



Minutes of the Foreign Exchange Committee

Meeting, May 8, 2013

Host: Wells Fargo

ADNAN AKANT	Fischer Francis Trees & Watts
ANTHONY BISEGNA	State Street Corporation
ROBERT BOGUCKI	Barclays
ERIC BUSAY	CalPERS
LYNN CHALLENGER	JP Morgan Chase
STEVEN CHO	Goldman Sachs
PETER CONNOLLY	Wells Fargo
JOSE LUIS DAZA	QFR Capital Management
JEFF FEIG	Citigroup
TOM GILLIE	Bank of America Merrill Lynch
DANIEL GLEIZER	Banco Itau BBA
TAHREEM KAMPTON	Microsoft
DAVID PUTH	CLS
PAUL RICHARDS	UBS
TROY ROHRBAUGH	JP Morgan Chase
KOICHI TAKENAKA	Mizuho
CHRIS VOGEL	Blackrock
PHIL WEISBERG	Thomson Reuters

Federal Reserve Bank of New York Attendees

MARCUS LEE
LORIE LOGAN
PATRICIA MOSSER
JAMIE PFEIFER

MICHAEL NELSON, Counsel
SHAWEI WANG, Counsel

This meeting was held jointly with the FXC's Operations Managers Working Group¹.

¹ See Appendix for list of OMWG attendees



Welcome

The FXC Chair and Buy Side Co-Chair welcomed members from both the Foreign Exchange Committee and the Operations Managers Working Group (OMWG). In addition, they noted that this marks the first joint FXC-OMWG meeting that also includes Buy Side representation on both the operations and FXC side. The Chair thanked Wells Fargo for hosting the meeting.

CFTC Implementation of the Dodd-Frank Act and the Foreign Exchange Market

Adnan Akant (FXC Buy-Side Co-Chair) provided an update on the FXC Forum held on April 26 to discuss the implementation of the Dodd-Frank Act for the foreign exchange market. He noted that the forum was well attended, with roughly 160 attendees (representing both sell-side and buy-side market participants), and that feedback from participants was very positive. In addition, he discussed the forum's agenda and encouraged members to go to the FXC website where all of the materials (including the agenda) have been posted. Members were thanked for their participation in the event.

<http://www.newyorkfed.org/fxc/meetingagenda/index.html>

He also noted that a workshop for FX compliance managers to discuss Dodd-Frank implementation was held on April 18th. Participants discussed topics including swap documentation, reporting and privacy, external business conduct rules, documentation and business judgment, research, extraterritoriality, and time stamps and execution from a compliance manager perspective.

The FXC Chair noted recent FXC/FMLG activity and publications. He noted the [announcement of the ISDA Derivatives/FX Prime Brokerage Business Conduct Allocation Protocol](#) with the Protocol Annex. The FXC and FMLG worked closely with ISDA on the Protocol Annex, which provides for the allocation of business conduct responsibilities in prime brokerage arrangements as permitted by the CFTC. In addition, the FXC and FMLG drafted a market practice regarding the form of prime broker notice to executing dealer to help facilitate implementation of the protocol. That market practice was to be published shortly. Members were informed that despite the May 15 deadline from the CFTC, market participants should be encouraged to adhere to the PB protocol by May 10th in order to receive a list of covered counterparties. Though the protocol was widely expected to be an effective tool to help implement the rules in a prime brokerage framework, it was noted that not all executing dealers may agree to the protocol and that the protocol does not fully account for four-party structures (i.e. when two prime-brokered clients are agreeing to trades that are then given up to their prime brokers).

The FXC Chair then facilitated a discussion on the impact of the May 1 CFTC External Business Conduct Standards implementation date. Members noted that the foreign exchange market functioned relatively smoothly amid the implementation of these regulatory changes. They indicated that there was some initial apprehension and adjustments required to ensure compliance but that the market processed these adjustments well. Members cited the importance of the CFTC's relief in connection with [prime brokerage arrangements](#) and on the time-limited relief for certain FX transactions with a [settlement cycle of no more than seven local business days](#). In the absence of these actions, members felt that there could have been a significant disruption to market access and to market function. Members noted that some non-US market participants continue to pull back from U.S. dealers in an effort to remain outside of the scope of the Dodd-Frank Act but that the [temporary cross border guidance](#) provided by the CFTC in October 2012 has mitigated that dynamic somewhat. Accordingly, members noted that they will be highly attuned to the status of



the cross border guidance as that order is set to expire on July 12, 2013. It was suggested that the expiration of this relief could result in a more significant pace of retrenchment from US dealers.

