



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 27 September 2018**

**Record of proceedings no. 03/2018**

<b>Members in attendance</b>	<b>Apologies from members</b>
David Gracey (Deputy Chairperson), Investec Bank Lucy Mabuza (Secretariat of the SAFXC), SARB Mpumi Ngwenya (Secretariat of the SAFXC), SARB Andries Tshishonga, SARB Aurelia Makgato, SARB Mark Schwartz, ACTSA Gill Raine, ASISA Peter Taylor (Authorised Dealer), Citibank Richard de Roos (Authorised Dealer), Standard Bank Marius de Jongh (an observer), FSCA Paul Wilson (Interdealer Broker), ICAP	Zafar Parker (Chairperson), SARB Roy Daniels, ACI South Africa Gary Haylett, BASA Kumeran Govendor (Authorised Dealer), Bidvest Bank Donna Nemer, JSE Limited

## **1. Overview**

The key discussions were based on the following topics:

- 1.1 the 2018/19 work plan of the South African Foreign Exchange Committee (SAFXC);
- 1.2 feedback on the outreach programme by SAFXC members; and
- 1.3 the Global Foreign Exchange Committee (GFXC) survey.

## **2. Summary of discussions**

### **2.1 The 2018/19 work plan of the SAFXC**

Members provided updates on the discussions held with their respective constituents. The following key issues were highlighted and discussed:

- 2.1.1 Members acknowledged the work done by the GFXC around the practical implications of implementing the FX Global Code (Code), particularly around “last look”. Members were encouraged to analyse and identify obstacles and any structural issues relating to the implementation of the Code, taking into consideration the uniqueness of the local markets. The findings would be shared at the GFXC meetings to contrast the activities in local markets with the Code’s requirements.
- 2.1.2 On uncertainties around the impact of the London Interbank Offered Rate (Libor) reforms – including the Johannesburg Interbank Average Rate (Jibar) – on the foreign exchange (FX) markets, it was indicated that such an impact would be negligible as prices in the wholesale FX market were largely determined by market factors. Also, these reforms could take a long time to implement.
- 2.1.3 Regarding liquidity and pricing costs in emerging markets (EMs), it was decided that the SAFXC would produce a paper on transaction cost analysis (TCA). The paper would recommend the low-impact execution of sizable trades in the market and the stringent protocols around the market impact due to the size of the transactions, thus outlining the rules that differentiate market practise in developed markets (DMs) and EMs.

- 2.1.4 The role of intermediaries, which is mainly dominant in EMs compared to DMs, was discussed. The point of contention was around the payment for services rendered by these institutions on behalf of clients, which could lead to possible market abuse. The debate supported the conclusion made in the *Financial Markets Review*<sup>1</sup> (FMR), suggesting that the payment for outsourcing services should be billed and paid for directly by the client and not by the commercial bank. Members considered doing some in-depth analysis on this issue in order to assess any conflicts with the Code and how that could be implemented through the SAFXC.
- 2.1.5 Challenges in promoting of the Code on the buy-side were highlighted, which remained a global concern. Members would investigate other methods to raise awareness and promote the Code to socialise the buy-side community, including during the associations' events. It was also stressed that FX activities on the buy-side should not be ignored, despite the sector's minimal representation, as their activities impact the overall flow in the market. Also, there was potential for growth in this sector as it was already visible globally, hence the warning not to ignore its activities in the local FX market.
- 2.1.6 It was agreed that Authorised Dealers with Limited Authority (ADLAs) would not be represented on the SAFXC as their impact in the FX market was negligible. ADLAs may, however, be invited to SAFXC meetings if requested. On pricing regulation in the ADLA sector, concerns were raised around reputational risks of the local FX market. It was discussed that the rate of trade in the unregulated crypto-currency market, or 'FX trading' by individuals, was rising, and their unfair conduct or behaviour posed risks to the reputation of the local FX market.

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<sup>1</sup> National Treasury, South African Reserve Bank and Financial Sector Conduct Authority, *2018 Financial Markets Review*, available at <https://www.fsca.co.za/Regulatory%20Frameworks/Temp/2018%20Financial%20Markets%20Review.pdf>, pages 79–80.

## 2.2 Feedback on the outreach programme by SAFXC members

2.2.1 Offshore FX counterparties of the SARB have endorsed the Code and signed their statement of commitments (SoCs) following the 1 September 2018 deadline set by the SARB. However, there was some confusion for the local region, with two smaller banks that are yet to sign their SoCs. Local authorised dealers have signed their SoCs, but are still in the process of formulating a remediation and compliance plan.

2.2.2 Members supported the regional outreach programme to promote the Code in the SADC region, especially since the SARB is the only African central bank represented on the GFXC. The possibilities of establishing a task team that would be responsible for outreach and education programmes were also considered.

## 2.3 Global Foreign Exchange Committee survey

2.3.1 A list of organisations that currently trade in the local FX market and are willing to participate in the GFXC survey was forwarded to the Bank of England, as the survey administrator. The aim of the survey was to measure the level of awareness and adoption of the Global Code by market participants.

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

The next SAFXC meeting was scheduled for 7 December 2018.