



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 4 July 2018**

**Record of proceedings no. 02/2018**

<b>Attendees</b>	<b>Apologies from members</b>
Zafar Parker (Chairperson), South African Reserve Bank (SARB) Lucy Mabuza (Secretariat), SARB Mpumi Ngwenya (Secretariat), SARB Andries Tshishonga, SARB Aurelia Makgato, SARB Roy Daniels, ACI South Africa Mark Schwartz, ACTSA Gill Raine, ASISA Gary Haylett, BASA Kumeran Govendor (Authorised Dealer), Bidvest Bank Marius de Jongh (observer), FSCA Elaine Mabiletsa, JSE Limited Paul Wilson (Interdealer Broker), ICAP David Gracey (Deputy Chairperson), Investec Bank  <u>By invitation</u> Margaret Olivier, SARB	Peter Taylor (Authorised Dealer), Citibank Richard de Roos (Authorised Dealer), Standard Bank Donna Nemer, JSE Limited

## **1. Overview**

An update on the Financial Markets Review (FMR) project was provided and the key discussions were based on the topics listed below:

- 1.1 feedback on the outreach programme by South African Foreign Exchange Committee (SAFXC) members;
- 1.2 the 2018 work plan for the SAFXC; and
- 1.3 updates from the Global Foreign Exchange Committee (GFXC).

## **2. Update on the Financial Markets Review project**

The following were highlighted in the FMR presentation:

- 2.1 The mandate of the Financial Markets Review Committee (FMRC), which involved reviewing the standards and practices, governance, accountability and incentives in the wholesale South African financial markets, both regulated and unregulated.
- 2.2 The FMRC was envisaged to develop overarching principles for the code of conduct for the wholesale South African financial markets.
- 2.3 SAFXC members advised that the envisaged code of conduct should be aligned to the existing codes such as Code of conduct for over-the counter (OTC) Derivatives Providers published by Financial Sector Conduct Authority (FSCA) and the FX Global Code (Code) in order to avoid confusion in the domestic financial markets.

## **3. Summary of discussions**

- 3.1 Feedback from SAFXC members on the outreach programme

SAFXC members provided a feedback on discussions they had with their respective constituents. A representative of local authorised dealers provided a detailed feedback on the meeting held with other local foreign exchange authorised dealers. The following keys issues were highlighted and discussed among SAFXC members:

- 3.1.1 Authorised dealers supported the formation of the SAFXC, including the

endorsement of the Code. Authorised dealers who had already endorsed the Code and published their Statement of Commitments (SoCs), provided guidance on the business processes that could be adopted before publishing the SoC.

- 3.1.2 The 'last look' concept was a topical subject at the GFXC. A general consensus was that 'last look' in the South African context was understood to be a protection against a latency conduct, which was different compared to the way applied by offshore market players. There was a view that the 'last look' would remain ambiguous if it had to be adopted in its current form. As a result, more research and analysis would be done before implementation.
- 3.1.3 On the 'cover and deal' concept, SAFXC members acknowledged the limited expertise within the Committee. However, it was proposed that members with necessary expertise around this subject should lead the discussions in the SAFXC meetings. The consolidated views of SAFXC members would serve as feedback at the GFXC meetings.
- 3.1.4 On the internalisation of price making in emerging markets (EMs), including South Africa, SAFXC members agreed that this approach or business strategy was more advanced in developed markets (DM). The price or spread tended to widen more in EMs, exerting pressure on funding costs for banks as they had to utilise their balance sheet to offload risks. There was consensus that high-frequency pricing and trading (or the frequency of the transactions per seconds) was more prevalent in DMs, owing more to sophistication in these markets.
- 3.1.5 On algorithms trading and best execution, it was agreed that such transactions should be done with least impact in the financial markets. It was highlighted that in the South African context, where the market was dominated by major commercial banks, prices were observable by traders and not by most market participants. Also, SAFXC should take a lead in highlighting the impact of algorithm trading and price transparency on EM financial markets at the GFXC meetings.

- 3.1.6 It was proposed that the SAFXC should produce a paper on EM execution capabilities and liquidity distribution, to highlight and explain the challenges facing the EMs. Such a paper should be produced in collaboration with other EMs and be forwarded to the GFXC for discussion. This emanated from the concerns around trade execution and liquidity distribution across the EM compared to the DM countries. When viewed from G10 perspective, the liquidity was commoditised.
- 3.1.7 SAFXC highlighted the need for greater participation from the buy side in the domestic market to endorse the Code and publishing SoCs. This was in line with the GFXC establishing a working group to focus on this issue. There was also an acknowledgment that a universe of hedge funds in South Africa was largely equity driven, with a limited number falling within the domain of traditional asset management. This made it difficult to implement the Code in this sector of the market. Nonetheless, members were expected to encourage their constituencies to endorse the Code and publish their SoCs.
- 3.1.8 With regard to the Authorised Dealers with Limited Authority's (ADLAs) request to be considered as member of the SAFXC, it was suggested that the Chairperson and Deputy Chairperson would liaise with Financial Surveillance Department in the South African Reserve Bank (SARB) to establish the status of the ADLAs. The feedback would be provided in the next SAFXC meeting.
- 3.1.9 Regarding the SAFXC's proposal to lobby the SARB to extend the transitional period of 1 September 2018 deadline for conducting FX trades, members unanimously agreed such action was no longer necessary as authorised dealers were confident that the deadline would be met.
- 3.2 2018 work plan of the South African Foreign Exchange Committee
- Members of the SAFXC would provide continuous feedback on the progress being made in endorsing the Code. In addition, members would review GFXC working papers circulated earlier. It was also agreed that issues that were discussed in the GFXC meetings would be part of agenda items for discussion in the 2018 work plan for the SAFXC.

3.3 Updates from the Global Foreign Exchange Committee and its next meeting

3.3.1 The GFXC was held in South Africa on 27 June 2018. Simon Potter, Head of Financial Markets in New York US Federal Reserve was confirmed as a new Chairperson of the GFXC for a one-year term.

3.3.2 The GFXC members acknowledged the complexity and technical nature of work disclosure and transparency, cover and deal, and pre-hedging concepts.

**4. Date of the next meeting**

The next SAFXC meeting would be held on 27 September 2018.