foreign exchange committee

FXC

Minutes of the Foreign Exchange Committee Meeting
Meeting: April 6, 2022
Host: Video Conference Meeting

FXC Attendees

Chris Vogel (TD Securities) - Chair
Yudhveer Chaudhry (Blackrock)
Maria Douvas (Morgan Stanley)
Michael Eyre (Vanguard)
Anna Faustini (Societe Generale)
Ben Klixbull (XTX Markets)
Robert Kim (JPMorgan Chase)
Jeffrey Knapp (Coca-Cola)
Marisa Kurk (Northern Trust)
Russell Lascala (Deutsche Bank)
Dan Lennon (CLS)
Jodi Schenck (Citibank)
Chris Taendler (Barclays)
Bob Tull (Fifth Third)
Sean Tully (CME Group)
Adam Vos (BNY Mellon)

Federal Reserve Bank of New York (FRBNY)

Lorie Logan
Anna Nordstrom
Lisa Chung
Michelle Ezer
Alex Cohen
Dan Reichgott
Sanja Peros
Thomas Noone
Shawei Wang
Colleen Keegan
Kathleen Ramirez

Federal Reserve Board of Governors

Alain Chaboud

U.S. Dept. of Treasury

Susie Han

Other Attendees

Tom Price (SIFMA)
Anthony Macchiarulo (SIFMA)
Janet Dawson (GFMA)
Bob Walley (Deloitte)
Leslie Payton Jacobs (EMTA)

The Chair opened the meeting and welcomed representatives of the Securities Industry and Financial Markets Association (SIFMA), who presented the first agenda item.

1. **Topical Discussion: Securities and Exchange Commission (SEC) proposal for securities settlement change to T+1**

SIFMA representatives presented on the SEC's proposed rule changes for securities settlement in the U.S. to T+1 from the current T+2, and the potential implications for FX markets. The presentation highlighted several possible benefits to narrowing the trade settlement cycle to T+1, including: (i) further reduction of trade and settlement risk; (ii) potential for improved operational efficiency, and (iii) reduction in the size of clearing requirements for funds posted to the Depository Trust and Clearing Corporation (DTCC), which can be burdensome, especially during periods of high market volatility. SIFMA conducted outreach to assess the impact of this change for the FX market. The initial assessment is that the overall structure and technological capacity of the wholesale FX market are likely sufficient to adapt to the change at an industry level, though further education and assessment of trade activity/processes may be needed by individual firms. The SEC's proposed transition timeline is targeted for 2024.

Following the presentation and discussion with SIFMA's representatives, FXC members requested that the Operation Managers Working Group (OMWG), a subcommittee of the FXC, further examine potential impacts to the FX market and report back to the FXC at a future meeting.

2. **Update from Emerging Market Trade Association (EMTA)**

The discussion then moved to an update from EMTA regarding developments in the Russian ruble market. Since the outbreak of the war in Ukraine, EMTA and the International Swap and Derivative Association (ISDA) jointly published guidance in the form of an amendment agreement that members may use bilaterally to allow for the conversion of deliverable ruble contracts into non-deliverable contracts. In addition, EMTA is evaluating a proposal that would lessen the dependency on the onshore Moscow Exchange (MOEX) rate for Non-Deliverable Forward (NDF) contracts and offer an alternative offshore rate, as their members have expressed some concern about the risks of using the MOEX rate given the current geopolitical situation and the concern around developing sanctions. The speaker mentioned that EMTA is close to a proposal for an alternative reference rate, but a key debate is whether it will apply to only new transactions or also include legacy transactions.

3. **Markets Discussion**

The meeting then transitioned to a discussion of market developments since the March FXC meeting. The discussion focused on U.S. and global policy expectations, the resilience of risk assets to rising interest rates and geopolitical tensions, and improved functioning in the FX market.

- Committee members shared views on the notable shift in Federal Reserve communications in comparison to last year in terms of addressing rising inflation. Members suggested that the FOMC had now provided clear messaging in support of removing policy accommodation through rate hikes and balance sheet reduction. In this context, moves in the Treasury curve and front-end interest rate volatility were noted.

- Members also observed that several central banks have begun their tightening cycle, with the notable exception of the Bank of Japan, which has reaffirmed its commitment to its current accommodative policy stance. This was cited as a key factor in the recent depreciation of the Japanese yen. It was also noted that the war had dampened expectations for rate hikes by the European Central Bank, given the expected impact on economic activity in the region.

- Several committee members highlighted the equity market's resilience amid rising rates and the ongoing war in Ukraine. Some suggested this may be more technical in nature, spurred by the bond market sell-off and diminished fixed-income returns. Other members cited the persistence of negative real yields and deployment of relatively large cash positions as a continuing support for equities. Resilience in EM equities was attributed in part to relatively attractive valuations and, for some countries, the recent rise in commodities.

- It was noted that FX market liquidity had generally recovered since Russia's invasion of Ukraine, and that outside of a few days of somewhat disorderly conditions in some currencies, markets remained functional as activity steadily resumed.

- Finally, members discussed forward-looking risks to currencies and financial assets more broadly. Two risks discussed were the potential impact of a more rapid central bank policy tightening on growth and the implications for energy prices of an escalation or broadening of the war in Ukraine.

4. Future of Work

Committee members then moved to discuss the "future of work," noting that some firms have pursued a hybrid work model with employees averaging 2-3 days in the office. It was mentioned that improved resilience is one advantage with the hybrid model, giving the example that a number of households would now need to experience an outage at the same time for operational issues to arise, as opposed to one key site experiencing problems. Members noted that sales and trading teams are typically required to work fully in the office given regulatory and compliance oversight. A shared concern regarding the hybrid model centered around staff development (especially for more junior staff) employee retention and idea generation, given the difficulty of creating a team culture in a virtual/hybrid environment.

5. Other Updates

It was noted that the FRBNY had signed and posted an updated statement of commitment to the current version of FX Global code. All FXC members were reminded to submit their updated statement of commitments to the New York Fed by June of this year.

The next FXC meeting is scheduled for May 25, 2022.