



South African Reserve Bank

South African Foreign Exchange Committee

**Record of proceedings of the South African Foreign Exchange Committee
virtual meeting held on Wednesday, 17 June 2020
at 11:00–12:30**

Record of proceedings no. 01/2020

Members in attendance	Apologies
Zafar Parker (Chairperson), SARB Lucy Mabuza (Secretariat of the SAFXC), SARB Mpumi Ngwenya (Secretariat of the SAFXC), SARB Andries Tshishonga, SARB Aurelia Makgato, SARB Michael Galatis, ACI South Africa Gill Raine, ASISA Mark Schwartz, ACTSA Chris Paizis (Authorised Dealer), ABSA Bank Kumeran Govender (Authorised Dealer), Bidvest Bank Peter Taylor (Authorised Dealer), Citibank Gary Haylett, BASA Paul Wilson (Interdealer Broker), ICAP Richard de Roos (Deputy Chairperson), Standard Bank Udesh Moodley (Exchange), JSE Limited Marius de Jongh (observer), FSCA	
<u>By invitation</u> Samantha Springfield, SARB Bianca Neethling, Bidvest Salomi Naidoo, Bidvest	

1. Overview

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

- 1.1 presentation on the pricing structure within the treasury outsourcing companies (TOC) industry;
- 1.2 presentation on the compliance of the FX Global Code; and
- 1.3 market conditions, operational issues amidst COVID-19 pandemic and FX settlement risks.

2. Summary of discussions

2.1 Presentation on the pricing structure within the TOC industry

A local commercial bank presented on the pricing structure within the TOC industry, and the presentation highlighted the following:

2.1.1 Background information and compliance of TOCs

The TOC acts, through an authorised dealer (AD), as an intermediary in the market and conducts transactions with ADs on behalf of their clients. The services provided by the TOCs were largely to the buy-side sector and the client base consisted of corporate and individual clients. These services along with the regulatory compliance by the TOCs were highlighted in the record of proceeding of the SAFXC meeting held on 28 November 2019.

2.1.2 Authorised Dealer engagement processes with the TOC entailed:

- i. Reviewing the TOCs' application and an approval strictly based on meeting compliance requirements.
- ii. Creating the TOC's profile and opening the account.
- iii. Sourcing of clients by the TOC for onboarding with Bidvest.
- iv. Conducting annual review of TOCs and continuous monitoring and engagement to ensure compliance with the requirements and also to ensure fair treatment of clients.

2.1.3 Authorised Dealer on-boarding process for the TOC entailed:

- i. Registered financial services provider (FSP), according to the Financial

Advisory and Intermediary Services Act 37 of 2002 (FAIS Act).

- ii. SARB approval intermediary and letter of compliance as well as risk management compliance programme (RMCP).
- iii. Full Financial Intelligence Centre Act 38 of 2001 (FIC Act) and legal documents.
- iv. Authorised Dealer agreement.
- v. Signed mandate between TOC and client.

2.1.4 Authorised Dealer on-boarding process for the TOC clients entailed:

- i. The TOC only acted in an intermediary capacity (never as a principal) and accordingly matched the principal client with the AD.
- ii. All FX transactions were concluded and settled between AD and the client. The client remained the principal to all FX transactions and the exchange rate should be determined by the AD.
- iii. Settlement of FX transactions were accommodated through client's bank account and not TOC account. All services fees charged by the TOC should be fully disclosed to the client and invoiced and settled in rand.

2.1.5 Margins and trade confirmation

The maximum margin allowed was captured in the internal system, and could only be amended by a dealer on special exemption (i.e. client's instruction and agreement to amend the margin or by way of providing a new signed mandate to the on-boarding team).

Trade confirmations should be transparent on the system, as both the client and the TOCs had access to the system. Client should confirm fees and rates on each deal.

2.2 **Presentation on compliance to the FX Global Code**

A local bank presented on the steps the institution implemented to align its FX market activities with the principles of the Code, including the practical steps undertaken to align the bank's FX activities with the Code. The

presentation highlighted the following:

2.2.1 A review of FX risk management framework to ensure the alignment of activities with the Code. Key considerations included:

- i. reviewing the content of the Code and identifying gaps;
- ii. the gap analysis was subsequently updated to include and align to the requirements of FAIS, FIC Act and OTC Derivative Providers Conduct Standards;
- iii. designing and implementing a standardised supervisory framework across impacted business and products;
- iv. identifying and implementing key tools and technology that created and enhanced audit trails;
- v. provided training and communication to impacted individuals, including tailored training/communications; and
- vi. publicly signed the 'Statement of Commitment' which attested that the firm had aligned its activities with the principles of the Code.

