

# Minutes

## FOREIGN EXCHANGE JOINT STANDING COMMITTEE OPERATIONS SUB-COMMITTEE

22 June 2018

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Location: Prudential Regulation Authority, Moorgate Office, EC2R 6DA

Attendees: **Association of Foreign Banks:** Bruk Woldegabreil  
**BNY Mellon:** Jon Goddard  
**Citigroup:** Daniel Horgan  
**CLS:** Andrew Cooper (Alternate)  
**Deutsche Bank:** Adam Jukes, Anthony Golsby (Guest Representative)  
**Financial Conduct Authority:** Babatunde Carew  
**Goldman Sachs:** John Blythe (Deputy Chair), Asher Teren (Guest Representative)  
**HSBC:** James Kaye  
**Insight Investment:** Gavin Platman  
**ISDA:** Graham Bryant (Guest Representative)  
**JP Morgan Chase:** Phil Glackin  
**MUFG Bank:** Matthew Lincoln (Alternate)  
**RBC:** Isabelle Dennigan (Chair)  
**Record Currency Management:** Joel Sleigh  
**Societe Generale:** Will Deighton (Deputy Chair), Sebastien Bonneton (Guest Representative)  
**SWIFT:** Joe Halberstadt  
**The Investment Association:** David Broadway  
**UBS:** Colin Parry, Steve Forrest (Guest Representative)  
**Bank of England:** James Manchester (Secretariat), Thomas Lynch (Secretariat), Charlotte Pope-Williams (Legal Secretariat), David Swallow (Guest Speaker), Michael Goldby (Guest Speaker)

Apologies: **Bank of England:** Jonathan Grant, Jennifer Ashton  
**Barclays:** Duncan Lord  
**CLS:** John Hagon  
**MUFG Bank:** Kerry Peacock  
**Nomura:** Ben Miall  
**UK Finance:** Andrew Rogan  
**XTX Markets:** Mike Irwin

Minute no.	Minute	Action owner and due date
1.	<p><b>Welcome and apologies</b></p> <p>The Chair welcomed Andrew Cooper (CLS) and Matthew Lincoln (MUFG Bank) representing as alternates. The Chair welcomed guest representatives Anthony Golsby (Deutsche Bank), Asher Teren (Goldman Sachs), Graham Bryant (ISDA), Sebastien Bonneton (Societe Generale) and Steve Forrest (UBS). The Chair welcomed guest speakers David Swallow and Michael Goldby (Bank of England).</p> <p>The Chair introduced Bruk Woldegabreil (Association of Foreign Banks) as a new member to the FXJSC Operations Sub-committee.</p> <p>Apologies were received from Jonathan Grant and Jennifer Ashton (Bank of England), Duncan Lord (Barclays), John Hagon (CLS), Kerry Peacock (MUFG Bank), Ben Miall (Nomura), Andrew Rogan (UK Finance) and Mike Irwin (XTX Markets).</p>	
2.	<p><b>FXJSC Competition Guidelines Reminder</b></p> <p>Charlotte Pope-Williams (Bank of England) reminded attendees of the competition guidelines and that the purpose of the FXJSC was to serve as a forum for discussing issues of common concern to market participants and infrastructure providers operating in the UK's wholesale FX market. Charlotte explained that the UK's withdrawal from the European Union (EU) is a market sensitive issue and provided some suggestions about how to structure the discussion on EU withdrawal considerations for FX operations, with a view to minimising the legal risks to the Operations Sub-committee. Charlotte explained that individual operating plans, prices or market practices should not be discussed. Instead members should seek to identify and discuss the external factors generally impacting the Sub-committee members arising from EU withdrawal.</p>	
3.	<p><b>EU Withdrawal Unit Policy Update</b></p> <p>David Swallow and Michael Goldby (Bank of England) provided an overview of the organisation of EU withdrawal related work at the Bank of England, and a high-level description of the key work streams. They explained the FPC's judgement of progress against actions to mitigate the risk of disruption to end users of financial services – which is published in the Bank's Financial Stability Report – and the process of onshoring financial services legislation which is led by the UK Government with technical advice from the Bank in areas of relevance to its statutory objectives.</p>	
4.	<p><b>UK's withdrawal from the EU – Considerations for FX Operations</b></p> <p>Members discussed some of the potential implications of the UK's withdrawal from the EU for the wholesale FX market in the UK. The group sought to identify the factors which may generally impact FX market participants, the potential implications of the different approaches to these issues, and the merits of these in turn. The broad themes of discussion included: regulatory issues, considerations about legal entity changes, changes to industry-standard legal documentation, infrastructure changes and configuration impacts.</p> <p>A regulatory theme that members discussed was the possible outcomes stemming from the Settlement Finality Directive (SFD) as a consequence</p>	

