1. Regulatory developments and the foreign exchange (FX) market

Andrew Harvey (Global Financial Markets Association (GFMA)) provided a review of the regulatory developments impacting the FX market, with a focus on the new rules under the Markets in Financial Instruments Directive (MiFID II), which will become effective on 3 January 2018. MiFID II, which includes a revised MiFID and a new Markets in Financial Instruments Regulation (MiFIR), is a wide-ranging piece of legislation which, depending on a firm's business model, could affect a wide range its functions.

Andrew provided a reminder as to the application of MiFID/R II to FX, discussing how the illiquid determination applies to transparency (pre/post and transaction reporting), trading obligation and voluntary cleaning. The MiFID timelines were discussed, specifically the go-live on 3 January 2018, the first best execution reporting obligations in June 2018 and systemic internaliser (SI) registration by September 2018. Andrew also referred to the website1 of the Global FX Division of the GFMA (GFXD), which contains FX MiFID materials, information on how to populate certain data reporting obligations and a questionnaire for trading venues to be used in discussions with clients.

Members discussed issues surrounding the implementation of MiFID/R II and focused on transparency and reporting obligations, best execution, trading and venue preparedness, cost and charges, and extraterritoriality. There was discussion on the new FX ISIN number, including GFXD’s view that an FX swap should be represented with two FX forward ISINs, and the requirements for a Legal Entity Identifier (LEI), noting that a counterparty captured under MiFID is required to have a LEI in order to trade. Some members expressed the view that the FX industry has still a lot of work to do if firms are to become compliant within the required timeframes. The session was closed with a reference to a GFXD transparency chart illustrating the reporting obligations under MiFID, the European Market Infrastructure Regulation (EMIR) and the Dodd-Frank Act.

2. FX Global Code: Contact Group members’ support for the Code and adherence mechanism

Guy-Charles Marhic (ECB) reviewed the most recent work on the development of the global principles for good practice in the FX market - the FX Global Code. He said that the Code, which was approved by the Governors of the Global Economy Meeting (GEM) and the Economic Consultative Committee (ECC) of the Bank for International Settlements (BIS) in March 2017, will be published on 25 May 2017 together with an adherence document. At the same time, the Global Foreign Exchange Committee will be officially launched, which will be responsible for the future governance and maintenance of the Code. Moreover, several press releases of support will be published, including one issued by BIS, ECC and GEM governors, while public events will be organised to raise awareness about the Code. Adrian Boehler (BNP Paribas) debriefed the group on the ways to incentivise adherence to the Code via market-led mechanisms (e.g. training and certification). Members discussed the possible development of public registers, which would aim to collect the Statements of Commitment annexed to the Code from market

1 http://gfma.org/fx/
participants. Private sector members of the Foreign Exchange Working Group (FXWG) will also jointly publish a statement of support for the Code.

All members expressed their strong support for the Code and indicated their intention to endorse the Statement of Commitment relatively soon after the Code is published. Most members intend to publish their statements on their websites. Some members said the work involved in complying with the principles set out in the Code should not be underestimated and would require time, as assessing compliance would require the consultation of several different departments within their institutions.

The Chair said that Contact Group members are expected to attest their commitment to adhere to the Code within a reasonable period after its publication in order to remain a member of the group. This requirement would equally apply to institutions wishing to join the group. The group’s Terms of Reference\(^2\) will be updated to reflect those expectations.

3. **Review of FX market developments and outlook**

Stuart Bennet (Santander) reviewed the most recent developments in the FX market and presented the outlook.

The discussion on market developments focused on the functioning of the market after the first French presidential election round. Members reported increased trading activity with substantially tighter bid-ask spreads amid elevated trading volumes. They also confirmed that they did not experience any major disruptions, gaps in liquidity or market dislocation, and that electronic platforms performed very smoothly. A few members mentioned that FX markets have been increasingly driven by political developments, which are difficult to price in and lead therefore to subdued client activity. The discussion also touched briefly on the market functioning after Česká národní banka decided on 6 April 2017 to discontinue its use of the exchange rate as an additional instrument for easing monetary conditions. Over, the previous 40 months the Czech central bank had been using FX interventions to keep the Czech koruna close to CZK 27/EUR. Despite concerns about the Czech koruna being heavily overbought before the end of the central bank’s commitment to this level, the market moves against the euro were deemed very orderly.