

Foreign Exchange Contact Group
Frankfurt, Thursday 19 January 2012

SUMMARY OF THE DISCUSSION

1. Update on regulatory changes as regards derivative transactions

Sophie Bening (ECB) made an update on the latest developments as regards the OTC derivatives reform being implemented in the European Union and in the US, in particular as regards the treatment of FX swaps and forwards.

As regards EU regulation, the European Parliament (EP) voted on amendments to the Commission's proposal of EMIR, dated 15 September 2010. A legislative resolution is planned for 14 February 2012. The Council has not finalised its review of the Commission's proposal yet, but it is expected that EP and Council will find an agreement on the draft regulation at first reading. In determining whether a class of derivatives is to be subject to clearing requirements, the European Securities Market Authority is expected to aim in first place for a reduction in systemic risk. There is no ex-ante exemption for FX derivatives, but the draft regulation acknowledges in its preambles that FX derivatives do not raise major concerns in terms of systemic risk and that infrastructure aiming at reducing settlement risk already exists. As the draft regulation also mentions international consensus in respect of the clearing obligation, one can reasonably expect that (some classes of) FX derivatives will be exempted, following the (though not yet final) US model.

As regards US regulation, Treasury Secretary's proposed determination of Foreign Exchange Swaps and Forwards is not final yet. The exclusion of FX swaps and forwards from the definition of swaps will be effective upon the Secretary's submission of the determination to the appropriate Congressional Committees. It is likely that this would happen only once the CFTC/SEC has adopted final rules with respect to the definition of "swap". If the proposed determination is adopted, FX swaps and forwards will remain subject to trade reporting requirements (but not to real time public reporting).

2. Presentation of recent activities of the OMG

Andreas Gaus (Crédit Suisse), Chair of the Operations Managers Group (OMG), debriefed the group over recent and future activities of the OMG, including the latest OMG work on best practices to be proposed for incorporation in the ACI model code operations chapter.

3. Review of recent market developments

The members of the Group exchanged views on recent financial market developments and the outlook, introduced by Shyam Devani, Senior FX Technical Strategist at Citigroup.

4. FX derivatives

David Wayne, global head of FX Derivatives at Deutsche Bank, made a presentation on the changes to the FX derivatives market structure in the recent past and the near future. The risk premium, measured by the difference between implied and realised volatility, has returned to and is likely to remain at largely positive levels. The risk premium was, on average, close to zero during the years preceding the financial crisis. This has to do with the uncertain economic environment. In terms of flows, fewer clients are selling options. The risk attitude of market makers has also changed. Execution wise, there is currently little electronic liquidity available to market makers, but a large amount is available to clients via single bank platforms. Requests for quotes with inter-dealer brokers are developing. Prospective regulation is accelerating the move towards a more electronic market. Options' liquidity, as measured by bid-offer spreads, remains volatile.

5. Other Business

- The global FX committees' meeting will take place in Frankfurt on 19 March 2012.
- The final FXCG work programme for 2012 was circulated.
- The next FXCG meeting will take place on 20 June 2012 from 13:00 to 16:00 at the ECB premises.

List of participants
Foreign Exchange Contact Group

19 January 2012

Meeting room CIV, 2nd floor (13:00-16:00)

Meeting no.: 32571

Participant's organisation

Name of participant

BBVA	Mr Francisco Javier Fernandez
BHF Bank	Mr Norbert Kaiser
BNP Paribas	Mr Bob de Groot
CECA	Mr Enrique Velasco
Citigroup	Mr Holger Achnitz
Commerzbank	Mr Christian Drucke
Deutsche Bank AG	Mr Steffen Orben
Dexia	Mr Franck Luxembourger
ICAP	Mr Jeff Ward
Nordea	Mr Mick Christian Ankjaer
Norges Bank	Mr Oyvind Schanke
Royal bank of Canada	Mr Graeme James King
Royal bank of Scotland plc	Mr Roger Hawes
State Street	Mr Chris Freeman
The Bank of Nova Scotia	Mr Barry Wainstein
The Bank of Tokyo	Mr Yasushi Kobayashi
Thomson Reuters	Mr Robin Poynder
Zürcher Kantonalbank	Mr Bernd Roth

NCB

Name of participant

Deutsche Bundesbank	Ms Christine Glockmann
Banco de España	Ms Ainhoa Diez-Caballero
Banca d'Italia	Ms Maria Lucia Marras

European Central Bank

European Central Bank	Mr Francesco Papadia	Chairperson
European Central Bank	Mr Paul Mercier	
European Central Bank	Mr Ivan Fréchar	Secretary

Via teleconference

National Bank of Belgium

Banque de France

Central Bank of Malta

Banka Slovenije

Bank of Greece

Central Bank of Cyprus

Eesti Pank

Central Bank of Ireland

De Nederlandsche Bank

Banque centrale du Luxembourg

Oesterreichische Nationalbank

Bank of Finland

Name of participant

Ms Katrien Baetens

Mr Etienne Catara

Mr Mario Bugeja

Ms Crt Lenarcic

Mr Theodoros Tsoufis

Mr Andreas Mylonas

Mr Niko Herrala

Ms Helen Daly

Mr Jeroen Moll

Mr François Zenner

Mr Wolfgang Hengelmüller

Mr Tuoams Välimäki

Guest speakers

DB Global Markets

Citi

Credit Suisse

European Central Bank

Name of participant

Mr David Wayne

Mr Shyam Devani

Mr Andreas Gaus

Ms Sophie Bening