

## foreign exchange committee



### Minutes of the Foreign Exchange Committee Meeting

Meeting: Sept 29, 2022

Host: Federal Reserve Bank of New York

#### FXC Attendees

Chris Vogel (TD Securities) - Chair	Anna Faustini (Societe Generale)	Dan Lennon (CLS)
Hemant Bajjal (Invesco)	Akiko Hayata (Payden & Rygel)	Rebecca Patterson (Bridgewater Associates)
Chris Chattaway (Goldman Sachs)	Ben Klibull (XTX Markets)	Jodi Schenck (Citigroup)
Yudhveer Chaudhry (Blackrock)	Robert Kim (JPMorgan Chase)	Chris Taendler (Barclays)
Jose Luis Daza (QFR Capital Mgmt)	Jeffrey Knapp (Coca Cola)	Bob Tull (Fifth Third Bank)
Maria Douvas (Morgan Stanley)	Marisa Kurk (Northern Trust)	Sean Tully (CME Group)
Michael Eyre (Vanguard)	Russell Lascala (Deutsche Bank)	Adam Vos (BNY Mellon)

#### Federal Reserve Bank of New York

John Williams	Thomas Lacey
Patricia Zobel	Dan Reichgott
Lisa Chung	Sanja Peros
Michelle Ezer	Thomas Noone
Patrick Douglass	Anna Nordstrom
Hampton Finer	Kathleen Ramirez

#### Federal Reserve Board of Governors

Emre Yoldas

#### U.S. Dept. of Treasury

Evan Klos

#### Other Attendees

Grahame Johnson (Bank of Canada)

Zahir Antia (Bank of Canada)

The Chair opened the meeting and acknowledged Patricia Zobel, who is System Open Market Account Manager pro tem, from the New York Fed. The Chair then welcomed to the meeting special guests Grahame Johnson and Zahir Antia, representatives of the Bank of Canada and the Canadian Foreign Exchange Committee (CFEC).

### **1. Update on FXC Membership**

The Chair welcomed a new FXC member, Rebecca Patterson of Bridgewater Associates and thanked two departing members, Neill Penney of Refinitiv and Natalia Chefer of DE Shaw, for their longstanding contributions to the committee. Michelle Ezer of the New York Fed announced the departure of ex-officio member Alex Cohen and thanked him for his service.

Representatives from the Bank of Canada then provided an update to members on the priorities of the Canadian Foreign Exchange Committee (CFEC), namely (i) broadening buy-side adoption of the FX Global Code, (ii) expanding use of disclosure coversheets, and (iii) monitoring market conditions.

### **2. Transition to T+1 Securities Settlement**

Last April, FXC members requested that the Operation Managers Working Group (OMWG), a subcommittee of the FXC, further examine potential impacts to the FX market of the U.S. Securities and Exchange Commission's (SEC) proposed changes to shortening settlement times to T+1 for most broker-dealer transactions in securities. The OMWG completed its assessment indicating that its findings were in agreement with the [consultative report](#) published under the leadership of the Securities Industry and Financial Markets Association (SIFMA), the Investment Company Institute (ICI) and the Depository Trust & Clearing Corporation (DTCC). The OMWG Chair encouraged market participants to review key FX-related business deadlines in order to accommodate operational changes that may arise as a result of the proposed change to T+1 settlement. Additionally, the FXC agreed to continue to monitor the progress of the transition and to have a follow up discussion on this topic at a future date.

### **3. Update from the Global Foreign Exchange Committee (GFXC) Meeting**

The discussion turned to an [update](#) on the most recent GFXC meeting, which took place on June 27-28 in Zurich, Switzerland. Key highlights from the GFXC meeting included (i) the adoption of the 2022-2023 GFXC work program; (ii) an update on the progress of re-adherence to the revised FX Global Code and uptake of disclosure cover sheets; (iii) an update from the Proportionality working group, which previewed a newly developed web-based tool intended to aid market participants in their review of the Code for adherence purposes; (iv) establishment of a new working group to promote a deeper understanding of the benefits of adherence to the Code; (v) thematic discussion on data availability in FX markets; and (vi) discussion on recent technological developments intended to mitigate FX settlement risk.

Next, a recap of the GFXC's discussion on FX settlement risk was provided to the Committee, aided by a presentation from the Chair of the Bank of International Settlements (BIS) Committee on Payments and Market Infrastructures (CPMI) Cross-Border Payments Foreign Exchange Workstream. The CPMI Workstream Chair provided highlights from the [July 2022 consultative](#) report on facilitating increased adoption of "payment vs. payment" settlement.

#### **4. Market Discussion**

The meeting then transitioned to a discussion of market developments since the May FXC meeting. The discussion focused on the recent volatility in U.K. financial markets, broader global risks, the strengthening U.S. dollar, and the path of Federal Reserve policy.

- Members suggested that the recent volatility in U.K. markets was likely to persist, noting that an already large fiscal deficit could nearly double under the government's proposed fiscal measures. Members noted that persistently high inflation and slowing growth could prevent adequate capital inflows and put further depreciation pressure on the British pound.
- Fiscal policy risks were also highlighted in Germany and Italy, where the former's government had announced potential energy price cap subsidies and the latter's newly-formed government was reviewing potential fiscal stimulus packages. An escalation of the war in Ukraine amid Russia's expected formal annexation of additional Ukrainian territories was also cited as a risk for markets.
- U.S. dollar appreciation was also highlighted as an ongoing risk by several members. It was noted that some Asian central banks appeared to be intervening to support their currencies amid the sharp dollar appreciation trend. One member suggested that emerging markets could be the next area of vulnerability. However, it was also noted that many Latin American countries began raising rates last year and have therefore been more resilient to dollar appreciation.
- Members suggested that U.S. dollar strength will likely continue until the Federal Reserve pivots toward a less restrictive monetary stance. Members took note of the recent Japanese authorities' intervention in the Japanese yen, suggesting that while it may temporarily slow the pace of yen depreciation, the weakening trend is expected to continue if both the Federal Reserve and Bank of Japan maintain their current policy paths.
- Members concluded the markets discussion by noting that although current levels of the federal funds rate and other interest rates are not high by historical standards, the rapidity of rate increases has been concerning for many market participants.

New York Fed President John Williams closed the meeting by expressing his appreciation and thanks to the members for their ongoing contributions to the work of both the FXC and GFXC as well as providing market color in times of market volatility.

The next FXC meeting is scheduled for November 15, 2022.