EUROPEAN CENTRAL BANK

EUROSYSTEM

Foreign Exchange Contact Group

Frankfurt, Tuesday, 11 July 2017, 14:00-18:00 CET

SUMMARY OF THE DISCUSSION

1. The international dimension of the ECB's asset purchase programme

An opening speech was given by Benoît Cœuré, Member of the Executive Board of the ECB. See: Benoît Cœuré, "The international dimension of the ECB's asset purchase programme", available at
https://www.ecb.europa.eu/press/key/date/2017/html/ecb.sp170711.en.html

In addition, Mr Cœuré thanked the Group for their professional and vigorous support in developing the FX Global Code (the "Code") and its adherence mechanism. He reiterated the value of the Code in assisting progress towards a robust, fair, liquid, open and appropriately transparent FX market, which is particularly important for all types of active market participant. He emphasised the importance of each market participant following up with a commitment to comply with the principles and encouraged members to lead by example through a swift and thorough endorsement of the Statement of Commitment.

2. FX outlook: review of FX market developments and outlook

Edward Carmichael (HSBC) kicked off a discussion on the key themes in the FX markets. There were mixed views on the prospects for the British pound. Some members argued that the outlook is loaded with political risks and lingering uncertainty over the Brexit negotiation, which is more likely to lead to further weakening of the pound now that positioning is more balanced. Others were of the view that the pound was already undervalued on a wide range of valuation metrics and a great deal of negative news had already been discounted, which should provide some support from now on.

Another topic that the members considered was the low level of volatility across asset classes globally. Systematic selling of volatility in a low-yielding environment and accommodative monetary policies were seen as the main drivers of the current low level of short- and long-dated volatility in asset markets. As regards the euro, the potential large demand arising from reserve managers was mentioned as an upside risk, if euro reserve holdings were to increase from current levels after political risk had faded. Overall, emerging market currencies were seen as surprisingly resilient, in particular over the past few weeks, at a time when major currencies had been volatile in reaction to the recent increase in global government bond yields.

3. FX Global Code: future governance and progress on adherence

Guy-Charles Marhic (ECB) informed the Group of the objectives of the newly formed Global Foreign Exchange Committee (GFXC). The GFXC was established in May 2017 and will collectively own, maintain and update the Code that was published at the same time. The Group was informed of the timeline and the planned way forward with regard to announcing the intention to have a public register and launch a survey to assess how the Code is being applied following its publication. A number of members expressed interest in having a common mechanism such as a public register to make public their Statements of Commitment. Members also provided feedback on client responses to the launch of the Code and were very pleased to note the level of awareness of the Code in the marketplace.

In addition, the Group discussed its own intended way of demonstrating adherence. All members expressed their strong support for the Code and indicated their intention to endorse the Statement of Commitment swiftly, ideally by the end of 2017. Some members said the work involved in complying with the principles set out in the Code should not be underestimated and would require some time, as assessing compliance would require consulting several different departments within their institutions. Members also appreciated the efforts of the ECB and other authorities to make continuous efforts to publicly promote the Code.

The Chair requested that members endorse their Statement of Commitment to adhere to the Code, ideally by the end of this year but certainly within 12 months of publication of the Code, in order to remain eligible for membership of the FXCG. This requirement would equally apply to institutions wishing to join the Group. The FXCG's Terms of Reference will be updated to reflect these expectations.

4. FX Global Code: request for feedback on last look practices

Following the request for feedback launched by the GFXC[1], the Group discussed a practice in electronic trading known as "last look", and specifically the trading activity during the last look "window" (Principle 17). While all members agreed that last look should not be used to gather information when there was no intention to accept a trade request, there was a large diversity of views on trading (pre-hedging) activity during the window. Some members considered that such trading activity was initially intended to protect banks against misbehaviour and is consistent with Principle 11 on pre-hedging. It could help increase liquidity and the ability and willingness to conduct client trades in a way that benefits the client. On the other hand, some argued that such trading activity was difficult to control and could be detrimental to the client, as it could generate conflicts of interest and move the market against the client. It was mentioned that entities that publish their last look practices explain how they protect themselves from unwanted credit or liquidity exposure but not how this could work in favour of the client. Some members felt that the Code should not prohibit a particular business model, as some market participants prefer to only trade with dealers that do not use the last look window, while others prefer to have different options available. This is reflected in a variety of electronic trading platforms, some of which use last look and some do not. It was also argued that the feasibility of pre-hedging in the last look window may depend on the liquidity and market conditions of the currency pair. Some members suggested implementing guidelines for response time by electronic trading platforms or considering how last look-type risks have been handled in other markets.

In general, transparency and disclosure in relation to the implementation of last look by both liquidity providers and trading platforms were seen as critical. The Chair appreciated the discussion and encouraged each member to convey their view and reasoning to the GFXC Secretariat by email to lastlookfeedback@globalfxc.org by the deadline of 21 September.

5. Foreign exchange activities: a corporate example

Ralf Lierow (Siemens) presented the FX activities conducted by his group. Siemens Treasury is responsible for the global management of group liquidity, relationships with banks and management of counterparty risk, bank account management, centralised management of interest rate, currency, liquidity, commodity price and credit risk, and all financial processes. With four regional Treasury Centres responsible for ensuring 24-hour coverage, the company's goal is to manage currency risk within the group in a cost-effective and centralised way. Ralf also gave practical examples, including how liquidity management and project business are handled. The Group expressed its appreciation for the presentation.

[1] See "GFXC Request for Feedback on Last Look Practices in the Foreign Exchange Market" available at https://www.globalfxc.org/docs/consultation_process.pdf