



South African Reserve Bank

South African Foreign Exchange Committee

**Record of proceedings of the South African Foreign Exchange Committee  
virtual meeting held on Wednesday, 1 July 2020,  
at 11:00–12:30**

**Record of proceedings no. 02/2020**

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

## 1. Overview

The South African Foreign Exchange Committee (SAFXC) discussed:

- 1.1 the role of the treasury outsourcing companies (TOC) industry and compliance with the Foreign Exchange (FX) Global Code (Code); and
- 1.2 feedback from the Global Foreign Exchange Committee (GFXC) meeting held on 22 June 2020.

## 2. Summary of discussions

### 2.1 The role of the TOC industry and compliance with the Code

Discussions were held on the role of TOCs in the local FX market, various business pricing models within the TOC industry, as well as compliance with the Code. The discussions focused on the following key issues:

- 2.1.1 The FX business relationship between the authorised dealer (AD) and TOCs
  - i. The Financial Surveillance Department (FinSurv) of the South African Reserve Bank (SARB) approves the appointment of TOCs, while the Financial Sector Conduct Authority (FSCA) had the authority on market conduct issues as well as compliance with relevant codes within the industry.
  - ii. The TOC industry provides important services to the market, and the SAFXC should continue to encourage it to adopt and adhere to the Code.
  - iii. The AD should adopt visible measures relating to the adherence and compliance with the Code, and such measures would encourage TOCs to follow suit.
  - iv. SAFXC members sought clarity on the dual role of TOCs in the market, where they acted as both agent and principal at times. A concern was raised about TOCs' possible non-compliance with the best execution principles of the Code, especially when acting as a sales agent and executing FX transactions on behalf of their clients.
  - v. TOCs could be classified into two different groups. Firstly, there are those TOCs that sometimes act as a sales agent to specific ADs only, which

casts doubt on their compliance with the principles of best execution as outlined in the Code in terms of getting quotes from different banks. Secondly, there are those TOCs that obtain prices from various ADs, suggesting that they might be adhering and complying with the best execution principles of the Code.

- vi. The AD representatives should liaise with their constituents regarding their TOCs' business models and the need to comply with the Code. Proposals emanating from such engagements would be discussed by the SAFXC.
- vii. ADs normally conduct due diligence on TOCs prior to on-boarding, and therefore had the prerogative to establish FX business relationships with TOCs that meet their compliance requirements. Once the relationship has been established, the outsourcing company had to comply with the principles of best execution, transparency and disclosure, as outlined by the Code.
- viii. Members discussed the merits of having the TOC industry's representation on the SAFXC. They resolved that the provision that a representative of TOCs could be invited to present to the SAFXC on a need-to-know basis was sufficient at this stage. However, the SAFXC should continue to encourage TOCs to adhere and comply with the Code.

#### 2.1.2 Transparency, disclosure and the fees/pricing structure in the sector

It was noted that some TOCs appeared to direct their business dealings to banks that directly paid fees to them, compared to dealing with banks that encouraged TOCs to collect fees from clients. It was reiterated that, in conducting their business, TOCs needed to ensure compliance with transparency, full disclosure and best execution principles, as outlined in the Code. The following was also discussed:

- i. Based on their constituency meetings, the ADs were of the view that their FX activities were indeed aligned to the principles of the Code – in terms of full disclosure, transparency and best execution for clients, as well as fee payments to TOCs.

- ii. The SAFXC should encourage all market participants, including TOCs, to adhere to the Code as far as it relates to full disclosure, transparency and best execution of FX transactions on behalf of clients.
- iii. On the 'buy-side' community, execution was slightly different – as asset managers showed best execution to their holders of assets. The fee paid to the agent was not deducted from the pension fund, but from the asset managers' income statement. The asset managers and brokers had no business dealings with TOCs.

### 2.1.3 Market competition and regulation

The SAFXC had no regulatory powers and should guard against being prescriptive to the TOC industry, including crossing any competition and/or regulation boundaries. Non-compliance with regulations and anti-competitive behaviour should be escalated to the relevant regulators, namely FinSurv and the FSCA.

The SAFXC should continue to focus on promoting the Code and encourage compliance with all the principles of the Code, including transparency, full disclosure and best execution principles.

## 2.2 Feedback from the GFXC meeting

The teleconference GFXC meeting had been held on 22 June 2020. The press release on the GFXC website (available at <https://www.globalfx.org/press/p200623.htm>) provided an overview of the discussions. The GFXC had discussed market conditions, operational issues and FX settlement risks amidst the coronavirus disease 2019 (COVID-19) pandemic as key themes. These also included how market participants were coping with the challenges posed by the current operating environment. The SAFXC observed the following market developments:

- i. FX volatility and the cost of United States (US) dollar funding had increased sharply in most jurisdictions. However, market conditions had improved somewhat since April and May, but had not normalised to pre-pandemic levels.
- ii. Emerging market (EM) currencies had sold off sharply during this period.

Some EM countries had intervened in the spot and derivative markets and/or through swap lines in an attempt to stabilise their financial markets.

- iii. On operational issues, there had been a notable increase in the use of algorithm trading as well as algorithm execution in the FX market.
- iv. Similarly, the 'buy-side' conducted FX hedging intra-monthly as opposed to traditionally at month- or quarter-end, so as to mitigate the high volatility that would normally be experienced during this time.
- v. On operational resilience, spot settlement and spot matching had been two and a half times the normal in February and March. The volume in the inter-dealer market was much higher than in the dealer-to-customer market.
- vi. On FX settlement risk, the GFXC had been encouraged to support more frequent data collection to strengthen the current principles in the Code related to the management and reduction of FX settlement risk.
- vii. The Continuous Linked Settlement (CLS) had also encouraged participants to use their system to mitigate settlement risk.

#### 2.2.1 The GFXC work programme

The working groups were in the process of writing papers on execution principles, disclosure, buy-side agreements, and algorithm trading / anonymous trading. These papers were expected to be presented in 2021.

- i. The three-year FX Global Code review had been delayed, and many of the projects had also been delayed, by three to nine months because of the COVID-19 pandemic crisis.
- ii. The next GFXC meeting would be held in September 2020.

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

The next SAFXC meeting had been scheduled for 30 September 2020.