



SCANDINAVIAN FX COMMITTEE, MINUTES

Tuesday, May 9th, 11:30 – 1500 CET

Location: Norges Bank, Bankplassen 2, 0151 Oslo, Norway

Agenda:

1. Main points from the GFXC-meeting in December 2022
2. Status Working Group on adherence to FXGC
3. Status outreach from Nordic Central Banks to buy-side on adherence to FXGC
4. Topics for discussion at the GFXC-meeting on 1 – 2 June
5. BIS-survey 2022 and discussion of market conditions in NOK, SEK and DKK

Attendees:

Kim Winding Larsen	ACI FMA
Thomas Bengtsson	ATP
Niko Herrala (via Teams)	Bank of Finland
Michal Nielsen	Danmarks Nationalbank
Christian Törnqvist	Danske Bank
Morten Salvesen	DNB
Jørn Luffe Sodborg	Jyske Bank
Lars Henriksen	Nordea
Alexander Flatner (chair)	Norges Bank
Arne Osnes	Norges Bank
Fredrik Kolstad Jakobsen	Norges Bank
May-Iren Walstad Wassås	Norges Bank
Anna Andrén	SEB
Jakob Hansen (via Teams)	Sedlabanki
Andreas Åkerlund (via Teams)	Svenska Handelsbanken
Jens Vahlquist	Sveriges Riksbank

Meeting Summary:

1. Main points from the GFXC-meeting in December 2022

- Organizational updates.
- Update on the evolution of adherence to the FX Global Code, with 85 newly signed Statement of Commitments since its review in 2021. The overall trend is still that sell-side is in the forefront of signing, whereas the buy-side still is lagging with less than 15% share of the total signings.
- Update on recent developments on pre-hedging: GFXC will cooperate with ESMA on pre-hedging. SFXC-members discussed how the collaboration between GFXC and ESMA best can take place going forward. ESMA, being the formal regulator, has views and principles across a broad set of asset classes, while GFXC has a narrower scope where FX-relevant principles should be applied into the Code. It was also highlighted that there is a need to discuss the effect from pre-hedging on electronic trading.



2. Status Working Group on adherence to FXGC

- Jørn Sodborg from Jyske Bank presented status for the two working groups: (1) Digital proportionality tool to facilitate the uptake for the Code, and (2) Motivation for adherence by buy-side.
- Three main pillars were highlighted: Increased visibility, partner with industry groups and rating agencies and enhancing code education and training.
- The Digital Proportionality Tool WG will finish at the GFXC-meeting in June.
- GFXC decides at the June meeting the process from here.

3. Status outreach from Nordic Central Banks to buy-side on adherence to FXGC

- Jens Vahlquist from Riksbanken presented their preliminary work of contacting the local pension fund industry. Riksbanken informed about the Code and the benefits of adhering to it. While not fully aware of the Code, the response to the initiative was positive.
- Michal Nielsen from Nationalbanken reported from their outreach to Pension Funds. In the meetings, Nationalbanken held a short presentation of the Code and highlighted the benefits of signing the code. Talks were constructive. The main findings: some lack of knowledge of the Code, hard to interpret the principle of proportionality, and difficult to get internal resources for implementation.
- Alexander Flatner from Norges Bank presented their work of promoting the Code to the main pension funds, asset managers and large treasurers, where the feedback has been very positive. The focus was on the buy-side benefits for the broad market functionality, adhering to “Governance” in the ESG aspect, and first-mover advantage of signaling professionalism and compliance to best market practice. Norges Bank made a point of exemplifying a few principles of the Code, to make it more tangible in the discussions, while explaining how we internally did the mapping and onboarding process. This was reported as being very useful. In the first outreach, Norges Bank made follow-up arrangements with the market participants in short time.

4. Topics for discussion at the upcoming GFXC-meeting on 1 – 2 June

- The next GFXC meeting is in Mexico 1st-2nd of June, where topics for the next review of the Code will be discussed.
- FX Settlement risk: This is a remaining issue, and the BIS Triennial 2022 survey reports that 1/3 of deliverable FX turnover is at risk, unchanged level from 2019. Members pointed out that PvP was not suitable for certain counterparties, currencies, or time zones. CLS is expensive, and not eligible for certain currencies. Some members argued that GFXC should address to CLS the need to include more currency pairs. It was reminded that next year the US equity market is shifting its settlement from T+2 to T+1, which can have spillover to FX settlement risk. GFXC strengthened its guidance on FX settlement risk in the reviewed code in 2021, calling for market participants to use PvP if suitable or reduce FX settlement exposure by netting arrangements. SFXC agreed it will be appropriate for GFXC to include settlement risk as a topic for the next review of the Code.
- Data availability: Being such a broad theme, the GFXC has limited the scope by excluding the cost analysis of data availability, and instead focus on increased transparency and access to market data: (1) Enhanced transparency on what happens to user-generated trade data,(2) Improved access to trade



and market data in case of delegated execution and (3) Improved access to market data to benchmark execution of FX derivative transactions. The members agreed that the first topic of enhanced transparency of user-generated data should be prioritized. It is important to have a clear understanding of who actually owns the transaction data and order data, and what it is used for. It was pointed out that it is already a high degree of transparency and understanding of accessibility amongst interdealers, however less so between interdealers and customers.

- Standard on price adjustment in case of unscheduled holiday, as was the case for the UK market 19th September 2022. Market practice is to determine the new settlement date for previously agreed transactions according to the modified following business day convention. However, there is currently no *standard* principle to determine if the price should be adjusted to the modified settlement date. Having no price adjustment can be operationally convenient, and transparent with no amended price calculation needed. Adjusting the price is economically correct and would represent correct risk exposure, and in line with practice for other instruments hence avoiding mismatches when cross-hedging. The members agreed that a standard market practice of adjusting FX forward price in case of an unscheduled holiday would be appropriate, but with flexibility to bilaterally deviate.

5. **BIS-survey 2022 and discussion of market conditions in NOK, SEK and DKK**

- The central banks gave an introduction of the main findings from the BIS 2022 survey as a starting point for a discussion on market conditions in the DKK, SEK and NOK-market. Liquidity in the Scandi FX-markets can at times be challenging, but markets are well functioning.