Minutes

Scandinavian FX Committee meeting

4 June 2018

Location: Sveriges Riksbank, Stockholm

Attendees: Svante Hedin, SEB

Anders Thorsson, Swedbank

Andreas Åkerlund, Svenska Handelsbanken

Lars Henriksen, Nordea

Niklas Karlsson, Danske Bank

Jørn Sodborg, Jyske Bank

Rolf Palmer, DNB

Håkan Backlund, Volvo Cars

Jonas Sørensen, Novo Nordisk

Jasper Riis, ATP Arbejdsmarkedets Tillaegspension

Angelika Gyllenhoff, Alecta

Jason Need, Bloomberg LP

Arne Osnes, Norges Bank

Lars Mayland Nielsen, Danmarks Nationalbank

Kim Winding Larsen, ACI Denmark

Jakob Hansen, Central Bank of Iceland

Niko Herrala, Central Bank of Finland

Meredith Beechey Österholm, Sveriges Riksbank

Emma Brattström, Sveriges Riksbank

Anders Nordlander, Sveriges Riksbank

Apologies: Mick Ankjær, Nordea

1. Welcoming remarks

Per Jansson (Deputy Governor of Sveriges Riksbank) welcomed the committee members to the founding meeting in the Scandinavian Foreign-Exchange Committee (SFXC). Per Jansson expressed his gratitude to Norges Bank and Danmarks Nationalbank for collaborating to establish the SFXC. He stated that well-functioning foreign-exchange (FX) markets are vital for small open economies that are heavily trade dependent and financially interlinked across borders. Because FX markets are characterized by complexity and a diversity of market participants, dialogue between central banks and a diverse set of market participants from across the region is valuable.

2. Introduction and Terms of Reference

Meredith Beechey Österholm (Chair of the SFXC) welcomed committee members to the meeting and put forward the Terms of Reference for committee approval. Members approved the Terms of Reference. The Chair informed the SFXC about the upcoming Global FX Committee (GFXC) meeting on June 27 in Johannesburg. The Chair proposed that the SFXC be represented at the GFXC by the Chair Meredith Beechey Österholm (Sveriges Riksbank) as the public sector representative, and Svante Hedin (SEB), as the private sector representative. The committee members agreed on this proposal.

3. FX Global Code of Conduct - update and progress on adherence

Anders Nordlander (Sveriges Riksbank) presented an update on central-bank activities concerning the FX Global Code, including the status of Public Registers and the newly launched Global Index as well as the future work of the GFXC.

This was followed by a group discussion about progress towards adherence in the region. Members updated the committee on their respective institutions' progress towards signing the Statement of Commitment to the FX Global Code. Most institutions represented on the SFXC have signed the Statement of Commitment or will do so in the near future. Some members highlighted low awareness about the FX Global Code among buy-side market participants in the region.

The Committee discussed how to encourage adherence for these players. Members concluded that it is crucial to continue the outreach work to non-banks to foster recognition and adherence to the Code. Awareness and adherence would be assisted by encouragement and outreach by central banks. The Chair agreed but pointed out that central banks do not have a direct counterparty relationship with buy-side market participants. Some members stated that the market should broadly be able to self-regulate uptake of the Code but others noted a reluctance to require customers to sign the Statement of Commitment. As an outreach tool, one member suggested a condensed version of the Code suitable for smaller corporates.

4. Trends in electronic trading in Scandinavian FX markets

Svante Hedin (SEB) gave a presentation of how electronic FX trading has evolved over time in the region. Electronification of the market has deepened steadily over the last decade and has commoditized the execution. How electronic trading affects market functioning is an open topic. Some research points to improved market functionality and efficiency, in the form of lower transaction costs and enhanced price discovery while other studies have linked electronic trading with temporary market dysfunctions and withdrawal of liquidity.

Members agreed that the dynamics in the markets have changed and discussed whether the increasingly electronic markets has made markets for the Scandinavian currencies more or less vulnerable to disruptive events. Member concluded that the effect of electronic trading on market functioning is hard to evaluate because several factors interact at the same time, including new regulations that affect liquidity provision and the macroeconomic environment which affects volatility.

5. Perspectives on FX market functioning in Scandinavian currencies

Niklas Karlsson (Danske Bank) and Håkan Backlund (Volvo Cars) presented issues on structural developments and FX market functioning in the Scandinavian currencies. Niklas Karlsson presented current drivers and trends in market functioning for the Scandinavian currencies (SEK, DKK and NOK). Håkan Backlund presented the functioning in the FX market from the corporate Treasury perspective.

Members discussed the role for banks going forward, in particular given the growing role for non-bank liquidity providers and that buy-side players are moving away from traditional banking services. Members pointed out that unlike non-bank liquidity providers, banks' access to liquidity from central banks ensure their role.

Market liquidity conditions were discussed and members voiced different perspectives, noting that perceived liquidity conditions differ across market participants. When the need is immediate, sourcing liquidity is costly and liquidity perceived as poor. One member stated that the liquidity has improved, in part due to greater electronic access to non-bank liquidity providers.

6. Conclusions and future work

The Chair summarized the meeting and welcomed members to propose issues to be discussed at the next meeting. At the upcoming GFXC meeting, the SFXC representatives will put forward the information that the SFXC has been established and main conclusions about market functioning and progress around the FX Global Code in the region.