

foreign exchange committee



Minutes of the Foreign Exchange Committee Meeting

Meeting: July 15, 2020

Host: Video Conference Meeting

FXC Attendees:

ANTHONY BISEGNA	State Street
MARK BRUCE	Jump Trading
CHRISTOPHER CHATTAWAY	Goldman Sachs
YUDHVEER CHAUDRY	Blackrock
NATALIA CHEFER	DE Shaw
MARIA DOUVAS	Morgan Stanley
MICHAEL O'BRIEN	Eaton Vance
ANNA FAUSTINI	Societe Generale
HARI HARIHARAN	NWI Management
CLAUDIA JURY	J.P. Morgan Chase
BENJAMIN KLIXBULL	XTX Markets
RUSSELL LASCALA	Deutsche Bank
DANIEL LENNON	CLS
ANDREW MAACK	Vanguard
NEILL PENNEY	Refinitiv
JODI SCHENCK	Citi
JESSICA SOHL (Vice Chair)	HC Tech
ADAM VOS	BNY Mellon
CHRISTOPHER VOGEL (Chair)	TD Securities

Federal Reserve Bank of New York (FRBNY) Attendees:

LORIE LOGAN	SANJA PEROS
ALEX COHEN	MATTHEW RASKIN
ANNA NORDSTROM	JOHN RUTIGLIANO
MICHELLE EZER	LAWRENCE SWEET
COLLEEN KEEGAN	DAN REICHGOTT
SHAWEI WANG	THOMAS NOONE

Federal Reserve Board Attendees:

ALAIN CHABOUD
STEPHANIE CURCURU

U.S. Department of Treasury Attendee:

DANIEL HALL

Other Attendees:

GUY DEBELLE (Reserve Bank of Australia)
DINO KOS (CLS Bank)

1. Opening Remarks

The FXC Chair welcomed members and guests to the meeting, and introduced Guy Debelle, Deputy Governor of the Reserve Bank of Australia and Chair of the Global Foreign Exchange Committee (“GFXC”).

2. Update on GFXC Meeting

The first area of discussion was highlights from the June 22 GFXC meeting, which was held via videoconference. An update on the work program related to the three year review of the FX Global Code focused on the progress of the GFXC working groups, whose work was paused in response to the global pandemic. The working groups have reconvened with a new timeline to complete the review of the Code by mid- 2021. Participants in the GFXC meeting also discussed FX market conditions and overall operational resilience during the global pandemic. Many of the themes from that discussion were consistent with themes highlighted at prior FXC meetings.

The topic of FX settlement risk was also covered at the GFXC meeting. The discussion centered on the [2019 Bank of International Settlements \(BIS\) triennial survey](#), which highlighted the rising share of FX trades settled without payment-versus-payment (PVP) protection. The GFXC will engage with its member FXCs to consider ways to gain a better understanding of trends in settlement activity. Details from the June 22nd GFXC meeting are available on the GFXC [website](#). The next GFXC meeting will take place on September 23rd.

3. FX Settlement Risk

Guest speakers from the FRBNY and CLS noted that the aforementioned BIS report found that about \$18 trillion of FX settlement obligations are generated every day on average, of which roughly \$8.9 trillion is settled without PVP protection. They also provided an overview of different settlement options currently available in the market. The CLS presentation informed members of the steps the firm is taking to address settlement risk for CLS-covered currency pairs in addition to evaluating the challenges of further expanding its offerings to certain emerging market currencies.

Members agreed that further consideration should be given to:

- Further understanding the main drivers prompting use of non-payment versus payment settlement methods in FX markets;
- Possible enhancing the current principles in the FX Global Code relating to the management and reduction of FX settlement risk (*i.e.*, Principles 35 and 50); and
- Collecting data about to FX settlement risk via the semi-annual FXC survey.

4. Markets Discussion

The meeting then turned to broader market developments. Members discussed the recent depreciation of the U.S. dollar against most major currencies, noting that the broad dollar index had declined for three consecutive months to its lowest level since December of last year. The dollar's depreciation was attributed to three main factors: 1) Ample USD liquidity in the system ; 2) the negative correlation between the U.S. dollar and "risk assets;" and 3) the reduced yield advantage of U.S. rates compared to those of other advanced economies. Looking ahead, some members highlighted perceived sources of uncertainty for the dollar, including potential inflation surprises, continued increases in gold prices, U.S. political uncertainty, and the evolution of the pandemic.

Members then moved to discuss the performance of equity markets in the face of rising COVID-19 cases and economic uncertainty. Equity market moves were discussed in the context of general investor flows amid a low interest rate environment. Some noted that corporate earnings may have yet to experience the full impact of this crisis, and that a deceleration could be expected in coming quarters. It was also noted that it could be increasingly difficult for earnings to justify the elevated multiples seen in the current market environment.

Members closed out the markets discussion by reviewing recent events related to the Turkish lira market, namely the introduction of new regulations perceived to be aimed at controlling the currency and curbing speculation. Members noted that conditions in Turkish financial markets are considered very fragile, which has led to a pronounced decline in client interest in the Turkish lira.

5. Other Business

Members offered their views on progress in the work-from-home (WFH) environment during the COVID-19 pandemic, with some noting a small-scale and gradual return to the office expected in July. Others cited examples of new protocols being used to support returns to the office, including temperature checks, health questionnaires, face masks, and one-way floor traffic. It was noted that returns have been optional thus far, and concentrated among more transactional-related functions. Some noted there has been a significant effort by senior management to encourage work life balance for staff working from home, along with efforts to onboard and train effectively junior staff.

The next FXC meeting has been rescheduled from September 23rd to September 10th, 2020.