



Minutes of the Foreign Exchange Committee

Meeting, October 9, 2013

Host: Goldman Sachs

ADNAN AKANT	Fischer Francis Trees & Watts
ANTHONY BISEGNA	State Street Corporation
ROBERT BOGUCKI	Barclays
ERIC BUSAY	CalPERS
TIM CARRINGTON	RBS
ROBERT CATALANELLO	Credit Agricole CIB
LYNN CHALLENGER	Mellon Capital
STEVEN CHO	Goldman Sachs
PETER CONNOLLY	Wells Fargo
JOSE LUIS DAZA	QFR Capital Management
JEFF FEIG	Citigroup
DANIEL GLEIZER	Banco Itau BBA
MOHAMMED GRIMEH	Standard Chartered Bank
MOTI JUNGREIS	TD Bank
TAHREEM KAMPTON	Microsoft
GIL MANDELZIS	EBS
DAVID PUTH	CLS
PAUL RICHARDS	UBS
TROY ROHRBAUGH	JP Morgan Chase
DANIEL SILBER	HSBC
KOICHI TAKENAKA	Mizuho Corporate Bank
JOHN TAYLOR	FX Concepts
CHRIS VOGEL	Blackrock
PHIL WEISBERG	Thomson Reuters

Federal Reserve Bank of New York Attendees

CHRISTINA GETZ
ANNA NORDSTROM
JAMIE PFEIFER
SIMON POTTER
MICHAEL NELSON, Counsel

1. Update on Swap Execution Facility Rules Implementation

Private sector members discussed the market impact of new CFTC rules regarding Swap Execution Facilities (SEFs) that became effective October 2nd, 2013. According to such members, the rules required certain venues that offer swaps on their multiple-to-multiple trading platforms under CFTC jurisdiction to register as SEFs. Such members noted that many of the registered SEFs offer trading in foreign exchange options and non-deliverable forwards (NDFs).

Many private sector members noted that the new rules, as interpreted by the market, appeared to have a larger impact on market functioning and liquidity conditions in NDFs compared to FX options, as the NDF market is relatively more reliant on multiple-to-multiple trading platforms as an execution channel. They noted that the FX options market is generally more reliant on voice execution methods and therefore activity in those instruments was less impacted by the new SEF rules so far. It was suggested that these markets would likely be further impacted once additional CFTC rules take effect—for example, when the CFTC’s time-limited no action relief expires on October 30 or once NDF and FX options trading is formally mandated for SEF execution.

Private sector members indicated that NDF market participants transacting on-SEF generally experienced wider bid-ask spreads and lower trading volumes, while those transacting off-SEF experienced more stable liquidity conditions. They noted that the market expects that all transactions on-SEF with a “U.S. person” must be reported. Significant uncertainty around the definition of a “U.S. person” influenced some market participants to transact off-SEF.

2. Foreign Exchange Liquidity Landscape

Private sector members discussed current trends impacting the foreign exchange liquidity landscape. Members discussed the increase in internalization of large flows in the market, the evolution of algorithmic trading in foreign exchange, and the role of the foreign exchange market as a public good which facilitates international trade and commerce. Private sector members noted the importance of these issues and agreed to discuss a framework for guiding discussion on this topic going forward.

3. Market Discussion

Jeff Feig facilitated a discussion on market developments since the last meeting, held in August.

Private sector members discussed the financial market impact of the U.S. government shutdown and debt ceiling debate across asset classes. They noted limited price action in the foreign exchange market at the time of the meeting. The majority of market participants viewed the probability that the U.S. Treasury department would breach the debt limit and default on U.S. sovereign debt as low, though they discussed the potential for a downgrade in the rating of U.S. sovereign debt by major rating agencies amid a prolonged political impasse. They also indicated that the lack of U.S. economic data during the government shutdown hindered their ability to gauge current economic conditions.

Private sector members discussed U.S. monetary policy, and expressed surprise that the FOMC decided to maintain the current level of asset purchases at the September FOMC meeting. Ahead of



the September FOMC meeting, most market participants anticipated the Federal Reserve would reduce the pace of asset purchases.

4. Other Business

David Puth of CLS reported that the addition of a new settlement cycle to facilitate payment-versus-payment settlement services for same-day U.S. dollar-Canadian dollar transactions earlier in October had gone smoothly. Private sector members indicated that this implementation has improved their ability to utilize payment-versus-payment settlement services for a larger set of FX activity. CLS noted that additional cycles would be under consideration in the future—for example, for same day settlement of U.S. dollar-Mexican peso transactions.

Michael Nelson updated the group on the mandatory FXC assessment process which covers the cost of legal opinions and other legal work performed by law firms at the behest of the Financial Markets Lawyers Group. This work has resulted in clarity for FXC members and other FX market participants regarding many provisions of the Dodd-Frank Act. It is expected the next assessment will be within the next few months in the amount of \$20,000.

Members were encouraged to suggest future agenda items. Some private sector members requested that the November meeting include an update on the status of the European Financial Transaction Tax from a member firm.

The next meeting for the FXC is scheduled for Wednesday, November 13th at **4:00 PM**. JP Morgan Chase will be hosting.