



South African Reserve Bank

South African Foreign Exchange Committee

**Record of proceedings of the South African Foreign Exchange Committee
meeting held at the South African Reserve Bank in Pretoria
on 14 March 2019**

Record of proceedings no. 01/2019

Members who attended	Apologies from members
Zafar Parker (Chairperson), SARB	David Gracey (Deputy Chairperson), Investec Bank
Lucy Mabuza (Secretariat of the SAFXC), SARB	Gill Raine, ASISA
Mpumi Ngwenya (Secretariat of the SAFXC), SARB	Donna Nemer (Exchange), JSE Limited
Andries Tshishonga, SARB	
Aurelia Makgato, SARB	
Mark Schwartz, ACTSA	
Roy Daniels, ACI South Africa	
Gary Haylett, BASA	
Kumeran Govendor (Authorised Dealer), Bidvest Bank	
Peter Taylor (Authorised Dealer), Citibank	
Paul Wilson (Interdealer Broker), ICAP	
Richard de Roos (Authorised Dealer), Standard Bank	
Marius de Jongh (observer), FSCA	

1. Overview

The South African Foreign Exchange Committee (SAFXC) discussed the following:

- 1.1 changes in the SAFXC membership structure;
- 1.2 the role of intermediaries in the whole FX market;
- 1.3 the SAFXC outreach programme;
- 1.4 presentation on transactional cost analysis (TCA) paper;
- 1.5 the declining trend in the ZAR turnover; and
- 1.6 the Global Foreign Exchange Committee (GFXC) buy-side initiatives.

2. Summary of discussions

2.1 Changes in the SAFXC membership structure

2.1.1 Mr Richard de Roos, Head of FX markets at Standard Bank, was elected as the new Deputy Chairperson of the SAFXC for 2019. Mr de Roos replaced Mr David Gracey of Investec, who served in this capacity in 2018. The terms of reference (ToR) for the SAFXC allow the Deputy Chairperson to serve for a period of one year only.

2.1.2 It was announced that ABSA Bank would replace Standard Bank as the representative of major authorised dealers in the SAFXC, following the election of Mr de Roos as the Deputy Chairperson.

2.2 The role of intermediaries in the wholesale FX market

2.2.1 Members warned of rising reputational risks in the local FX market related to market conduct of intermediaries. Members also noticed some uncertainty about the regulatory body responsible for market conduct of participants such as FX vendors and e-trading platforms.

2.2.2 The potential for market abuse in the local FX market pertaining to the disclosure requirement and transparency as envisaged by the FX Global Code (Code) remained a contentious issue. Some market participants continued to play a dual role of being liquidity providers as well as liquidity takers. However, there was an acknowledgement that this was global

phenomena rather than being specific to South Africa.

2.3 SAFXC outreach programme

2.3.1 The SAFXC would embark on various outreach programmes aimed at creating public awareness and promoting the Code in the local and regional FX markets. The outreach programme would focus on institutional investors' community that was active in the FX market – where adoption of the Code had been evidently hesitant. The objective was to highlight the benefits of the Code at targeted forums and events hosted by members of the Committee.

2.3.2 The SAFXC representatives, including the Chairperson and the Deputy, would present to the chief financial officers (CFOs) and treasurers of corporates in South Africa on the importance and benefits of endorsing the Code.

2.3.4 As part of the outreach programme, the SARB had embarked on a process to identify forums and events within the sub-Saharan region to encourage the adoption and endorsement of the Code by other African countries, since South Africa is currently the only country on the continent that has adopted the Code.

2.4 Presentation on transactional cost analysis paper

The SAFXC had prepared a presentation on transactional cost analysis (TCA) paper which outlined challenges relating to how FX trades were being executed in the emerging markets (EMs), as well as the impact on liquidity conditions and ultimately on exchange rate movements. The SAFXC representatives would discuss this topic at the GFXC meeting in May 2019. The following were identified as the key themes of the TCA presentation:

- the differences between liquidity and TCA in developed FX markets (DM) and the emerging FX markets (EM);
- the proposal of low impact execution strategies for sizable trades in the EM context, and also stringent measures to ensure minimised market impact; and

- the proposal of metrics to assess whether best execution had been achieved.

2.5 The declining trend in the ZAR turnover

The declining trend in the ZAR turnover was highlighted as a serious concern requiring further investigation. It was also acknowledged that the decline in FX turnover was a global issue and not South Africa specific. The following were highlighted as some of the factors contributing to the declining liquidity conditions:

- a slowdown in the South African economy;
- South African-idiosyncratic issues; and
- decline in hedging activities (gamma trading).

2.6 Global Foreign Exchange Committee buy-side initiatives

Based on the feedback from discussions with market participants, the perception was that the Code was written for sell-side behaviour and obligations rather than the buy-side community. The buy-side community indicated that there was only limited meaningful benefit, if any, for adopting the Code. It was, however, suggested that a training or adherence workshop aimed specifically at the buy side be facilitated to sign up to the Code and the GFXC should sponsor a training module to keep the cost low.

2.6.1 The feedback from the GFXC Working Group discussions with market participants indicated that there was an increasing awareness of the Code.

2.6.2 The feedback on the Buy-Side Outreach¹ programme would be provided at the May 2019 GFXC meeting to be held in the Bank of Japan, in Japan.

3 Date of the next meeting

The next SAFXC meeting was scheduled for 12 June 2019.

¹ <https://www.globalfx.org/press/p190522.htm>