

Minutes

FOREIGN EXCHANGE JOINT STANDING COMMITTEE OPERATIONS SUB-COMMITTEE

6 September 2018

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

Attendees: **Association of Foreign Banks:** Bruk Woldegabreil
BNY Mellon: Jon Goddard
Citigroup: Daniel Horgan
CLS: John Hagon, Angus Scott (Guest Speaker)
Deutsche Bank: Adam Jukes
Financial Conduct Authority: Babatunde Carew
Goldman Sachs: John Blythe (Deputy Chair)
HSBC: James Kaye
Insight Investment: Gavin Platman
JP Morgan Chase: Phil Glackin
MUFG Bank: Kerry Peacock
RBC: Isabelle Dennigan (Chair)
Societe Generale: Will Deighton (Deputy Chair)
SWIFT: Joe Halberstadt
The Investment Association: David Broadway
UBS: Steve Forrest
UK Finance: Andrew Rogan
Vodafone: Greig Guthrie (Guest Speaker)
XTX Markets: Mike Irwin
Bank of England: James Manchester (Secretariat), Thomas Lynch (Secretariat), Frederick Ladbury (Secretariat), Charlotte Pope-Williams (Legal Secretariat), Rohan Churm (Guest Speaker), Antonio Beatrice

Apologies: **Bank of England:** Jonathan Grant, Jennifer Ashton
Record Currency Management: Joel Sleigh

Minute no.	Minute	Action owner and due date
1.	<p>Welcome and apologies</p> <p>The Chair welcomed guest speakers Angus Scott (CLS) and Greig Guthrie (Vodafone). The Chair welcomed Steve Forrest (UBS) as a new member to the FXJSC Operations Sub-committee, and welcomed Frederick Ladbury and Antonio Beatrice (Bank of England). Apologies were received from Jonathan Grant and Jennifer Ashton (Bank of England), and Joel Sleight (Record Currency Management).</p>	
2.	<p>Guest presentation from Vodafone</p> <p>Greig Guthrie (Vodafone) presented an overview of Vodafone's foreign exchange operations and setup. One of the themes of the presentation was to outline and discuss the differences and challenges of Vodafone being a corporate operating in the FX markets as compared to banks operating in those markets. Mr Guthrie outlined Vodafone's governance framework and high-level treasury policies, and explained Vodafone's core risk mitigating principles for managing the interest rate, FX and credit risks posed by their operations. Attendees discussed the use of fintech within FX operations and how it may be applied to reduce FX risk and provide other efficiencies.</p>	
3.	<p>CLS industry update</p> <p>Angus Scott (CLS) presented an industry update on CLS's initiatives and developments in membership growth. Mr Scott noted that one new member had joined CLS in 2018, that two affiliate members were due to go live, and that there were another two other financial institutions in the pipeline to join as members. Mr Scott outlined recent developments on CLS's work with the global central counterparty community for a service to facilitate the settlement of cleared FX products, as well as progress on its standard automated bilateral netting CLSNet service, and same-day gross payment-versus-payment settlement CLSNow service.</p>	
4.	<p>Education and Outreach</p> <p>a. UK Finance update</p> <p>Andrew Rogan (UK Finance) provided an update on political and regulatory developments. In regards to the UK's withdrawal from the EU, Mr Rogan noted some of the key dates between September and December 2018 in which the UK and EU27 may look to finalise and agree a withdrawal deal. Mr Rogan noted that an implementation period that maintains the status quo until December 2020 remains the industry's objective.</p> <p>Mr Rogan noted that – as outlined in the Financial Policy Committee's Financial Stability Report published in June 2018 - a material risk remains around the continuity of existing cross-border contracts. A technical working group, chaired by the European Central Bank and the Bank of England, has been established on risk management in the period around 30 March 2019 in the area of financial services.</p> <p>Mr Rogan noted that the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA), and the Bank of England in its capacity of supervising financial market infrastructures, have released a discussion paper regarding operational resilience. The supervisory authorities welcome feedback on this discussion paper.</p> <p>b. Investment Association update</p> <p>David Broadway (Investment Association) provided an update on some of the current key areas of focus in the markets space from the Investment</p>	

Association's perspective.

Mr Broadway noted that a top priority for the IA is strongly encouraging the FCA to conclude bilateral regulatory cooperation agreements with the EU27 competent authorities. A second priority relates to the marketing of EU27 funds and other investment services into the UK - the IA welcome the proposed temporary permissions regime.