Operations Managers Working Group Update

Daniel Ruperto, the OMWG Chair, provided an update on the FX Commitments that have been made to regulators since 2008. The Commitments have related to increasing the use of electronic execution and electronic confirmations. Since 2008 all of the related targets have been met or exceeded. The current outstanding commitment is to produce a standardization matrix which is to include a narrative describing FX market developments.

Rob Eby provided an update on the OMWG's ongoing work, with a focus on revisions to the Sixty Best Practices. The OMWG and FMLG have completed a draft revision to the document which has gone to the FXC for review. Rob described the updates to the group. The changes fall into three basic categories: updates to reflect more recent developments in the evolution of the FX market, clarifications to terminology, and updates based on more recent work (for example, updates on barrier life cycle event processing, monitoring and managing capacity issues, and options confirmations). The group intends to publish the revised draft by the end of May.

Daniel Ruperto discussed the topics that the OMWG has highlighted as areas of focus for 2013. Those topics include buy side processes, confirmations, and promoting greater use of the novation protocol. He suggested that progress in these various areas will be critical to meeting the confirmation timing requirements under the Dodd-Frank Act.

FXC Update

The FXC Chair noted that a global best practices preamble, developed in concert with the committee's counterparts abroad, would be published soon by the various foreign exchange committees, including the FXC. The preamble is intended to highlight some of the shared principles that underpin the codes of conduct and best practices published by the different committees.

The Chair also noted that a work group continues to review the reference rates used in the foreign exchange market. The next step is to gather further feedback on the relevant rates and to have the work group discuss the principles laid out in the IOSCO consultation report on "[Principles for Financial Benchmarks](#)" and its [follow-up publication](#).

Looking ahead, the Chair cited two efforts for the Committee to undertake. First is a review of close-out processes and whether there is potential to promote greater standardization and efficiency in those processes. Second is a review of FXC documentation and publications in the changing regulatory landscape. It was noted that the Secretary will reach out to construct the required work groups.

Other Updates

The FXC Counsel noted that the FMLG has discussed the status of FXC master agreements in light of the Dodd-Frank Act. The group is considering whether those master agreements should be updated or whether they should be discontinued. Members have been asked to provide feedback on how widely those agreements are used and what challenges might accompany their discontinuation.

The FMLG Secretary noted that the [BIS Supervisory Guidance for managing FX settlement risk](#) calls for Banks to identify when settlement finality occurs as a matter of law. It was suggested that the



FMLG and FXC consider hiring external legal counsel to seek legal opinions from various jurisdictions on this issue to help implement that guidance.

Market Discussion

The Chair facilitated a discussion of recent market developments and conditions.

Members indicated that FX volumes were robust in April and were returning to those levels following some declines around the May 1 implementation date for the CFTC's External Business Conduct Rules.

Market attention continues to focus on developments in Japan and members noted recent aggressive policy actions from the Bank of Japan, which had exceeded market expectations at the time of the last meeting. Members continued to cite a difference in view amongst local Japanese investors versus non-local investors. Members discussed capital flows indicating that there seems to be significant repatriation into Japanese equities and that much of the flows out of Japan were going into Europe, for example into French sovereign debt. In addition, members suggested that the scale of flows observed to date had fallen short of market expectations. Members also highlighted the significant volatility witnessed in the JGB market.

Members also discussed developments in Europe. They noted various factors that could drive euro strength, such as reserve recycling demand and expectations for the ECB not to aggressively pursue further policy accommodation, though they did not rule out a further policy rate cut.

Members also noted an increase in off-shore transaction activity within the interbank market in the Chinese yuan, including against currencies such as the Mexican peso.

Other Business

The next meeting for the FXC is scheduled for Wednesday August 28th at **4:00 PM**. CLS will be hosting.



OMWG Attendees and Guests

Robin Perlen
Joe Demetrio
Tony Rocchio
Joanne Brower
Jorge Hidalgo
Mike Debevec
Kenneth Rozycki
Murali Enamandram
Justin Wilks
Raphael Demaizieres
Allison Measso
Michael Mulholland
Stephen Dobson
Erik Downs
Mark Magro
Kim Carabetta
Rosalee Gordon
Daniel Ruperto
Rob Duff
Jason Conn
Eisso Vandermeulen
Mark Kaufmann
James Andrews
Debdatta Banerjee
Mike Hanlon
Rob Eby

Bank of America
BNY Mellon
BNY Mellon
Barclays Capital
Barclays Capital
Blackrock
Brown Brothers Harriman
Citigroup
CLS
Credit Agricole
Credit Suisse
Credit Suisse
Deutsche Bank
Deutsche Bank
Federal Reserve Board
Goldman Sachs & Co.
Goldman Sachs & Co.
Goldman Sachs & Co.
HSBC
ICAP
ICAP
JP Morgan Chase
JP Morgan Chase
Microsoft
Standard Chartered
Wells Fargo