of the UK's withdrawal from the EU. SFD is implemented in UK law through the Settlement Finality Regulations. It protects payments and transfers of securities made by EU participants into 'designated systems' i.e. payment and securities settlement systems, governed by the law of an EU Member State from claims in the event of the insolvency of those participants. It was noted that there is a risk that non-EU domiciled designated systems may lose certain key protections under SFD as implemented in national law across the EU. Members considered some of the ongoing workstreams which seek to go some way to address this matter. One of the approaches mentioned was reciprocal SFD coverage between the UK and EU jurisdictions for designated systems. It was acknowledged however that any legislative changes would be a matter for UK and EU authorities to negotiate. Members discussed the work to understand how Recital 7 of the SFD is implemented in EU jurisdictions, and how this could be a mechanism to bring settlement finality benefits to UK institutions that participate in systems in other EU member states. Alongside these workstreams, attendees noted that firms may wish to prepare their own internal contingency plans to mitigate the potential risks posed by losing key protections under the SFD in EU law.

Members remarked that the UK's withdrawal from the EU could impact firms' decisions about their legal entity structure and/or business that operate under each entity. The main approaches to legal entity changes may involve (1) relocating an existing entity, or (2) creating a new entity for business to be lifted and shifted into it. These decisions would be made internally by the firm. Attendees noted that firms may therefore want to be mindful that the time to implement such changes may be longer ahead of EU withdrawal as other firms may also undertake similar changes.

Members discussed some of the possible changes to industry-standard legal documentation that may be required. It was observed that in most instances, re-papering exercises with clients and counterparties would be undertaken on a bilateral or trilateral basis. The discussion covered the types of changes which may need to take place in relation to various legal documentation, on-boarding new entities and static data set up. Members noted that firms should endeavour to engage early with clients and counterparties to understand their intentions and what documentation changes would likely be required. This will help to ensure the necessary documentation is in place ahead of EU withdrawal. Members observed from previous experience that amending documentation with counterparties may lead to re-negotiating the terms of the contract. Members noted that instead firms may wish to replicate the main substance of documentation with requisite changes to account for EU withdrawal as opposed to re-negotiating documentation. Members observed that this approach could be more effective from the perspective of timing.

Members sought to identify some of the infrastructure changes that could be required where firms decided to implement legal entity changes. They also discussed methods that could be used to communicate these changes. Among others, infrastructure changes may include new BIC creation, Standard Settlement Instructions (SSIs) and changes to nostro / vostro relationships. Ultimately individual firms will be accountable for outreach to their clients and counterparties as regards to the notification of any changes. One of the communication methods discussed was firms sending a SWIFT broadcast to their clients and counterparties. However, previous experience would suggest that this method would not be sufficient as the sole method of communication. Therefore firms may also wish to consider other forms of communicating with clients and

counterparties such as bilateral communication. It was noted that a SWIFT broadcast may be more suited to informing people about certain types of changes such as SSIs. Members discussed whether a new SWIFT broadcast template could be created for legal entity changes, and whether to have a sub-working group of members discuss and establish common themes to see if the creation of such a template would be feasible.

Members also considered the merits and mechanics of novation, and how novating – rather than cancelling and re-booking – trades may be an appropriate approach to migrating business. They noted that another option may be to roll off trades into an existing entity where that entity continues to operate. But it was recognised there may be other considerations that determine which approach is taken, for example effects on collateral posting and netting benefits. Firms should consider this on a bilateral basis with their counterparties.

Throughout the discussion on the considerations for FX operations, attendees also considered what the key milestones may be in relation to each of the matters discussed. They also reviewed different communications strategies which ensure that key stakeholders are informed about relevant information.

5. **Summary of discussion and next steps**

The Chair summarised the key issues discussed and next steps, and welcomed feedback from attendees.

6. **Any other business**

None discussed.

**The next meeting of the FXJSC Operations Sub-committee is scheduled for 6 September 2018.**