



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 2 October 2019**

**Record of proceedings no. 03/2019**

<b>Members who attended</b>	<b>Apologies</b>
Zafar Parker (Chairperson), SARB	Justin Nichols (Authorised Dealer), ABSA Bank
Lucy Mabuza (Secretariat of the SAFXC), SARB	Gill Raine, ASISA
Mpumi Ngwenya (Secretariat of the SAFXC), SARB	Kumeran Govender (Authorised Dealer), Bidvest Bank
Andries Tshishonga, SARB	Udesh Moodley (Exchange), JSE Limited
Roy Daniels, ACI South Africa	Aurelia Makgato, SARB
Mark Schwartz, ACTSA	
Gary Haylett, BASA	
Paul Wilson (Interdealer Broker), ICAP	
Peter Taylor (Authorised Dealer), Citibank	
Richard de Roos (Deputy Chairperson), Standard Bank	
Marius de Jongh (observer), FSCA	
<b><u>By invitation</u></b>	
Fundi Tshazibana (Deputy Governor), SARB	
Neha Patel-Manga, SARB	
Samantha Springfield, SARB	
Margaret Olivier, SARB	
Michael Pithey, ABSA Bank	

## **1. Overview**

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

- 1.1 presentation on the compliance to the FX Global Code;
- 1.2 endorsement of changes in the SAFXC's terms of reference;
- 1.3 the role of the treasury outsourcing companies in the financial market; and
- 1.4 feedback on SAFXC outreach programme initiatives.

## **2. Summary of discussions**

### **2.1 Presentation on compliance with FX Global Code**

A local bank presented on the steps it had taken to align its FX market activities with the principles of the FX Global Code (Code), including to monitor and ensure consistent compliance with the Code. The presentation highlighted the following:

#### **2.1.1 Steps taken to align its activities with the Code**

##### **i. Gap analysis**

A working group comprising the head of FX trading, the FX business manager as well as legal compliance officers was formed to conduct a gap analysis. The main purpose was to assess the requirements of the Code against the existing control framework and to remediate any gaps identified.

##### **ii. Governance**

The working group reported, to the regulatory governance forum, on the progress with the completion of the gap analysis together with the closing of gaps identified.

##### **iii. Adoption and endorsement of the Code**

The working group conducted Code awareness sessions across impacted business areas to ensure that the contents of the Code were understood and acknowledged in writing. Subsequently, the institution

published its statement of commitment (SoC) in support of the Code.

iv. Remediation steps completed and assurance

The working group was going to continue to track the closure of gaps identified and provide additional training on key principles of the Code, where necessary. An independent assessment of the requirements of the Code against the existing control framework would be conducted in 1Q2020 to ensure that all gaps identified had been successfully remediated.

2.1.2 Challenges highlighted in aligning activities with the Code

- i. **Principle 9** entailed extensive information disclosure requirements to clients relating to the best execution and order handling policy. This principle outlined an expectation that market participants should handle orders with fairness and transparency.
- ii. **Principle 14** not only required policies and procedures on mark-ups to be in place, but required market participants to promote transparency by disclosing to clients, among other things; the determinants of mark-ups and how this might impact pricing and execution of any orders. Furthermore, mark-ups should be subject to oversight and escalation processes. This had presented a huge challenge to the institution as it offered diverse FX products to its clients within the multiple business areas such as in retail, business banking as well as corporate and investment banking.
- iii. **Principle 34** required that controls be put in place within FX business areas to reduce the likelihood of market disruption or uncontrolled trading activity arising from technological failures. The wide range of risks mentioned in this principle posed challenges within the institution as FX products were offered across multiple clusters in South Africa.
- iv. Regarding the institution's subsidiaries operating FX businesses in countries within the region, it was noted that the central banks in these countries were yet to formally adopt the Code, thus representing a challenge. Only two central banks in the region had provided, in principle, the approval of the Code.

- v. However, these subsidiaries had begun with gap analysis between the applicable local FX interbank codes of conduct and the FX Global Code in order to determine the materiality of the difference and to lobby their respective central banks via local bankers associations, to consider adopting the Code in order to achieve a consistent playing field.

