



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 12 June 2019**

Record of proceedings no. 02/2019

Members who attended	Apologies from members
Zafar Parker (Chairperson), SARB	Mark Schwartz, ACTSA
Lucy Mabuza (Secretariat of the SAFXC), SARB	Kumeran Govendor (Authorised Dealer), Bidvest Bank
Andries Tshishonga, SARB	Gary Haylett, BASA
Aurelia Makgato, SARB	Mpumi Ngwenya (Secretariat of the SAFXC), SARB
Justin Nichols (Authorised Dealer), ABSA Bank	
Roy Daniels, ACI South Africa	
Gill Raine, ASISA	
Peter Taylor (Authorised Dealer), Citibank	
Paul Wilson (Interdealer Broker), ICAP	
Udesh Moodley (Exchange), JSE Limited	
Richard de Roos (Deputy Chairperson), Standard Bank	
Marius de Jongh (observer), FSCA	

1. Overview

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

- 1.1 presentation by Authorised Dealers with Limited Authority (ADLAs);
- 1.2 risks associated with unregulated FX vendors and e-trading platforms;
- 1.3 the SAFXC outreach programme;
- 1.4 review the SAFXC terms of reference;
- 1.5 feedback from the Global Foreign Exchange Committee (GFXC) meeting.

2. Summary of discussions

2.1 Presentation by Authorised Dealers with Limited Authority (ADLA)

The ADLA Forum presented on the role of ADLAs in the local foreign exchange (FX) market. The presentations covered the following main themes.

2.1.1 The mandate of the ADLAs and market conduct

The ADLAs are regulated by the Financial Surveillance Department (FinSurv) of the South African Reserve Bank (SARB) under the guidelines or requirements contained in the Exchange Control Regulations, Circulars, and Regulations under the FIC Act. ADALs also adhere to the ADLA Manual. There are 19 approved ADLAs within the domestic foreign exchange market.

The ADLA Forum was established in October 2015, with the objective of discussing market-related issues negatively impacting this sector. However, ADLAs Forum has no terms of reference (ToR). The Forum and the FinSurv hold tri-annual meetings and the minutes of these meetings were recorded.

The ADLA Forum indicated that its members had to adhere to stringent ADLA Manual requirements, and therefore, were unlikely to pose market conduct risk issues or involved in illegal activities such as money laundering. Furthermore, the ADLAs activity in on the wholesale FX market is negligible.

2.1.2 Pricing structure as well as disclosure and transparency

Reuters and Xignite were the main source of pricing for the ADLAs and different pricing structures exist for different customers, e.g. corporates versus retail customers. ADLAs comply with disclosure and transparency rules and conditions as specified by FinSurv.

It was also highlighted that ADLA business was solely based on volumes and not margins. The FX volumes in this sector was insignificant, hence it was expected to have muted impact in the wholesale FX market.

Nonetheless, SAFXC members acknowledged ADLAs' minimal role in the wholesale FX market. However, they highlighted the following:

- The ADLAs should observe and also be cognisant of the principles of the FX Global Code (Code) in conducting their operations, and
- It was imperative for the SAFXC to monitor conduct issues by market participants and to escalate to the Financial Sector Conduct Authority (FSCA) where necessary.

2.2 Risks associated with unregulated FX vendors and e-trading platforms

2.2.1 Members, once again, highlighted potential risks associated with unregulated market participants, including FX vendors and e-trading platforms. It was reiterated that market conduct issue should be escalated to the FSCA - as the regulatory body responsible for overall market conduct.

2.2.2 Members also indicated that there was high expectation from regulators for authorised dealers to fully comply with market conducts guidelines and regulations.

2.3 SAFXC outreach programme

2.3.1 SAFXC representatives were invited to participate in the SADC webinar hosted by ACI South Africa in collaboration with ACIFMA Paris on 27 June 2019. This was part of the initiative to promote the Code in the SADC region, since South Africa was the only country in the African continent to have endorsed the Code.

2.3.2 Separately, the Chairperson and the Deputy would present at the forum of the Chief Financial Officers (CFOs) and Treasurers hosted by ACTSA in July 2019, aimed at highlighting the importance of endorsing the Code. This was also a part of the outreach programme on the buy-side of the market.

2.3.3 As part of monitoring compliance with the Code, SAFXC members agreed to invite a Compliance Officer from one of the major commercial banks, to make a presentation to the Committee on how banks were reviewing their business operations and practises, and aligning them to the Code.

2.4 Review the SAFXC terms of reference

It was discussed and agreed that the term of the Deputy Chairperson would be amended from one-year, as per the SAFXC's ToR, to two-year, and with an option to serve for an additional two years. The Committee unanimously agreed that one-year term was too short for the Deputy Chairperson to make meaningful contribution to the SAFXC and the Global Foreign Exchange Committee (GFXC), with the latter only having two meetings per year. Members would endorse the changes in the ToR in the next SAFXC meeting.

2.5 Global Foreign Exchange Committee buy-side initiatives

Messrs Parker and de Roos provided feedback from the GFXC meeting attended on 22 - 23 May 2019 in Bank of Japan, Tokyo, Japan. The following were highlighted:

2.5.1 Mr Guy Debelle, Deputy Governor of the Reserve Bank of Australia, was nominated and elected as GFXC Chair for a two-year term. He succeeded Simon Potter - Executive Vice President of the Federal Reserve Bank of New York.

2.5.2 Mr Neill Penney, managing director and co-head of trading at Refinitiv, was elected as Co-Vice Chair for a two-year term. He would join Mr Akira Hoshino, managing director and head of FX and local markets at Citi, Tokyo.

2.5.3 Russia's Moscow FX Joint Standing Committee was welcomed as a full member of the GFXC.

- 2.5.4 A preparatory work for a three-year review of the Code, in accordance with the GFXC's ToR, had started and would include an update on member responsibilities and representation to the GFXC. The review would also consider feedback through multiple channels, including the forthcoming GFXC Survey, local FX Committees, the BIS Triennial Survey of FX and OTC derivatives trading, and a targeted outreach program.
- 2.5.5 Discussion on Flash Crash¹
- 2.5.6 The Committee discussed presentation materials² that could be used by various Local FX committees as a set of tools to help facilitate the adoption of the Code by the buy side community. These material included a gap analysis template, a presentation to help promote greater understanding of the Code among buy side firms, and a standalone road map to adherence for buy side firms.
- 2.5.7 The next GFXC meeting would be held in Sydney, Australia in December 2019.

3. Date of the next meeting

The next SAFXC meeting was scheduled for 2 October 2019.

¹ https://www.globalfxc.org/events/20190522_GFXC_flash_crash_group_discussion.pdf

² <https://www.globalfxc.org>