



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 28 November 2019**

Record of proceedings no. 04/2019

| Members who attended | 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 Roy Daniels, ACI South Africa Mark Schwartz, ACTSA Justin Nichols (Authorised Dealer), Absa 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 | Gill Raine, ASISA |
| <u>By invitation</u> Ross Hooper, SARB Herman Eksteen, SARB Jabu Mngomezulu, SARB Carlos Martins, SAATA Richard Beddow, SAATA Julian Phipps, Citibank | |

1. Overview

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

- 1.1 presentation on the role of treasury outsourcing companies in the domestic financial market;
- 1.2 presentation on the compliance of the FX Global Code; and
- 1.3 feedback on SAFXC outreach programme initiatives.

2. Summary of discussions

2.1 Presentation on the role of treasury outsourcing companies in the domestic financial market

Representatives of the South African Association of Treasury Advisors (SAATA) presented on the role of treasury outsourcing companies (TOCs) in the domestic financial market. The presentation highlighted the following:

2.1.1 Background information on the role of TOCs

SAATA had signed up approximately 100 members comprising treasury advisors, forex intermediaries and wealth advisors for ad-hoc foreign exchange (FX) transactions. SAATA representatives indicated that the majority of their members had signed their statement of commitments (SoCs) to the FX Global Code (Code).

The TOCs provided the following solutions, largely to the buy-side sector:

- i. treasury risk management advice to small- and medium-sized enterprise corporates;
- ii. spot and forward FX transacting to small- and medium-sized enterprises;
- iii. derivatives transacting to corporates; and
- iv. money market and deposits solutions.

SAATA intended to establish a working group, in 2020, with representation from industry participants, regulatory bodies, authorised dealers and other

relevant stakeholders. The working group was expected to embark on workshops that would be aimed at preparing proposals to outline the regulatory control, industry conduct and the formalisation of the association's role in the industry.

2.1.2 Current regulatory environment

SAATA further highlighted that the principles outlined in the Code could be directly linked to other regulations that the TOCs had to comply with.

2.1.3 Transparency, disclosure and fairness relating to fee structure within the TOCs industry

The association intended to engage all relevant stakeholders in the industry to review the current pricing model, in which fees were embedded in the price of the product. Aligning the pricing structure of the TOCs to the principles of the Code had the potential to contribute towards creating competitive pricing environment for TOCs business by both tier-one and tier-two banks, thereby benefiting the clients.

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

An international bank presented on the steps it took to align its FX market activities with the principles of the Code, including the practical steps undertaken to align their FX activities with the Code. The presentation highlighted the following:

2.2.1 Practical steps taken to align activities with the Code

- i. Review content of the Code;
- ii. Acknowledge that the Code represented good practice principles;
- iii. Commit to conduct FX activities in consistent with the principles; and
- iv. Take appropriate steps to align FX activities with the principles.

2.2.2 Gap analysis

- i. Compliance, business and legal representatives conducted an in-depth gap analysis. This involved the review of all sections of the Code with the focus on the principles, applicable guidelines to the principles,

identification of the gaps and the implementation of action plans linked to each principle.

- ii. The remedial actions included the implementation of active monitoring of systems, updated policies as well as added language to external facing disclosures, for example, re-aggregation, pre-hedging and indicative pricing.

2.2.3 Challenges highlighted in aligning activities with the Code

- i. Principle 27: Market participants should have practices in place to limit, monitor and control the risks related to their FX market trading activity. Active monitoring of systems, including escalation procedures, should be in place.
- ii. Principle 10: Market participants should handle orders fairly and transparent, in a manner consistent with the specific considerations relevant to different order types. Potential greater conflict of interest in the execution of larger FX orders in the market remained a key risk. Firms could consider establishing a robust and transparent risk management framework, and conduct active monitoring of systems to detected actual or attempted market misconduct.

2.2.4 Discussions relating to compliance with the Code following the presentation

- i. 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.
- ii. Members agreed that authorised dealers should collaborate and produce a discussion paper or a presentation on the microstructure of the South African FX market and how it had evolved.

2.3 **Feedback on SAFXC outreach programme initiatives**

- 2.3.1 The SARB presented on the importance and benefits of the Code at the Common Monetary Area (CMA) meeting hosted by Financial Services Department (FinSurv) in November 2019. Although the CMA officials in attendance specialised in exchange controls matters, they were receptive to

the SAFXC outreach programme aimed at raising awareness and promotion of the Code in the region, and pledged to escalate this issue to the heads of Financial Markets departments in their respective countries.

2.3.2 On the GFXC material regarding the role of disclosure and transparency on anonymous e-trading platforms

The GFXC materials covering disclosure and transparency on anonymous e-trading platforms in principle were supported with additional comments as highlighted below:

- i. The challenges related to the prevailing asymmetric sharing of information between e-trading platforms and their users. Naturally, this reflected capability offered by these platforms for market participants to trade anonymously, either with counterparty names visible only post-trade (semi-anonymous) or not at all (fully anonymous), with settlement operations handled via a third party such as prime broker.
- ii. Members of the SAFXC agreed that the issue of information inflow gap across market participants should be addressed, including the timing relating to the distribution of such information.

2.3.3 The discussion also focused on the need for authorities to ensure that regulation relating to FX trading platforms is formulated in such a manner that it protects consumers.

3. **Date of the next meeting**

The next SAFXC meeting was scheduled for Wednesday, 17 June 2020.