# Opening remarks at the 50th anniversary of the London Foreign Exchange Joint Standing Committee (FXJSC) - Andrew Bailey

Given at FXJSC 50th Anniversary event held at the Bank of England, London

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To mark the anniversary of the FXJSC, founded in November 1973, Andrew Bailey surveys some of the key thematic changes seen in FX markets over the past 50 years – from the role of currencies in macroeconomic frameworks; to the huge diversification in the range of market participants, the trading and settlement technologies they use; and the evolving toolkit needed to maintain safety, soundness and financial stability. Against that dynamic backdrop, two features of the market have remained constant – the UK's position as the largest single FX centre; and the important role played by the FXJSC as a forum for facilitating market functioning, in both calm and unsettled times. The strengths of the FXJSC model has seen it adopted by many other national centres, as well as the Global Foreign Exchange Committee, established in 2017 to own the new FX Global Code.

# Speech

## Introduction

November 1973 was quite a month. President Nixon, just weeks from his impeachment, insisted to a press conference of 400 journalists that he was not a crook. Meanwhile, the Yom Kippur war and the OAPEC oil embargo that followed had triggered an energy crisis. As Henry Kissinger took his 'shuttle diplomacy' across the Middle East, the UK government – already mired in labour disputes across the coal and electricity sectors – was forced to declare a state of emergency. It wasn't all doom and gloom though: an estimated half a billion people watched the wedding of Princess Anne and Mark Phillips; 'Last of the Summer Wine' debuted with the now near-unintelligible episode title 'Short Back and Palais Glide'; and David Cassidy topped the UK charts with 'The Puppy Song'.

With that sort of competition, it is perhaps little wonder that the inaugural meeting of the London Foreign Exchange Joint Standing Committee (or 'FXJSC' for short), on 30 November 1973, passed many by. As it turned out, the half century that followed was to be anything but quiet in the world of foreign exchange. In my remarks today, I want to sketch three of the most profound changes in FX markets over that period, of greatest interest to central banks: the role of currencies in macroeconomic frameworks; the huge diversification in the range of market participants, and the trading and settlement technologies they use; and the evolving toolkit needed to maintain safety, soundness and financial stability.[1]

## The role of currencies in macroeconomic frameworks

The FXJSC was forged against the backdrop of the collapse of the Bretton Woods system, in which the major currencies fixed to the dollar, which in turn fixed to gold. The system operated effectively for a quarter century after World War 2, but ballooning deficit spending to fund the Vietnam War made defence of the gold peg increasingly untenable for the US authorities. In August 1971, President Nixon unilaterally suspended convertibility. Heroic efforts to recalibrate the system, via the Smithsonian Agreement, were abandoned by Spring 1973.

It is sometimes said that 1973 was the beginning of the 'free floating currency' era – and certainly many countries headed in that direction, albeit the route was often indirect. Here in the UK, we retained extensive capital controls from 1973 to 1979, including during the sterling crisis of 1976. In the late 1980s and early 1990s we informally, and then formally, shadowed European currencies. Since exiting the Exchange Rate Mechanism (ERM) in September 1992, we have embraced a free float.

