

foreign exchange committee



Minutes of the Foreign Exchange Committee Meeting

Meeting: May 25, 2022

Host: TD Securities

FXC Attendees

Chris Vogel (TD Securities) - Chair
Jessica Sohl (HC Tech) – Vice Chair
Hemant Baijal (Invesco)
Chris Chattaway (Goldman Sachs)
Yudhveer Chaudhry (Blackrock)
Jose Luis Daza (QFR Capital)
Michael Eyre (Vanguard)

Akiko Hayata (Payden & Rygel)
Ben Klixbull (XTX Markets)
Robert Kim (JPMorgan Chase)
Jeffrey Knapp (Coca-Cola)
Marisa Kurk (Northern Trust)
Russell Lascala (Deutsche Bank)

Dan Lennon (CLS)
Neill Penney (Refinitiv)
Chris Taendler (Barclays)
Bob Tull (Fifth Third)
Sean Tully (CME Group)
Adam Vos (BNY Mellon)

Federal Reserve Bank of New York (FRBNY)

Lorie Logan
Lisa Chung
Michelle Ezer
Alex Cohen
Patrick Douglass

Sanja Peros
Thomas Noone
Shawei Wang
Kathleen Ramirez

Federal Reserve Board of Governors

Stephanie Curcuru

U.S. Dept. of Treasury

Evan Klos

Other Attendees

Leslie Payton Jacobs (EMTA)
Janet Dawson (GFMA)

The Chair opened the meeting and acknowledged that Lorie Logan, System Open Market Account Manager at the FRBNY, was recently named the next President and CEO of the Federal Reserve Bank of Dallas, sharing that this will be her last NYFXC meeting. The Chair then welcomed representatives of the Emerging Market Trade Association (EMTA) and Global Financial Markets Association (GFMA), both of whom provided updates to the committee.

1. Update from EMTA

The EMTA representative updated FXC members on developments related to documentation of deliverable and non-deliverable Russian ruble FX contracts. It was noted that in May, EMTA issued 2022 Ruble Amendment Documentation for Deliverable and Non-Deliverable Ruble FX and Swap Transactions and accompanying guidance. This follows the amending documentation published by EMTA and ISDA jointly in March 2022 to allow parties to convert outstanding deliverable FX trades to non-deliverable settlement. The May Amendment forms published by EMTA would allow parties to update outstanding Ruble trades to reflect a new offshore alternative reference rate (the WM/Refinitiv 10:00 am London Rate), replacing the current onshore Moscow Exchange (MOEX) rate (and other terms) in their non-deliverable FX forward, currency option and swap contracts as well as deliverable Ruble contracts amended per the above ISDA/EMTA agreement. It was further noted that the amendments are made available for use by both EMTA members and non-members, and the proposed effective date for the new terms was June 6, 2022. Members followed the update with a discussion of on- and off-shore Russian ruble volumes.

2. Update from GFMA

The GFMA representative then provided an update on a multilateral closeout arrangement for outstanding ruble positions that could resolve trades following a disruption event. It was noted that, following a public sector consultation, the GFMA has engaged a law firm to help draft an agreement for FX spot, forward and swaps positions, which would enable participants to close out trades in the event of a disruption event. Importantly, the GFMA highlighted that the agreement would be currency-agnostic so it could be used for future geopolitical or natural disruption events and that participation would be voluntary.

3. Preparation for the Global Foreign Exchange Committee Meeting (GFXC)

The meeting then turned to a preview of the upcoming GFXC meeting on June 27-28 in Zurich, Switzerland. Tentative GFXC agenda items discussed included (i) furthering buy-side adoption of the FX Global Code; (ii) a thematic discussion on FX Settlement risk; and (iii) a thematic discussion of data availability.

Members were provided an update on the GFXC's proposed buy-side Code adoption work. The GFXC has launched a working group dedicated to further clarifying the application of "proportionality" when adhering to the Code. An update on its progress will be provided to GFXC members in Zurich. The GFXC would also discuss whether to form a workstream focused on the motivations for firms to adhere to the Code. It was noted that the upcoming discussion at the GFXC meeting is expected to consider some of the feedback provided by the NYFXC, including potential ways the Code can be used to signal good governance. Members concluded the discussion by sharing thoughts on how to measure success in this regard, and then reviewed the current process of firms re-adhering to the revised Code.

The discussion then moved to the topic of data availability. Members noted that the updates to the Code have served to promote greater transparency with regard to (i) the introduction of more specific language around data policies; and (ii) the implementation of disclosures coversheets. Overall, members were generally supportive of the GFXC exploring further work on this topic.

4. Market Discussion

The meeting then transitioned to a discussion of market developments since the April FXC meeting. The discussion focused on the recent tightening of financial conditions, Fed policy and the challenges of potential stagflation, risks to global growth, and recent volatility in digital assets.

- Members noted that the global tightening of financial conditions has weighted broadly on market sentiment, though market functioning generally was seen as orderly. The tightening in financial conditions was viewed as a key factor toward addressing inflation.
- Several members viewed the Fed as facing significant challenges as it moves forward with further monetary policy tightening due to the unique aspects of potential stagflation risks and monetary policy's limited capacity to directly address the inflationary aspects of supply-side shocks. A key watchpoint going forward is the degree to which the reduction of the Fed's balance sheet will contribute to further tightening in financial conditions.
- Some members expressed concern that the demand impulse from the ongoing economic reopening in the U.S. coupled with the supply shock from China, could mean that inflation will persist for an extended period.
- There was a discussion of recent signs of weakness in U.S. consumer demand. Some members were more sanguine about those signs, while others noted that consumer balance sheets could prove vulnerable going forward.
- Potential global risks discussed included (i) food and energy supply shocks from the war in Ukraine; (ii) further supply shocks from China; and (iii) political uncertainty in China.
- Members discussed the recent volatility in cryptocurrencies and stablecoins, and generally noted that the digital asset industry would benefit from greater regulation and suggested that U.S. authorities have an important opportunity to play a more active role in this area.

5. Other Updates

All FXC members were reminded to submit their updated statements of commitment to the FX Global Code to the New York Fed by July of this year. Ms. Logan closed the meeting by thanking members for all of their contributions in both the development of the Code and the recent three-year review. She stressed the FX Global Code's ongoing importance in elevating market standards.

The next FXC meeting is scheduled for September 29, 2022