

# Minutes

## Scandinavian FX Committee meeting

30 September 2020



Location: Virtual Meeting

Attendees:

- Svante Hedin, SEB
- Anders Thorsson, Swedbank
- Andreas Åkerlund, Svenska Handelsbanken
- Lars Henriksen, Nordea
- Lass Højlund, Danske Bank
- Jørn Sodborg, Jyske Bank
- Anders Øksendal, DNB
- Marcus Alfredson, Volvo Cars
- Morten Fremmich Andresen, Novo Nordisk (replacing Jonas Sørensen in this meeting)
- Thomas Bengtsson, ATP Arbejdsmarkedets Tillaegspension
- Angelika Gyllenhoff, Alecta
- Jason Need, Bloomberg LP
- Anders Gånge, Sveriges Riksbank
- Jens Vahlquist, Sveriges Riksbank
- Anders Nordlander, Sveriges Riksbank
- Arne-Storaune Osnes, Norges Bank
- Alexander Flatner, Norges Bank
- Michal Nielsen, Danmarks Nationalbank
- Kim Winding Larsen, ACI
- Jakob Hansen, Sedlabanki
- Päivi Heinäaro-Ehgartner, Finlands Bank

Apologies:

Niko Herrala, Finlands Bank

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

Anders Gånge (Chair of the SFXC) introduced two new members: Lass Højlund at Danske Bank and Anders Øksendal at DNB.

The Chair summarized issues discussed at the Global FX Committee (GFXC) meeting of Sep 23 2020. Topics that had been discussed was whether or not to launch a specific version of the Global Code targeting buy-side players. It was however decided that it is preferable to use a common Global Code. The strongest argument being that it ensures a level playfield.

Furthermore, the GFXC had discussed committing a study on the impact from the Global Code. Industry participants are generally positive and a formal decision to launch an impact study is expected at the next GFXC-meeting in December.

Other topics at the GFXC-meeting that had been on the agenda were FX Settlement Risk and how to improve GFXC disclosures and transparency.

## **§2. Trends in settlement methods supporting the management and reduction of FX settlement risk**

Svante Hedin briefed the meeting of the discussions at the GFXC-meeting regarding FX settlement Risk. In a study performed by BIS it has been concluded that the trend towards an increasing share of FX settlements being settled at CLS through Payment vs Payment (PvP) has been reversed the last seven years. An increasing share of settlement without Payment vs Payment arrangements has been observed. One underlying cause of the reversed trend is increased activity in an increasing number of Emerging Markets Currencies that are ineligible for PvP-clearing at CLS. Another being activity related to Prime Brokerage and that falls outside of CLS.

The meeting acknowledged that the relative increase in settlements without PvP is troublesome. However, the general perception was that the Scandinavian region would be less vulnerable since trading in Emerging Markets currencies is relatively scarce and the use of Prime Brokerage is rather small. Some members of the committee concluded that the most effective way to diminish settlement risks amongst Scandinavian players is through bi-lateral netting and compression activities.

## **§3. Discussion on continuity during the pandemic – tour de table**

The members of the committee reported on their contingency actions during the pandemic and all had split staff up at different locations (regular office, emergency sites and at home). The common perception was that operations had been less affected than anticipated. The largest obstacle seems to be difficulties in maintaining communication both internally and externally.

The members then discussed liquidity in the FX-market during the pandemic. In March liquidity drastically deteriorated both with regards to major currencies but even more so with smaller currencies. In SEK and NOK volatility picked up

significantly and bid/ask spreads widened materially. Although liquidity has normalized in the FX-market, it is still not back to where it was pre pandemic. In March, when liquidity was poor, many investors changed their way of acting in the FX-market. Rather than using risk-transfer prices (which were facing very wide bid/ask-spreads), investors placed orders to a higher extent and FX-activity through the use of Execution Algorithms increased. One interesting spin-off effect of clients placing orders with market makers is an increasing interest in the GFXC from the Buy-side.

#### **§4. SFXC host succession**

After two years of hosting the SFXC, the Riksbank will be succeeded by Danmarks Nationalbank, who will host the SFXC for the next two years.

#### **§5. Conclusions and future work**

Kim Winding Larsen, ACI President, informed the meeting that ACI had given several presentations on the Global Code, especially for buy-side players. Nonetheless further training on the Global Code is still needed amongst both buy- and sell-side players.

Kim also informed that ESMA seems to postpone the introduction of Market Abuse Regulation for Spot transactions in the FX-market.

Anders Gånge ended the meeting by summarizing that with regards to continuity during the pandemic, working from home overall seems to function well, albeit there are some communicational problems.

The SFXC meeting also agreed that it was important to keep promoting the Global Code.

Last, but not least the SFXC meeting wished Danmarks Nationalbank good luck as the new host of SFXC.