**Table 1: Exchange rate arrangements (% of IMF membership, April 2022)[2]**

| Exchange Rate Arrangement | 2014 | 2015 | 2016[2] | 2017 | 2018 | 2019 | 2020 | 2021[3] | 2022[4] |
|---|---|---|---|---|---|---|---|---|---|
| Hard peg | 13.1 | 12.6 | 13.0 | 12.5 | 12.5 | 12.5 | 12.5 | 13.0 | 13.4 |
| No separate legal tender | 6.8 | 6.8 | 7.3 | 6.8 | 6.8 | 6.8 | 6.8 | 7.3 | 7.2 |
| Currency board | 6.3 | 5.8 | 5.7 | 5.7 | 5.7 | 5.7 | 5.7 | 5.7 | 6.2 |
| Soft peg | 43.5 | 47.1 | 39.6 | 42.2 | 46.4 | 46.4 | 46.9 | 47.7 | 46.9 |
| Conventional peg | 23.0 | 23.0 | 22.9 | 22.4 | 22.4 | 21.9 | 21.4 | 20.7 | 20.6 |
| Stabilized arrangement | 11.0 | 11.5 | 9.4 | 12.5 | 14.1 | 13.0 | 12.0 | 12.4 | 11.9 |
| Crawling peg | 1.0 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.5 |
| Crawl-like arrangement | 7.9 | 10.5 | 5.2 | 5.2 | 7.8 | 9.4 | 12.0 | 12.4 | 12.4 |
| Pegged exchange rate within horizontal bands | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.0 | 0.5 | 0.5 |
| Floating | 34.0 | 35.1 | 37.0 | 35.9 | 34.4 | 34.4 | 32.8 | 33.2 | 34.0 |
| Floating | 18.8 | 19.4 | 20.8 | 19.8 | 18.2 | 18.2 | 16.7 | 16.6 | 18.0 |
| Free floating | 15.2 | 15.7 | 16.1 | 16.1 | 16.1 | 16.1 | 16.1 | 16.6 | 16.0 |
| Residual | | | | | | | | | |
| Other managed arrangements | 9.4 | 5.2 | 10.4 | 9.4 | 6.8 | 6.8 | 7.8 | 6.2 | 5.7 |

Sources: AREAER database; and IMF staff calculations.
[1] Currently 190 member countries and the following territories: Aruba, Curaçao, and Sint Maarten (all in the Kingdom of the Netherlands: information for Curaçao and Sint Maarten is reported together as they have a common central bank) and Hong Kong SAR and Macao SAR (both in the People's Republic of China).
[2] Includes Nauru, which became an IMF member on April 12, 2016.
[3] Includes Andorra, which became an IMF member on October 16, 2020.
[4] Includes Macao SAR, which was added to this year's AREAER.

Source: International Monetary Fund

Others have taken equally circuitous routes. Industrialised countries came together to lean against the level of the dollar twice in the 1980s – first, via the Plaza Accord in 1985, the year I joined the Bank of England, in an attempt to bear down on the 44% appreciation in the previous five years; and then, via the 1987 Louvre Accord, to do the reverse. The 1990s saw a concerted push by many continental European countries to fix their bilateral exchange rates, first through the ERM and later through the formation of the euro. But the majority, indeed fully two thirds of countries, still operate today some form of hard or soft peg, often against the dollar (Table 1).

## The changing shape of market participants and technology

A second key theme is the changing shape of FX market participants, and the technology that serves them.

Looking back at the early FXJSC minutes, Committee membership was limited exclusively to banks and brokers. Fast forward to 2023, we now have representation from infrastructure providers, the buyside, non-bank liquidity providers (an unheard of concept in 1973) and the corporate sector. Diversity is not limited to firm types. We have worked hard, including through the Meeting Varied People initiative launched in 2021[3], to broaden individual representation on the Committee, and our Market Intelligence network, to ensure we benefit from the widest possible range of views and input.

Just as the customer base has broadened, the technology used to service it has fundamentally changed. The early minutes of the FXJSC are dominated by descriptions of detailed disputes that could only arise in a voice-execution market. However sophisticated ChatGPT and the like may become, I am doubtful they could ever disentangle the misunderstandings of that era! At the same time, few members of the 1970s Committees could have foreseen how the market would be revolutionised by the technology to come – from the early Reuters terminals via the introduction of the internet, to today's world of algorithms and vast automated market-making systems marshalling petabytes of data.

Today's market structures have the capacity to meet consumer needs in ways undreamt of decades ago. But such decentralisation, dare I say fragmentation, also poses daunting challenges for the unwary, in terms of understanding where they can find the best liquidity, and on what terms. As the market structure gets more complex, transparency has never been more important.[4] Part of the answer here lies in centralised data gathering: the FXJSC itself took an early initiative in the late 1980s to develop the first London market-wide survey, later globalised via the BIS. Bespoke technologies, including Transaction Cost Analysis (TCA) tools can also help. But this is an area that will need ongoing attention if we are to reap the potential gains from technological advances of recent years.

