



# AUSTRALIAN FOREIGN EXCHANGE COMMITTEE

## MINUTES OF SEPTEMBER 2020 MEETING

Wednesday 16 September 2020

Conducted via teleconference

### **Attendees**

Christopher Kent, RBA (Chair)

Guy Debelle, RBA (GFXC Chair)

Chris Howlett, ACI Australia

Mark McCarthy, AFMA

Andrew Scott, AMP

John Findlay, ANZ

Winnie Tan, Bank of China

Deirdre Williams, BHP Billiton

David Hatzidis, CBA

Lee Merchant, Deutsche Bank

Catherine Rich, Goldman Sachs

David Kendrick, HSBC

Mark Lawler, National Australia Bank

Simon Watkin, NEX

Stuart Simmons, QIC

Gary Latner, Refinitiv

Simon Sukhaseume, SSGA

Jeremy Carr, Suncorp

Graeme Edie, Westpac

Chris Knight, XTX Markets

### **Apologies**

Aaron Ng, Citigroup

Will Richardson, Macquarie Bank

### **Guests**

Margaret Law, CLS

### **Secretariat**

Matthew Boge, RBA (Secretary)

Jason Griffin, RBA

## 1. Competition Guidelines

The Chair reminded attendees that the meeting would be conducted in line with the RBA's [Competition Law Guidance](#).

## 2. AFXC Membership Changes

As part of AFXC membership rotations, the Chair welcomed Jeremy Carr (Suncorp) and Catherine Rich (Goldman Sachs) to the committee. The Chair also thanked Andrew Mourd (JPM) for his service as he was rotated off the committee.

Regular member rotations are designed to broaden and balance the range of market participants on the committee.

## 3. FX Settlement Risk

In introducing the topic, Guy Debelle noted there was ongoing focus on settlement issues at the Global Foreign Exchange Committee (GFXC). This [includes](#) both the proportion of trades being settled without payment-versus-payment (PvP) protection and broader liquidity issues arising from the incentives for 'strategic' settlement fails. These topics would be addressed in the forthcoming update to the FX Global Code.

Margaret Law (CLS) provided an update on FX settlement trends, drawing on the Bank for International Settlements' Triennial Survey. In analysing the proportion of trades reported as settling without PvP protection, it was noted that 31 per cent can be attributed to related-party trades (and give-up trades of prime brokers), while a further 38 per cent may be eligible for CLS settlement but the BIS data did not provide sufficient granularity. CLS was separately analysing trade and settlement data with a major market participant in order to better understand these trends.

Members noted increasing usage of PvP settlement from Australian superannuation funds and discussed the role of local custodians.

## 4. Recent trading conditions in foreign exchange markets

In discussing market conditions since June, most AFXC members assessed overall liquidity as close to – but still a little below – normal. Across a broad array of venues, members saw AUD bid-offer spreads as approximately 20 per cent wider than normal. Some members noted current low levels of volatility meant that market liquidity had not been tested recently, with some also suggesting measures of AUD liquidity were correlated with the performance of international equities. Locally, it was noted that bid-offer spreads in the AUD/NZD cross had demonstrated brief episodes of weak liquidity, likely driven by heavier client positioning in the NZD.

The general improvement in liquidity was also seen in other currencies, although some disparities were noted in Asian trade for Indonesian rupiah and GBP, with the latter likely due to renewed Brexit uncertainties.

Members discussed the ongoing impact of work-from-home arrangements in the industry, with one member observing that there was an increased usage of electronic trading via mobile phone applications.

Members discussed the WM/R 10am (Sydney) rate for spot AUD/USD at the end of August, querying why the published rate did not appear to reflect the quote and trade observations over the fixing window. Members discussed the methodology used to derive these benchmark rates. The GFXC Chair noted he would follow up with the benchmark administrator.

## **5. Updates on the GFXC Working Groups**

### **a. Disclosures Working Group**

Ahead of the 23 September GFXC meeting, a paper summarising key issues in market participants' usage of disclosures had been distributed to member FXCs (including the AFXC) for comment. Members were asked to identify any relevant issues that which were not identified in the paper.

### **b. Buy-side Outreach Working Group**

The member from QIC provided an update on the activities of the GFXC's 'Buy-side Outreach' working group. He noted there had been discussions on the merits of a buy-side version of the FX Global Code and the accompanying Statement of Commitment. The group's conclusion was that this was unnecessary as the application of the Code is proportionate to the size and complexity of the participant's activities.

### **c. Execution Principles Working Group**

The member from NAB – a member of the Execution Principles Working Group – outlined the group's work on the topic of "riskless principal". AFXC members discussed that, although it would be difficult to incorporate this concept into the Code, there may be other ways to acknowledge it.

## **6. Next meeting**

The next meeting is expected to be held in early December.

**Australian Foreign Exchange Committee  
September 2020**