2.2.2 Controls implemented across the *six 'leading principles'*

- i. *Ethics and governance*: The expected standard under this Principle, was already part of the culture and individual behaviours exhibited at the institution. These were also monitored in dealings with third parties.
- ii. *Execution*: Always act in principle, ensuring that the client was aware of this at on-boarding and each deal confirmation. For fair and transparency, all fees and commissions were reviewed to ensure that information was declared to the client, and all communication was clear, accurate, and in plain language.
- iii. *Risk management and compliance*: Policies and procedures were written, revised and/or updated, including the policy compliance by the third party agreements. Training and awareness on product, systems and communication on different platforms was ongoing.
- iv. *Compliance monitoring and audit*: Annual plans for *compliance monitoring and internal audit* included the requirements of the Code requirements. There

was an annual review of third parties and compliance to the requirements.

- v. *Confirmation and settlement:* Only authorised signatories could book deals on behalf of a client. The confirmation of the deal booked would be sent to client upon acceptance.
- vi. *System controls included:*
 - margins set within the systems;
 - covers for deals and mark-up for transaction;
 - documented disclosures that indicated the position of trade; and
 - once accepted, no changes could be made within the system(s).

The presentation on compliance to the Code was well-received and SAFXC members reiterated that the presentation on compliance to the Code should remain a standing agenda item.

2.3 **Market conditions, operational issues amidst COVID-19 pandemic and FX settlement risks**

Two AD representatives in the SAFXC presented on the market conditions, operational issues arising due to the coronavirus (COVID-19) pandemic as well as FX settlement risks. Other members shared observations and insights on the developments in their respective sectors.

2.3.1 **Presentations**

The presentations underlined heightened market volatility amidst the impact of COVID-19 on global outlook, which led to liquidity shortages and acute price swings in the local FX market. These developments and subsequent lockdowns in the country presented challenges in the market, but had limited impact on the FX operations and settlements. The following were highlighted in the presentations:

- i. Market conditions
 - There were no issues on meeting FX liquidity needs for clients and banks, as the market continued to operate within acceptable parameters. No major concerns around price transparency reported by ADs other than

moderate adverse impact on FX execution costs, meeting client needs and bid-offer spreads.

- The Code played a role in ensuring smooth FX markets operations in SA, although some parameters had to change under 'work from home' conditions.
- Since March 2020, market volatility escalated as the virus spread globally. The ZAR weakened from R13.93 – a level seen in the beginning of the year – to R19.35 in April, also reflecting SA's exclusion from the World Government Bond Index (WGBI) and a downgrade by Moody's rating agency. The USDZAR daily average range rose from R0.16 in February to a high of R0.54 by late March, before stabilising around R0.24 levels.
- Market volatility had limited impact on price transparency as interbank markets adapted to the changing market conditions, while liquidity providers continued to make visible prices.
- Market conditions had since improved amid positive global risk sentiment, supported by an accommodative monetary policies by global central banks and government stimulus measures.

ii. Operational issues and FX settlement risks

- Apart from the initial slowness of systems and communication processes, no material operational issues were reported by market participants.
- On FX market operations: Efficiencies and increased productivity for sales/trading and operations staff – as a result of work-from-home and the less commuting time for staff – were noted.
- Counterparty credit risk was also heightened given the new macro environment – and each bank adapting to its own methodologies. Some clients were unable to fully hedge FX risk due to reduced credit appetite in relation to market moves.
- Settlement risks were mitigated. Both the continuous linked settlement (CLS) and non-CLS currencies settlement were not affected, and the impact (if any) was insignificant across trading platforms and channels or

bank systems. Serving as a cushion was also the impact of exchange control rules and the accommodation of clients during distressed times.

3. Date of the next meeting

The next SAFXC meeting had been scheduled for Wednesday, 1 July 2020.