## The evolving toolkit for maintaining safety, soundness and financial stability

My final theme relates to how central banks should think about the relationship between FX markets and financial stability. That relationship is not one-way of course: exchange rates, particularly floating ones, can be important buffers against unanticipated shocks, allowing economies to adjust without more painful corrections in less flexible domestic prices. But FX markets can still dry up in stress periods, particularly in the presence of material imbalances in currency demand. That is why the major central banks established a permanent network of standing swap lines in the wake of the Global Financial Crisis. Those swap lines proved vital in our fight against the global 'dash for cash' following the Covid lockdowns in 2020.[5]

Early in the FXJSC's existence, we also learned that FX markets can threaten systemic stability through settlement risk. On 26 June 1974, Bankhaus Herstatt was declared bankrupt before the opening of the US markets. As a result, Herstatt had already received the European currencies it had bought, but its American counterparties were left with unsecured claims on dollars it had not yet delivered. Herstatt's failure to settle these transactions started a chain reaction that blocked the dollar interbank payment system. In the response to what had become known as 'Herstatt risk', the Continuous Linked Settlement (CLS) system was created, providing payment versus payment for foreign exchange transactions from 2002. CLS was a consistent topic of discussion at FXJSC meetings around this time. CLS has made a big difference to risk exposure in the system, but recent BIS survey data has suggested that material pockets of settlement risk exposure may have developed outside CLS' net. In response, the FXJSC once more took the initiative, working with market participants and coordinating with the GFXC, to gather more accurate data in order to provide a clearer view of global FX settlement risk.

Beyond settlement risk, the FXJSC has also played a vital role in ensuring effective co-ordination during market-wide operational risk events, often at short notice – this has included Y2K, the terrible events of 9/11, Covid, and the invasion of Ukraine.

Last – but certainly not least – the Committee has a long history of playing a central role in helping the FX market to promulgate standards of good practice in the UK. The aftermath of the Global Financial Crisis threw up evidence of unacceptable practices in the FX market, exposing weaknesses in historical national approaches. It was off the back of the joint Bank/HMT/FCA Fair and Effective Markets Review that market participants in 16 jurisdictions launched a new FX Global Code. In the UK, this Code has been embedded in the Senior Managers and Certification Regime, which requires market participants to observe proper standards of market conduct.[6] Signup to the code has been impressive: at the latest count, the Global Index of Public Registers records some 1,291 signatories, across sell-side, buy-side, central banks, non-bank liquidity providers and infrastructure providers.[7]

## Conclusions

In conclusion, the last 50 years have seen extraordinary changes in the FX market, but one constant has been the FXJSC playing a central role in ensuring the FX market remained fair, and resilient throughout these changes. I want to thank you all for your joining us today to mark this important milestone, and for your continuing work to develop the FX market further. We will now we reflect on the work of the FXJSC over the last 50 years, and have a panel discussion on what the next 50 years might hold for us.

I am grateful to Laura Austin and Andrew Hauser for co-authoring these remarks, and to Andrew Butcher, Matthew Conway, Matthew Dove, Sumita Ghosh, Joe Hearn, Alice Hobday, Zish Jooma, Philippe Lintern, Natalie Lovell, Sita Mistry, Carolyn Shen, Nicole Webster and Jack Worlidge for all of their work in organising the event to mark the 50th Anniversary of the FXJSC.

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1. More detail on the early years of the FXJSC itself is available here: **Speech by Paul Fisher - 4TH ANNUAL FOREIGN EXCHANGE MARKETS SUMMIT 19TH JANUARY 2004 (bankofengland.co.uk)**
2. **https://www.elibrary.imf.org/downloadpdf/book/9798400235269/9798400235269.xml**
3. **Meeting varied people - speech by Andrew Bailey | Bank of England**
4. For a discussion of these issues, see: **Run Lola run! The good, the bad and the ugly of FX market fragmentation – and what to do about it: speech by Andrew Hauser at Tradetech FX 2019, Barcelona**
5. As described in **Seven moments in Spring: Covid-19, financial markets and the Bank of England's operations - Speech by Andrew Hauser | Bank of England**
6. **FCA recognises the revised FX Global Code and the Precious Metals Code | Bank of England**
7. **Global Index of Public Registers (globalfxc.org)**

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