



Minutes of the Foreign Exchange Committee Meeting

Meeting: May 24, 2023

Host: Deutsche Bank

FXC Attendees

Yudhveer Chaudhry (Blackrock) - Chair
Jessica Sohl (HC Tech) - Vice Chair
Hemant Bajjal (Invesco)
Chris Chattaway (Goldman Sachs)
Maria Douvas (Morgan Stanley)

Michael Eyre (Vanguard)
Anna Faustini (Societe Generale)
Akiko Hayata (Payden & Rygel)
Ben Klixbull (XTX Markets)
Robert Kim (JPMorgan Chase)

Russell Lascala (Deutsche Bank)
Dan Lennon (CLS)
Jill Sigelbaum (LSEG)
Bob Tull (Fifth Third)
Sean Tully (CME Group)

Federal Reserve Bank of New York (FRBNY)

Michelle Neal
Anna Nordstrom
Lisa Chung
Pertshuhi Torosyan
Sanja Peros

Thomas Noone
Shawei Wang
Dan Reichgott
Colleen Keegan
Kathleen Ramirez

Ira Selig
Zareera Bukhari

Other Guests

Tom Price (SIFMA)
Anthony Macchiarulo (SIFMA)
James Kemp (GFMA)
Andrew Harvey (GFMA)

U.S. Dept. of Treasury
Evan Klos

FRS Board of Governors
Emre Yoldas

The Chair opened the meeting by welcoming members and announcing FXC membership changes. He noted the departure of Russell LaScala (Deutsche Bank) and Sean Tully (CME Group) and thanked them for their service on the Committee. Anna Nordstrom also thanked departing members, expressing her gratitude for their contributions to industry best practice initiatives. Lisa Chung noted FRBNY attendance at a recent Canadian Foreign Exchange Committee meeting in mid-May and shared key takeaways from the discussion.

1. Topical Discussion: Update on U.S. securities transition to T+1 settlement

Representatives from the Securities Industry and Financial Markets Association (SIFMA) and the Global Financial Markets Association – Global Foreign Exchange Division (GFXD) presented on the status of market preparation to shorten the standard settlement cycle to T+1 for U.S. securities. The U.S. Securities and Exchange Commission (SEC) approved a [final rule](#) (“Rule”) establishing May 28, 2024 as the compliance date. SIFMA provided an overview of its engagement model with its members and its efforts as part of the Industry Steering Committee to provide information to industry participants to aid their efforts to comply with the Rule. Additionally the GFXD shared their white paper that further examines the FX considerations for T+1 securities settlement.

Although T+1 settlement may not be a direct issue for the FX market, members discussed implications for investors that need to fund their securities transactions with foreign exchange transactions, which generally settle on a T+2 basis. Potential challenges may include compressed remediation times, more costly FX trade pre-funding requirements and an expansion of trading operation capabilities. As a result, members noted that firms’ operational processes may change in order to accelerate FX trade execution and align it more closely to the securities transaction timeline.

In preparation for the compliance date, a number of, important considerations for market participants were highlighted. These included the need to understand local cutoff times, reprioritize FX execution in current workflows, evaluate FX settlement and operational risks that may arise, as a result, of the change, and investigate solutions such as pre-funding trades and improving trade automation processes.

2. Preparation for Global Foreign Exchange Committee (GFXC) Meeting

In the interest of time, the FXC tabled a discussion of the upcoming GFXC meeting in Mexico City on June 1-2. FXC staff shared subsequently the GFXC agenda items: (i) recent FX Global Code (“Code”) developments, such as uptake of Code signatories; (ii) updates from the Proportionality Self- Assessment Tool and Code adherence working group; (iii) approach to price adjustments in the case of unscheduled market closures; (iv) topics around data availability; (v) local foreign exchange committee (“LFXC”) efforts to collect FX settlement data; and (vi) preparation for the next three-year review of the Code. LFXCs will also provide updates on their local market conditions and Code outreach efforts. The meeting will conclude with a topical discussion of the U.S. securities transition to T+1 settlement and the impact on FX markets.

3. Markets Discussion

The meeting then transitioned to a discussion of market developments since the March FXC meeting. The discussion primarily focused on market participants’ views on the economy and monetary policy, the U.S. banking sector outlook in light of recent stresses, and expectations for debt ceiling negotiations and market implications.

- With respect to the economy and monetary policy, committee members noted expectations that the Federal Reserve would keep rates unchanged at the June FOMC meeting. The U.S. dollar had been trading mostly within a range and could depreciate if advanced economy central bank policy stances become increasingly more restrictive than the Fed's.
- Members noted the possibility of some tightening in credit conditions in the wake of recent banking sector stresses, though noted it was difficult to quantify the extent of the tightening or the precise impact on financial conditions.
- Members closed with a discussion on U.S. debt ceiling negotiations, noting that market participants widely expected a near-term resolution that would include some form of extension. It was noted that very short-term U.S. Treasury bill rates indicated markets were pricing some risk of default, albeit small. Members posited that, should the debt ceiling negotiations be resolved, the market would next be attuned to the impact of increased Treasury bill issuance on money market rates and bank reserves.

The next FXC meeting is scheduled for September 27, 2023.