

Minutes

Scandinavian FX Committee meeting

14 May 2019



Location: Sveriges Riksbank, Stockholm

Attendees: Svante Hedin, SEB
Anders Thorsson, Swedbank
Lars Henriksen, Nordea
Niklas Karlsson, Danske Bank
Jørn Sodborg, Jyske Bank
Rolf Palmer, DNB
Jonas Sørensen, Novo Nordisk
Thomas Bengtsson, ATP Arbejdsmarkedets Tillaegspension
Angelika Gyllenhoff, Alecta
Jason Need, Bloomberg LP
Arne Osnes, Norges Bank
Kim Winding Larsen, ACI Denmark
Jakob Hansen, Central Bank of Iceland
Meredith Beechey Österholm, Sveriges Riksbank
Anders Gånge, Sveriges Riksbank
Amanda Nordström, Sveriges Riksbank
Anders Nordlander, Sveriges Riksbank
Päivi Heinäaro-Ehrgartner, Central Bank of Finland
Jonas Ljungström (§4)

Apologies:

Andreas Åkerlund, Svenska Handelsbanken
Lars Mayland Nielsen, Central Bank of Denmark
Marcus Alfredson, Volvo Cars

§1. Introduction and recap from the Global FX Committee meeting

Meredith Beechey Österholm (Chair of the SFXC) introduced Anders Gånge, Deputy Head of the Markets Department, and informed the committee that Anders will be taking over the Chairmanship after the May 2019 Global FX Committee (GFXC) meeting. The Chair summarised issues discussed at the Global FX Committee (GFXC) meeting of November 2018 and noted that much material has been posted to the GFXC website.

At the upcoming GFXC meeting on May 22-23 in Tokyo, the Chair proposed that the SFXC be represented by the Chair Meredith Beechey Österholm (Sveriges Riksbank)

and Svante Hedin (SEB) as the private sector representative. The committee members agreed to this proposal.

§2. Buy-side outreach and uptake of the FX Global Code of Conduct

The Chair recapped the buy-side outreach discussion from the previous SFXC meeting. Thomas Bengtsson (ATP) presented ATP's process of reviewing and adhering to the Global Code. The presentation included topics such as reasons for commitment and practical aspects of implementation. Among else, the implementation and uptake of the Code was mentioned as a good exercise to revisit core values and ethics within the institution, an opportunity for internal education and knowledge sharing and resulted in some concrete changes.

The presentation was followed by a group discussion on issues around outreach and buy-side uptake of the Code. Commitment to the Code was mentioned as a potential part of institutions' Environmental, Social and Governance (ESG) standards. The need for discussion and implementation of the Code in all levels of management was mentioned as one of the main benefits in why to sign the Code. The committee suggested that central banks could be more active in their discussion, placing more pressure on a broader range of participants. Members also discussed the principle of proportionality and noted that it might need concretising.

Members discussed the need for education material for buy-side institutions and noted that current education tools were typically designed specifically for banks. Members were positive to a suggestion that the committee consider concrete actions on buy-side outreach in Scandinavia before the next committee meeting.

§3. Items for discussion at the Global FX Committee meeting (Cover and Deal, Disclosures)

Svante Hedin (SEB) introduced the working material covering the issues Cover and Deal and Disclosures that will be discussed at the upcoming GFXC meeting.

The committee discussed proposed Cover and Deal examples. Examples 1 to 3 were very similar and the one member felt that Example 2 was most likely to reach broadly, due to notional amounts being closer to average amounts traded in the market. The committee considered Example 4 adequate and advisable. The committee agreed that Examples 5 and 6 are useful for discussion but not for inclusion in the Code, as it is too complex and covers several principles. However, the committee noted that there is a need for an example that covers the improper use of anonymous liquidity providers when acting as a principal as well as an example that clarifies the difference between cover and deal and deal and cover. The committee supported the amendment to Example 7.

Committee members were positive to the materials on transparency in the anonymous trading space prepared by the GFXC working group on disclosures. The SFXC was supportive of further work which could lead to the GFXC publishing a report. However, more work is needed before the SFXC can be prescriptive in this area.

§4. Perspectives on FX market functioning in Scandinavian currencies

Amanda Nordström (Sveriges Riksbank) presented on the Riksbank's recent work toward broadening market monitoring into electronic markets, including international central bank co-operations for monitoring fast-paced electronic markets.

The committee discussed the need for central banks to build relevant general knowledge on these issues. Members noted that it is typically in periods of stress, and/or when the market dynamics change that these questions are of most importance. However, general knowledge might be necessary to be able to analyse and identify triggers of market dislocation. It was suggested that central banks could dampen volatility and the risk of disorderly movements in FX markets by being more present as market-makers of last resort. Another suggestion was that central banks could use high-frequency data to analyse market impact of monetary policy.

Jonas Ljungström (Svensk Exportkredit, guest speaker) presented on the importance of reference rates and the impact of reformation of these on related markets. In terms of impact on cross currency basis swaps, issues mentioned included potential implications for underlying components when converting to other underlying reference rates, as well as the creation of artificially alive IBOR rates due to a built-in resistance against new reference rates.

The ensuing discussion covered the issue of operational risk relating to the large number of underlying rates that are used as alternative reference rates. The fundamentals of these differ from each other, which might cause undesirable misalignment in markets. In addition, it was noted that the Secured Overnight Financing Rate (SOFR) system has only been tested during calm, low interest rate environments.

§5. Conclusions and future work

The Chair summarised the meeting and thanked the committee for her period as Chair of the SFXC. At the upcoming GFXC meeting, the SFXC representatives will present the main conclusions from the discussion about raising awareness of the Code among buy-side participants. The committee's views on the proposed Cover and Deal and Disclosures notes, as well as information about market functioning in the region, will be put forward by the SFXC representatives.