

FX comment: AFME to launch FX division – what purpose now for the ACI?

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By Wednesday June 2, 17 banks had committed themselves to join the FX division of the Association for Financial Markets in Europe (AFME). AFME works with allied organizations, the US-based Securities Industry and Financial Markets Association and the Asian Securities Industry and Financial Markets Association, in communicating the views of the financial markets industry to regulators, policymakers, and the general public. AFME envisages the FX division being operational at the end of the summer.

Specifically, according to the AFME, the “FX division will support efforts to promote an efficient global FX market, help develop market best practice, monitor developments in public policy and regulation that could affect the FX markets” and “will provide a consolidated voice for the FX industry when working with regulators, stakeholders and other key market participants”.

The 17 banks involved (Deutsche Bank, UBS, Barclays, Citi, RBS, JPMorgan, HSBC, Credit Suisse, Goldman Sachs, Morgan Stanley, BNP Paribas, Bank of America Merrill Lynch, Société Générale, Standard Chartered, Nomura, Westpac and BNY Mellon) hold a combined 87.1% share of the global FX market according to the latest Euromoney poll.

Such a unified representation of the biggest FX players will be to the market's benefit and there is now some hope that sensible regulation will ensue. However that does, of course, depend on the regulators actually consulting the trade body.

The time for an FX representative body, able to contest the logic of initiatives such as German plans to ban euro currency derivatives, is long overdue. The plans have been dropped from the forthcoming bill, according to Reuters, but the German finance ministry will still be able to ban such derivatives “by decree if it would serve to ‘avoid or dispel serious drawbacks to the stability of the financial market...’ ”

Regular readers will be aware that this column often advocated the ACI assuming the role (Support your local ACI) that AFME seeks to take up. Back in the 1980s and 1990s the ACI (or the Forex Association, as we in London called it back then) did some great work with the development of the Code of Conduct (later, the Model Code) and the Forex diploma (later, the ACI diploma) that are both relevant today. But the ACI missed opportunities that might have made it the voice of the industry.

It wasn't the ACI (or to give it the full name that it uses itself, “ACI, the Financial Markets Association”) that developed a coherent legal framework for confirmations, it was the International Swaps and Derivatives Association. It wasn't the ACI that was the driving force behind the LICOM (London Interbank Currency Options Market), the ICOM (International Currency Options Market), and IFEMA (International Foreign Exchange Master Agreement) terms, it was the British Bankers' Association.

Perhaps the ACI's largely social role was determined at the very point it was created: membership was individual, not institutional. Without explicit institutional weight, when it came to regulation, the ACI was unlikely to have more than the teeth of a paper tiger.

The ACI probably still sees itself as speaking for the FX market but its most recent press release, written in such a style that it might just as well have been dictated by an official in the German ministry of finance, tells a different story.

The implication that CDS buying is “speculation against economies” reads like something straight out of the Merkel/Sarkozy playbook. And could the ACI really believe that it speaks for its members when it states that it “does not see any risk of a dislocation of the euro currency now but also not in the future”?

The weeklyFiX contacted the ACI to ask whether it considered it unethical for participants to position themselves, in currency, CDS or other instruments, according to a view of national debt/fiscal policy ratios and whether market-specific statements such as that above were condoned by the ACI’s statutes.

ACI’s managing director, Jean-Pierre Ravise, replied that while “ACI considers some obligation by its market participants and of course others to show dislocations in markets, economies or even governmental debts... some markets/economies touched a point (even becoming nurtured by qualified but also unqualified media statements and others) which easily could have led to an undesired global conflagration – desired by nobody. At some point every one of us, being a journalist, a politician, a speculator, a hedger, etc, has to assume responsibility through moral and ethical behaviour in helping to avoid social conflicts.”

So there you have it: if I understand it correctly, selling a nation’s currency or debt is permitted until there is a possibility of social conflict and then, ethically, you should stop doing so.

Of course, one does have some sympathy with Ravise’s opinion. But traders and commentators who believe that the euro is unsustainable in its current form are not the cause of social conflict. That responsibility lies with the politically motivated architects of the project itself. As Liam Halligan angrily pointed out last week there was a sizable minority predicting, more than a decade ago, that monetary union without true fiscal and political union would eventually end in tears.

Unsurprisingly, Ravise left our question about the ACI making market-specific statements unanswered.

But I am told that the ACI still knows how to run a good bash. Those of you still members who showed up at last night’s London ACI summer barbecue will doubtless have had a good time. The best of both worlds then: AFME for the heavy industry stuff and ACI for education and networking over cheese and wine.