EUROPEAN CENTRAL BANK

EUROSYSTEM

Foreign Exchange Contact Group

Frankfurt, Thursday 16 April 2015, 13:00-17:00 CET

S U M M A R Y O F T H E D I S C U S S I O N

1. Latest developments at the ACI

Marshall Bailey and Ralph Genang (ACI) reviewed the main changes introduced in the latest version of the ACI Model Code and presented the new ELAC portal, the e-learning and annual certification tool developed by ACI. The ACI Model Code encapsulates best practices in the financial market industry and includes the latest market developments and technical advice for practitioners. The latest release of the code published in February 2015 incorporates changes in several sections (e.g. insider dealing, market manipulation) and new chapters on aggregation, high frequency trading and FX dark pools. The new ELAC portal enables individual users to constantly test on knowledge, experience and involvement of the ACI model code and provides a self-assessment to the user. The system is a live system: it will be continuously updated to reflect evolution and changes of the model code and provide timely examples. The new learning tool can help market participants to demonstrate endorsement of the Model Code and contribute to fulfill some of the FXBG recommendations.

In the discussion, it was reminded that the ECB FXCG, as well as the Australian FXC, endorses the ACI Model Code. It was indicated that a few ECB staff will start testing the ELAC portal. Some members indicated that banks have to respect a variety of codes depending on the jurisdiction where they operate and that those codes are not sufficiently detailed on some specific topics. Banks have thus set internal codes which are more adequate for day-to-day business. Some members indicate that the codes should also reflect buy-side concerns and issues. It was explained that the ACI Committee for Professionalism is in charge of updating the Model Code and new experienced members are welcomed to join and contribute to the review.

2. Lessons learnt from the removal of the Swiss floor

Jeff Ward and Mark Bruce (ICAP) reviewed the price action in EUR/CHF on EBS trading platform after the removal of the floor by the Swiss National Bank (SNB). Despite the extreme volatility immediately after the removal of the SNB floor, the platform maintained normal trading conditions, with only very short periods of time not displaying two-way prices. EBS published a statement to confirm a mis-trade and recognised the market low at 0.8500 according to the strict procedure established by EBS. EBS traded on the day USD 299 bn equivalent, with USD 59 bn in EUR/CHF. EBS also indicated that when the EUR/USD exhibited elevated volatility on 18 March 2015 following the release of the FOMC statement, trading conditions on the platform remained normal during that event.
Members discussed the introduction of circuit breakers on some trading execution venues and the implication for retail FX trading of the elevated volatility following the removal of the floor.

3. Global FX Committee meeting: review

Guy-Charles Marhic (ECB) provided a summary of the Global FXC meeting organised by the Bank of Japan on 23 March 2015 in Tokyo at which participants unanimously endorsed the new Global Preamble to industry codes. The document was released on 30 March 2015.

In the discussion, members welcomed the adoption of the Preamble, which sets global standards across jurisdictions. Some called for a continuation of the work to establish a single code.

4. FSB recommendations' implementation

Christophe Beuve (ECB) presented the outcome of a preliminary survey carried within the ECB FXCG on the implementation of FSB recommendations. The discussion focused on the wider WM/Reuters time window and the pricing of orders executed at the fix. Members generally welcomed the introduction of the wider time window for the calculation of the fixing by WM/Reuters. Some suggested that the time window could be better tailored to reflect the liquidity of the underlying currency pair while others raised concerns over the difficulty and costs for replication. As regards the introduction of fees or bid ask spreads, a few members argued that pricing should be left to the parties as a normal commercial discussion. Some other members also reported that some banks have been slow in implementing the FSB recommendations and that communication on the matter has been uneven. Finally, several members expressed concerns that competition between banks may drive fees to tiny levels. In the meantime, some members argued that the FSB recommendations intended to grasp the underlying weakness of FX fixings and that transacting at mid price was not adequately reflecting the risks taken by banks. It was also argued that banks should adopt a low grid to reflect on some of the concerns of market participants and that the quality of execution should also be taken into account in fully assessing the service offered by banks.

5. Market review and discussion

Guy-Charles Marhic (ECB) provided a brief review of the recent FX market developments, focusing on some of the recent drivers of the euro and US dollar exchange rate, the developments surrounding the Chinese renminbi and the risks going forward.
Members discussed the factors driving the euro exchange rate, citing among others expected monetary policy divergence, large bond outflows on portfolio rebalancing by European and foreign investors and large issuance by non-European corporates. In addition, it was noted that euro inflows (e.g. in equities) were mostly hedged so the FX market impact remained muted, the current positioning in FX was not extreme from an historical perspective and inflows into US assets were increasing. On China, some members reported that there were growing expectations for easing policy action after the recent release of weaker than expected economic data and expected that the renminbi may be included in the Special Drawing Right basket when the IMF conducts its regular review later this year. Finally, there was some discussion on the U.K. elections with members mentioning the elevated uncertainty as regards their outcome which is reflected in higher GBP volatility before and after the elections.