



AUSTRALIAN FOREIGN EXCHANGE COMMITTEE

MINUTES OF SEPTEMBER 2015 MEETING

Thursday 17 September 2015

Reserve Bank of Australia

65 Martin Place

Attendees

Guy Debelle, RBA (Chair)
Matt Boge, RBA (Secretary)
Chris Howlett, ACI Australia
Jack Richards, ACI Australia (via teleconference)
Simon Warner, AMP Capital
Scott Brading, ANZ
Stewart Cox, BHP Billiton (via teleconference)
David Hatzidis, CBA
Rachael Hoey, CLS (via teleconference)
Itay Tuchman, Citibank
Lee Merchant, Deutsche Bank
Simon Watkin, EBS
Stephen Gilmore, Future Fund
David Nolan, Goldman Sachs
Andrew Mourd, JP Morgan
Will Richardson, Macquarie Bank
Mark Lawler, National Australia Bank (via teleconference)
Gary Latner, Thomson Reuters (via teleconference)
Hugh Killen, Westpac

Visitors

Mark Wyrzykowski, RBA
Vanessa Rayner, RBA
Robert Colquhoun, AFMA (via teleconference)

Apologies

David Kendrick, HSBC
Murray Regan, AFMA

Secretariat

Vicki Newman, RBA

1. Minutes of Previous Meeting

The minutes of the previous meeting were accepted without modification.

2. Matters arising from the Minutes

The Secretary updated members on the progress made by Bloomberg and Reuters in replacing references to HSRA on their pages with 'WM/Reuters Australian Fix 10.00am'. As of the meeting date, Bloomberg had made the change, while Reuters had advised that their change would be made in early 2016. The Chair requested the committee's Thomson Reuters representative see if this timeframe could be advanced.

3. Semi-annual update of foreign exchange turnover

The committee was briefed on the latest surveys of FX turnover conducted in April 2015 in the UK, US, Singapore, Japan, Australia and Canada and published late July. The data showed that, in US dollar terms, turnover declined by 11 per cent to US\$4.3 trillion over the 6 months to April 2015, although it increased by 4 per cent over the year. The recent decline was likely attributable to the sharp increase in turnover at the time of the October 2014 survey (the highest level of turnover since the surveys began in 1990). Abstracting from this, global FX turnover has been increasing at a modest pace since October 2012.

By country, turnover declined by around 20 per cent in the US and Singapore over the 6-month period and by 5 to 10 per cent in Japan, Australia and the UK. In contrast, turnover increased by around 20 per cent in Canada, although this was likely due to a change in their survey methodology. Australia was the only country to record a decline over the 12 months to April 2015 (although, in Australian dollar terms, the decline was only slight). In US dollar terms, global turnover in the Australian dollar decreased by 16 per cent over the 6-month period to be marginally below its level in April 2014. (In Australian dollar terms, turnover declined by only 5 per cent over the 6 month period).

4. Recent FX market volatility

The committee discussed recent market volatility with a focus on movements in AUD and NZD on 24 August. Members noted that spreads widened significantly and that, for a period, electronic systems were largely devoid of bids (especially in NZD). The moves occurred after US equity futures triggered a limit-down circuit breaker and appeared to be led by a broad range of cross-YEN selling. It was noted that resting order volume has generally decreased in the market. Members commented that there was now less depth in FX markets with regulatory and other changes seeing a reduction in traditional market-making as banks take less principal risk.

5. FX benchmark report

The Chair advised that the report on progress in implementing the Financial Stability Board's recommendations surrounding FX benchmarks was scheduled to be released in the next few weeks after discussion at the FSB plenary meeting. Surveys of the major markets confirmed that many banks had broadly implemented the recommendations, especially regarding the

WM Reuters 4pm London fix, although there remained scope for further progress. For other fixes, implementation was less advanced. Analysis of recent market activity for the 4pm London fix showed a significant increase in the share of algorithmic execution in the fix window.

6. Update on single global code of conduct for the foreign exchange market

The Chair updated the committee on the meeting of the Foreign Exchange Working Group (FXWG) that he had chaired the previous week in London. Work on drafting the global code has been divided into two groups. The first group is drawn from the secretariats of the global FX committees and is focused on harmonising existing material from the current codes. The second group comprises participants from various sectors of the market and will focus initially on drafting text for topics not adequately covered in existing codes. Hugh Killen is a member of the Market Participants Group and undertook to liaise with other AFXC members as work progressed.

The code is expected to be released in May 2017, with an earlier release of certain components of the code targeted for May 2016.

7. Tax Ruling (TR 2014/7): treatment of foreign currency hedging transactions

A letter from the ATO to the AFXC was circulated to AFXC members in August and was discussed at the meeting. The view of the members was that they could provide no further guidance beyond any responses they had already directly conveyed to the ATO on this issue.

8. Establish protocol for making changes to AFXC Foreign Exchange & Foreign Currency Options Conventions

While major changes to the conventions would be raised at committee meetings, it was agreed that the Secretariat could propose other changes via email circulation. No response to the email would be taken as endorsement. Any changes accepted via this process would be adopted immediately and the AFXC's website updated accordingly.

Elect a working group to review and update AFXC Foreign Exchange & Foreign Currency Options Conventions

The current conventions are to be reviewed and will be drafted as supplementary to the ACI Model Code (which the AFXC has endorsed). The conventions will ultimately be used as the Australian annex to the planned global code, detailing processes that are unique to the Australian market.

Mark Lawler volunteered to chair the working group. Other members are Chris Howlett and Vicki Newman. A draft will be presented at the December AFXC meeting.

9. CLS strategic initiatives

Rachael Hoey updated the committee on current CLS initiatives, including the settlement of cross currency swaps and of the Hungarian forint which are expected to go live in Q4, subject

to regulatory approval. CLS have also announced a collaboration with LCH regarding FX options and are working with TriOptima on a trade compression service for FX forwards.

10. General Business

Chris Howlett advised that there were only a few places remaining for the October ACI Australian Dealing Simulation course.

11. Next Meeting

10 December 2015

**Australian Foreign Exchange Committee
September 2015**