

Foreign Exchange Contact Group

Frankfurt am Main, Wednesday, 28 November 2018, 13:00-17:00 CET

SUMMARY OF THE DISCUSSION

1. Welcome remarks

Benoît Cœuré, Member of the Executive Board of the ECB, welcomed¹ the participants to the Foreign Exchange Contact Group (FXCG) meeting, emphasising the importance of strengthening the foundations of the foreign exchange market. Mr Cœuré expressed his appreciation to the FXCG members for signing up to the FX Global Code of Conduct (the "Code"), reflecting an important and broad movement in financial markets towards fair and ethical trading practices. The Group's discussion focused on the importance of all market participants promoting the Code's principles to the broader market to achieve an effective change in mind-set and culture.

2. The Chinese FX market structure and recent developments

Sun Jie, Li Yuqing, Hu Ying and Sun Jia (China Foreign Exchange Trading System – CFETS) presented the structure of China's interbank FX market, which has enjoyed strong growth in turnover since the inception of CFETS' integrated e-trading platform in 1994. CFETS has taken steps to make FX trading more accessible to foreign market participants by bringing its platform closer to international standards, extending opening hours and making data and additional information available in English.

Liquidity conditions in China's interbank FX market have improved thanks to growing turnover in the swap and spot markets. CFETS adjusts its offering in response to market demand and recently introduced an order-driven market mechanism which has grown in prominence and is now roughly similar in size to the quote-driven market.

The Group discussed the features of the China Foreign Exchange Committee's (CFXC) setup, which brings together regulators, major actors and experts. Members agreed that encouraging education and training programmes is essential to foster an understanding of and adherence to standards of good conduct, especially in emerging markets. As part of the ongoing and active effort to ensure that all foreign exchange market participants in China understand these standards of conduct, the CFXC decided to provide a more detailed annex to the Code and develop illustrative reference examples, leveraging the best practices of individual members. Some members think that the China FX Market Self-Disciplinary Mechanism, via which market participants can anonymously submit complaints for review by experts and which includes agreed self-disciplinary measures, can provide advantages in the form of dispute resolution and feedback to the CFXC.

3. FX Global Code and Global Foreign Exchange Committee

The Group discussed the status of the Global FX Committee's (GFXC) key initiatives in supporting the implementation of the Code.

Members exchanged views on the analysis presented by the GFXC's Cover and Deal working group, in which a few members argued in favour of adding more details to the

¹ https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp181128.en.html

findings before potentially publishing information on the analysis while other members said that the outcome is most effective when it describes practices at a sufficiently generic level so as to be readily accessible to end-user clients. Overall, the Group agreed to support the publication of this material by the GFXC by linking it closely to Principle 17 of the Code, and to recommend enriching its content by adding some illustrative examples of cover and deal arrangements within the Code.

The Group also discussed the findings of the GFXC's Disclosure and Transparency working group, which explored the role that disclosures can play in establishing clarity around foreign exchange market activities, including trading practices between market participants. The members appreciated the findings, but recognised the sensitive nature of the subject and agreed that articulating a set of characteristics and topics to guide market participants' consideration of disclosure notes was an important step towards a fairer and more transparent market. Accordingly, the Group agreed to support the publication of the working group's findings while encouraging further work on anonymous trading activity.

4. The Future of Foreign Exchange

James Kemp and Andrew Harvey (Global FX Division of the Global Financial Markets Association) discussed potential future drivers of change on the foreign exchange market – including higher regulatory requirements, conduct controls, new product offerings and fintech entrants – as well as highlighting industry efforts in recent years to use new technologies to increase efficiency and meet client requirements. The Group went on to discuss various possible future scenarios for the structure of the foreign exchange market and their implications, with some members stressing the importance of maintaining a level playing field for all market participants to ensure a fair, effective and robust market.

5. Work programme

The Group briefly discussed various topics for next year's work programme and agreed to finalise the work programme via written procedure and make it available to the public via the FXCG webpage.