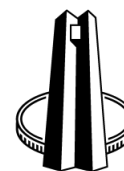


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Record of proceedings of the South African Foreign Exchange Committee virtual meeting held on Wednesday, 30 September 2020, from 11:00 to 12:30

Record of proceedings no. 03/2020

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 Udesch Moodley (Exchange), JSE Limited Andries Tshishonga, SARB Aurelia Makgato, SARB</p> <p>By invitation 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);
- 1.2 feedback from the Global Foreign Exchange Committee (GFXC) meeting held on 23 September 2020; and
- 1.3 feedback from the SAFXC members.

2. Summary of discussions

2.1 Role of the TOC industry and compliance with the Code

Discussions were held on the role of TOCs in the local FX market and compliance with the Code, as well as the details of a letter received from the South African Association of Treasury Advisors (SAATA). The discussions focused on the following key issues:

- 2.1.1 SAATA informed the SAFXC, in a detailed letter, of the formal launch of the association. It further advised of its participation in the Market Conduct Committee of the Financial Sector Conduct Authority (FSCA).
- 2.1.2 The SAFXC welcomed SAATA's initiatives and measures to align the FX activities of the TOC industry with the Code, as well as complying with regulatory requirements.
- 2.1.3 SAATA expressed interest to be considered for full membership in the SAFXC. Members who argued in favour of SAATA also cited the following:
 - i. SAATA's representation and participation in the SAFXC would provide clarity on the TOCs FX business, which was not fully understood.
 - ii. ACTSA, which was initially perceived to represent the TOC industry, had expressed the view that it did not fully represent the sector.

- iii. Official engagement between the FSCA and SAATA, through the Market Conduct Committee, was only limited to conduct standards, while the SAFXC had to address issues relating to compliance with the principles of the Code as well as other internal workings of the Committee.
- iv. It was highlighted that the FSCA was under no obligation to provide feedback to the SAFXC; therefore, SAATA's participation in the SAFXC would simplify the process.
- v. SAATA would help identify market conduct issues within the TOC industry and escalate such to the relevant authorities.
- vi. Locally, the TOC industry had grown and represented various stakeholders, from multi-corporates to small, medium and micro-enterprises (SMMEs). The SAFXC should support the TOC industry's willingness to adopt and adhere to the principles of the Code.
- vii. It was, however, concluded that the Chair would review the comments of members before making a decision on the matter.

2.2 Feedback from the GFXC meeting

The GFXC teleconference meeting had been held on 23 September 2020. The press release on the GFXC website (link: <https://www.globalfxc.org/press/p200925.htm>) provided an overview of the discussions held.

2.2.1 Update on market developments

- i. Many indicators of liquidity had improved to near normal levels, although the depth of the market remained noticeably below levels recorded before the outbreak of the coronavirus disease 2019 (COVID-19) pandemic. Market volatility has begun to rise, reflecting uncertainties such as the resurgence of COVID-19 infections, the United States (US) general elections and Brexit. Within the emerging markets (EM) space, conditions were more diverse, but had also shown some improvements.
- ii. Most EMFX average trading ranges had also narrowed to near pre-COVID crisis levels. However, the short-term volatilities in the South African rand (ZAR) remained high, reflecting the wider average trading ranges.

- iii. Members noted a disconnect between the equities and currency markets. The consensus among members was that a second wave of COVID-19 and/or a second event-risk scenario would be less muted in currencies compared to that seen in March/April 2020.
- iv. On operational issues, the GFXC had released a report,¹ which discussed the operational challenges faced by the FX industry during the COVID-19 outbreak.
- v. On FX settlement risk, the CLS planned to include more currencies or add more participants to use its system to mitigate settlement risk. The GFXC payment/settlement outreach programme would consider both traditional and technology (block-chain) solutions with regard to payment/settlement challenges.

2.2.2 GFXC work programme

- i. The three-year FX Global Code review would be completed in the first half of 2021. In reviewing the Code, the GFXC would be mindful of the ever-changing trading environment and innovation.
- ii. The Code should be able to adapt to innovation changes, without materially changing the principles. Moreover, it should allow for agility and change in the examples quoted in the Code as well as the disclosure process as recommended.
- iii. The idea of a separate Code for the 'buy-side' was discarded. It was reiterated that market participants were responsible for their underlying principles of the Code.
- iv. An update was provided on the three main principles around executions, and the next steps would be given at the next GFXC meeting. The three main areas were hedging; Principle 17, which relates to last-look and disclosure; and execution.
- v. The comments on standardising disclosures were perceived as being

¹ <https://www.globalfx.org/docs/operational-challenges-facing-fx-industry-covid19.pdf>

ambitious. Some members cited the requirements from both the Global FX Code and the existing codes of conduct from their jurisdictions.

vi. The next GFXC meeting would be held in December 2020.

2.3 Feedback from the SAFXC members

The local market has somewhat normalised, following the heightened volatility in the first half of the year due to the COVID-19 pandemic. The FX market was functioning well in this new operating environment. Liquidity and client activities continued to improve, and no operational issues had been reported. Observations on market trends were as follows:

2.3.1 Markets were mostly driven by risk sentiment, with activity in the local ZAR market increasing, despite the European summer holidays. The ZAR and Turkish lira (TRY) were still seen as proxies for EM risk sentiment. However, the TRY had dislocated from the correlation with EM currencies.

2.3.2 A massive sell-off in local bonds and ZAR markets was also attributed to a combination of factors, namely the rating downgrades, World Government Bond Index (WGBI) exit, hedging activities, as well as the trade surplus during the first six-months of the year. Import volumes dropped sharply due to the drop in economic activities and consumer demand.

2.3.3 On the listed-product market, liquidity picked up slightly, volumes fell and bid-offer spreads narrowed somewhat, reflecting the South African macro-environment.

3. Date of the next meeting

The next SAFXC meeting was scheduled for Tuesday, 24 November 2020.