The IA continue to encourage members to sign up to the Foreign Exchange Global Code. Mr Broadway also updated on other FX-specific matters. First, the IA have discussed with its members the lack of timestamping provided for custodian-executed FX trades. Also, in the FX space, the IA and several other associations were asked by ESMA for views on the timelines to implement its view that FX swaps should be reported as single standalone financial instrument under MiFID and EMIR.

MIFID II remains on the IA's radar and it awaits further guidance due to be provided on the post-trade transparency regime by the FCA.

Environment, social and governance (ESG) is another key focus for the IA, in light of growing demand from investors for responsible investing.

c. Association of Foreign Banks update

Bruk Woldegabreil (AFB) explained that the AFB organises various committees to reflect the major functions of foreign banks operating in the UK to discuss key issues and regulatory developments. In terms of the AFB's current focuses, Mr Woldegabreil noted that the AFB has regular engagement with the UK Government and policy makers to discuss matters relating to the UK's withdrawal from the EU that affect its foreign bank members. This allows the AFB to outline its views and the actions of its foreign bank members as negotiations have developed, and the potential requirements of the foreign banks.

Mr Woldegabreil noted that looking ahead to Q4 2018, the AFB plan to look at a number of governance issues, and noted that the AFB is developing guidance material with respect to market abuse, as well as providing training and support for its members on the implementation of the Senior Managers and Certificate Regime.

5. Minutes of previous meetings and matters arising

The minutes of the 23 April meeting were agreed.

6. EU withdrawal

It was noted that the minutes of the extraordinary FXJSC Operations Subcommittee meeting held on 22 June 2018 would be circulated to members after the meeting to be agreed by written procedure.

7. Operational overview by Insight Investment

Gavin Platman (Insight Investment) presented an overview of Insight Investment's operational setup from an educational perspective. Mr Platman explained Insight Investment's role as an asset manager and some of its key business elements. He explained the rationale for Insight Investment operating in financial markets and a high-level composition of their investment areas and client types. Insight Investment outsources its back office operations to Northern Trust including trade matching, confirmation and settlement, and reconciliation, and Mr Platman gave high-level illustrations of the FX operations workflows for this arrangement.

8. Global Foreign Exchange Committee (GFXC) update

Rohan Churm (Bank of England) provided an update on the FX Global Code

(Code), and the work of the Global Foreign Exchange Committee (GFXC).

The GFXC met on 27 June 2018 in Johannesburg, South Africa. The FXJSC was represented by Rohan Churm, Andrew Hauser (Bank of England) and Neil Penney (Thomson Reuters). Mr Churm noted that the GFXC had commissioned work to add an example of negative pre-hedging to the Code. The GFXC received three draft examples for consideration and agreed to add one new example to the Code. It describes a scenario where a trade is over-hedged by double the amount of the initial trade.

The GFXC discussed 'Cover and deal' trading models and how the term 'cover and deal' was being used more broadly than first anticipated. The GFXC commissioned further work around the role that disclosures play in informing clients on how their trade requests are being handled.

The GFXC Disclosures Working Group concluded that there has been an improvement in the disclosures being made publicly available by market participants. It was noted however that there was a large range in quality and still room for a lot of improvement. The Working Group will develop and publish a list of questions and characteristics that a market participant may consider in developing or reviewing disclosures.

The GFXC agreed to publish a document produced by the GFXC Secretariat: 'The FX Global Code at One Year: A Look Back and a Look Ahead'¹. This document highlighted key achievements for the Code including that well over 300 Market Participants had, by the time of the GFXC meeting, made Statements of Commitment to the Code, which demonstrated widespread adoption across the global market.

Mr Churm noted that in the United Kingdom, the FCA launched a process for recognising industry codes of conduct, and that the FXJSC was in the process of submitting an application for the Code to become an FCA-recognised industry code to further embed the Code into the UK FX market.

9. **Any other business**

Jon Goddard (BNY Mellon) reminded members that the FXJSC Operations sub-committee discussed in November 2017 to periodically review the FX Resiliency playbook to ensure its contents remained up-to-date and relevant. Mr Goddard noted that he would be undertaking this review by the next Operations Sub-committee meeting.

The next meeting of the FXJSC Operations Sub-committee will be 31 January 2019.

¹ https://www.globalfx.org/docs/fx_code_one_year.pdf