ACIFMA
Andrew Harvey, GFMA (§4-6)
James Kemp, GFXD (§4-6)

Apologies:

Rolf Palmer, DNB
Jonas Sørensen, Novo Nordisk
Niko Herrala, Finlands Bank

§1. Introduction and recap from the Global FX Committee meeting

Anders Gånge (Chair of the SFXC) introduced Jens Vahlquist, Portfolio Manager at the Riksbank's Markets Department, and informed the Committee that Jens will be taking over as Secretary after Amanda Nordström.

The Chair summarized issues discussed at the Global FX Committee (GFXC) meeting of May 2019 in Tokyo, such as the upcoming 3-year review of the FX Global Code of Conduct. Anders also noted that Guy Debelles (RBA) took the Chair at GFXC and that Russia had become a member.

The SFXC May meeting minutes were approved by the Committee.

§2. Upcoming 3 year review of the Code – SFXCs input and result from SFXCs survey

The Chair presented the responses to the SFXC survey and concluded that answers were in line with those to other local FXCs' surveys.

Prioritized areas that were identified in the GFXC compilation of local FXCs' feedback and responses to the annual survey of FX market participants were Transaction Cost Analysis, the concept of "last look", and proposals for simplified versions of the FX Global Code (GC) aimed at the buy-side. In general, responses consistently suggested to modify only specific areas of the GC (that are irrelevant to the buy-side) and that modifications need only be minor.

The need for buy-side uptake of the GC was once again identified as a key area by the Committee. It was recognized by the Committee that the current version of the GC is very bank-oriented in some areas. The members discussed the proportionality principle in relation to the potential implementation of a less comprehensive version of the GC, aimed at increasing buy-side engagement. Members concluded that there is a wide spectra of different buy-side categories; from the smaller companies that use the FX- market strictly for commercial purposes, to speculative buy-side players such as hedge funds. It was proposed that a "lighter" version of the GC could be introduced rather than introducing a specific buy-side code. However, a lighter version may not be sufficient for some, larger and more aggressive buy-side players, and some concerns were raised around bifurcation of the GC and also where to draw the line in terms of "light" or "full" versions in terms of which institutions they would apply to. The committee also discussed that the GC could be made more accessible through summary and "key point" sections, and perhaps some clearer guidance with examples on how to apply the concept of proportionality in practice.

The Committee briefly discussed the GC principles for anonymous trading on e-platforms and concluded that while this area needs focus due to its sizeable share of total trading, it is in many instances irrelevant for the long tail of buy-side players who by and large are still accessing global wholesale FX markets through select partnerships with sell-side instructions. This could be an example of an area where it is beneficial with a lighter version of the GC to promote buy-side uptake.

Principles 11 and 17 are still problematic according to several members, and it was suggested that buy-side market participants may be reluctant in signing due to these being seen as too lenient.

A problem that was identified by the Committee was the balance between the legal aspects of signing the GC (real or perceived legal and compliance risk) and the economic benefits. Members identified the need to promote signing the GC as a CSR (Corporate Social Responsibility) quality stamp which would incentivize others to follow.

The Committee discussed Transaction Cost Analysis (TCA) and the members concluded that regulation of TCA is not desirable. The TCA provided by banks could be a product that is used for differentiation and regulation could limit the incentive to improve TCA. The members also noted that there are third-party providers of TCA that can be used to more objectively evaluate transaction costs for those market participants that prefer this option over TCA directly from the executing institution.

§3. FX Benchmarks/FX fixes – SFxCs input and results from SFxCs survey

The Chair presented results from the SFxC survey. The main findings were that banks seem less interested in managing fixing services for their clients than before and that fees had increased somewhat, but on the other hand seemed to be more transparent. It also appears that the GC has had no impact on activities around fixings, rather, changes in fixing activities and behaviours happened earlier. Some respondents had proposed that a longer fixing window could reduce volatility around FX fixings and that regulators should approve methods for setting the FX fixes. The result of the survey has been forwarded to the GFxC.

Some members of the Committee suggested that fixings represents an arbitrary method of execution – unlikely to be the optimal one – and that a longer fixing window would not address problems with FX fixings, especially for less traded currencies. Some of the bank-side members argued that a longer fixing-window would complicate their fixing services business and a few members advocated that the fixings should be a snapshot in time rather than as an average over a time window.

One member questioned whether using fixings and trading around them is compatible with the call for Best Execution in GC.

§4. Presentation of GFxD (Global Foreign Exchange Division of the Global Financial Markets Association)

The GFxD is part of the GFMA. It is comprised by 26 global FX dealers, representing approximately 85% of the FX dealer market. Andrew Harvey, Managing Director GFMA and James Kemp, Managing Director GFxD, reported on various topics that they focus on. Harmonizing regulations globally for the FX industry is a key part in GFxD's undertakings. The technological developments in the FX market and the effects of market structure are also areas of focus.

Andrew and James shared their view on the Market Abuse Regulation and the potential impact. They proposed that using the GC would be a more appropriate path to choose. They argued that the Market Abuse Regulation might be better suited for the stock market, which is not as fragmented as the FX market, and that collecting the necessary data would be costly.

§5. Presentation on the ACI Education / ELAC program for the FX Global Code

Kim Winding Larsen, ACI President and Rui Correia, ACIFMA attended the SFXC meeting to inform the Committee on their education offerings related to the GC. ACI offers a variety of traditional education as well as web-based educations (ELAC program). The online courses offered in ELAC may be used to educate staff and ensure that the staff is compliant with GC.

§6. Discussion on future cooperation between GFXC, ACI and GFXD

The attendees concluded that further cooperation between the entities was desirable and that the different focus for GFXD (more focus on legal matters) and ACI (more focus on education) was a good foundation for common efforts.

§2. Conclusions and future work

The Chair informed the members of future tasks ahead of the GFXC December meeting in Sydney.

Furthermore, the Chair informed the members that the Riksbank will host a lunch for a few buy-side players and ACI. During the lunch, guests will be informed of GC and efforts will be made to get them to sign GC. These buy-side players could come to act as important ambassadors for GC. Hopefully Norway and Denmark can replicate the concept. SFXC will inform GFXC on the planned activities.