#### 2.1.3 Discussions relating to compliance with the Code following the presentation

- i. Members agreed to invite other compliance officers from authorised dealers to present on measures taken to align the FX market activities with the principles of the Code in their respective organisations, including monitoring to ensure consistent compliance with the Code. This would remain a standing agenda item for the subsequent SAFXC meetings.
- ii. On education and training around the awareness of the Code and the compliance thereof, market participants should be encouraged to consider the ACI FX Global Code Certificate – a formal accredited qualification on principles of the Code.
- iii. On the adoption of the Code in the SADC region, it was reiterated that the SARB should collaborate with other central banks in creating awareness and the promoting the adoption of the Code. The SARB could use its involvement in the Association of African Central Banks (AACB) and SADC Committee of Central Banks Governors (CCBG) meetings for the purpose of promoting the Code. More emphasis was put on the importance of involving the Board of Education of ACI Paris, given the education and training programme on the Code being rolled out within the African continent aimed at promoting the Code.
- iv. By adopting the Code in their jurisdictions, central banks would be playing an important role in promoting the integrity of the FX market. The potential positive impacts on the FX market included improved liquidity, volumes and reduced volatility.
- v. On market conduct, it was mentioned that the market-based legislations and the Financial Advisory and Intermediary Services Act 37 of 2002 (FAIS Act) existed to regulate the industry and also to protect

consumers of financial services. The Financial Sector Conduct Authority (FSCA) was currently focusing on Conduct of Financial Institutions (CoFI) Bill, which dealt with market conduct issues.

## 2.2 Endorsement of changes in the SAFXC's terms of reference

Members endorsed the changes in the SAFXC's terms of reference as follows: clause 3.2.1 – with reference to the term of the Deputy Chairperson to read as follows “... *A Deputy Chairperson elected by the Committee, who may not be an official of the SARB, will serve for a period of two years, with a maximum period of two consecutive terms...*”

## 2.3 Key themes on the role of the treasury outsourcing companies (TOCs) in the financial market focused on market conduct:

2.3.1 Usually, large corporations outsourced their treasury businesses to the TOCs. The TOCs would interact with authorised dealers (ADs) in offering FX services to clients. The role of the TOCs, that is, acting as an agent for the buy-side and executing transactions in the market at times as well as acting in the capacity of advisers, was cited as a serious concern.

2.3.2 FSCA was the regulatory body responsible for market conduct for the TOCs, and according to the FAIS Act, the TOCs were required by law to obtain a Financial Services Provider (FSP) license to practise.

2.3.3 In terms of the SARB's Exchange Control Circular 3, the TOCs must apply to SARB's Financial Surveillance Department (FinSurv) via an AD for permission to operate as foreign exchange intermediary. The SARB would then issue a letter authorising the TOC to act as intermediary.

2.3.4 The SAFXC's draft submission to the Financial Markets Review (FMR), dated 1 October 2018, in respect of the activities of the TOCs was discussed. The following were key recommendations in the submission:

*“(a) ..the practice of direct remuneration by the authorised dealers (ADs) to TOCs should be discontinued and clients alone should pay TOCs directly for services rendered or authorised dealers should no longer be able to remunerate TOCs in return for customer FX turnover;*

*(b) Full disclosure to clients of TOCs on every transaction detailing amongst others; market price quoted, credit margin applicable to the client and full cost of every transaction.”*

- i. SAFXC members agreed to formally withdraw all recommendations to the FMR to allow for a wider consultation within the industry.
- ii. The TOCs, via ACTSA, requested to make representation to the SAFXC to address issues directly affecting the industry. An invitation letter would be sent to the Treasury advisory Association of South Africa (TAASA) to make representation on the role of TOCs in the FX market at the meeting scheduled for 28 November 2019.

2.3.5 The committee discussed the origin of the FMR project. National Treasury and the SARB initiated this project, which entailed conducting a review of the South African financial markets and also aligning with the global regulatory changes.

- i. The FMR provided the authorities an opportune to close the gaps identified during 2015 FX Review, which recommended that the authorisation and regulation of the TOCs be reviewed. The FMR contained only one recommendation regarding the TOCs, that *“the current regulatory framework for the TOCs be revisited within the ‘Twin Peak’ regulatory framework for consistency, i.e. licensing and governance and the proportional equivalency that is conflict of interest”*.

2.4 Feedback on SAFXC outreach programme initiatives

2.4.1 Members presented a roadmap to the adoption and importance of the Code at meeting of the chief financial officers (CFOs) and treasurers hosted by ACTSA in July 2019.

2.4.2 Separately, SAFXC members also participated in the SADC webinar presentation hosted by Refinitiv and ACI South Africa and chaired by the head of ACI Education from Paris. This was part of the outreach initiative on the awareness and promotion of the Code in the African region.

### **3. Date of the next meeting**

The next SAFXC meeting was scheduled for 28 November 2019.