

Minutes

FOREIGN EXCHANGE JOINT STANDING COMMITTEE OPERATIONS SUB-COMMITTEE

13 February 2020

Location: Bank of England, Threadneedle Street, EC2R 8AH

Attendees: **BNY Mellon:** Jon Goddard
Citigroup: Daniel Horgan
CLS: Andrew Cooper (Alternate)
Deutsche Bank: Adam Jukes
FCA: Babatunde Carew
Goldman Sachs: John Blythe (Deputy Chair)
Insight Investment: Gavin Platman (Deputy Chair)
JP Morgan: Jason Flynn
MUFG Bank: Kerry Peacock
Northern Trust: Lee Runacres (Alternate)
RBC: Isabelle Dennigan (Chair)
SWIFT: Joe Halberstadt
The Investment Association: Hugo Gordon (Alternate)
UBS: Steve Forrest
UK Finance: Andrew Rogan
XTX Markets: Mike Irwin
Bank of England: James Manchester (Secretariat), Lauren Hustwitt (Secretariat), Devin Bennie (Secretariat), Paul Avanzato (Legal Secretariat), Grigoria Christodoulou (GFXC Secretariat)

Apologies: **Bank of England:** Matt Dukelow
Barclays: Sharon Chapman
CLS: John Hagon
HSBC: James Kaye
Northern Trust: Terri Van Praagh
The Investment Association: David Broadway

Minute no.	Minute	Action owner and due date
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1. **Welcome and apologies for absence**

Isabelle Dennigan (Chair, RBC) noted the apologies received and welcomed Jason Flynn (JP Morgan) as a new member of the FXJSC Operations Sub-committee. The Chair introduced Devin Bennie and Lauren Hustwitt (Secretariat, Bank of England) joining the Secretariat of the FXJSC Operations Sub-committee. The Chair also announced that Gavin Platman (Insight Investment) had taken over the role as Co-Deputy Chair.

2. **Minutes of previous meeting and matters arising**

The minutes of the 28 November 2019 meeting were agreed. There were no matters arising.

3. **Competition law guidance reminder**

Paul Avanzato (Legal Secretariat, Bank of England) reminded members of the FXJSC competition guidelines¹ 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. He noted that care should be taken to ensure that this group does not facilitate, nor should it be the focal point of, any anti-competitive behaviour, such as sharing competitively sensitive information or developing common policies or standards which might restrict or potentially restrict or distort competition.

4. **XTX Markets – Operations overview**

Mike Irwin (XTX Markets) presented an overview of XTX Markets' operations from an educational perspective. The presentation covered XTX Market's role as a quantitative and tech-driven electronic liquidity provider across FX, equity, fixed income, and commodity markets; and its market making principles to operate with low market impact, promote fairness among all market participants, and advocate appropriate transparency of pre-trade disclosures and post-trade analytics.

Members discussed some of the common challenges and risks faced in FX operations – navigating the change landscape, managing algo risk and implementation, business continuity planning, and collateral management optimisation; and exchanged experiences as to how newer firms may respond differently to these challenges versus relatively older institutions.

5. **Committee priorities for 2020**

Following feedback received from members, Ms Dennigan summarised priorities for the FXJSC Operations Sub-committee that would be considered for the agenda throughout 2020. Members discussed these priorities, relevant individuals that could deliver and/or facilitate discussions on these topics, and put forward additional suggestions. It was noted that final agendas may be amended closer to each meeting, so as also to reflect relevant issues in FX operations.

Ms Dennigan highlighted that the next FXJSC Operations Sub-committee will be a joint meeting with the FRBNY's Operation Managers Working Group

¹ <https://www.bankofengland.co.uk/-/media/boe/files/markets/foreign-exchange-joint-standing-committee/fxjsc-competition-guidelines-2018.pdf>

(OMWG), and some of these topics would be considered for this meeting.

6. **CLS Industry update**

Andrew Cooper (CLS) provided an update on CLS's Convergence program which will modernise the underlying technology platform of the CLS Settlement service, and noted the expected date of convergence would likely be published in Q2 2020. Additionally, there are plans to add another currency to CLSNow. Mr Cooper also provided an update on its ClearedFX and CLSNet services.

7. **Readout of the GFXC meeting held 4-5 December**

The FXJSC Secretariat provided an update of topics covered at the previous Global Foreign Exchange Committee (GFXC) meeting held 4-5 December 2019 in Sydney. A key work-stream for the GFXC in 2020 was the three-year review of the FX Global Code ("the Code"). The GFXC agreed to focus on five main areas; each taken forward by a small working group:

- **Buy-side Outreach:** led by the European Central Bank (ECB), the Bank of Japan and Queensland Investment Corporation (QIC), focussing on improving buy-side outreach of the Code.
- **Anonymous trading:** led by the Federal Reserve Bank of New York (FRBNY) and XTX Markets, focussing on aspects of anonymous trading, such as the use of tags, where additional guidance in the Code may be appropriate.
- **Disclosures:** led by the Bank of England and focussing on ways to accelerate the adoption of more effective disclosures.
- **Algorithmic Trading and Transaction Cost Analysis (TCA):** led by the Swiss National Bank and ING focussing on reviewing the Code's existing guidance on algorithmic trading and considering how guidance around TCA could be incorporated into the Code.
- **Execution principles:** led by the Bank of Canada, Refinitiv and Citi focussing on responding to industry feedback on Principle 8 (Clarity about the Capacity in which Market Participants act), Principle 11 (Pre-Hedging) and Principle 17 (Last Look) of the Code.

The working group proposals would be discussed at the GFXC meeting in June.

8. **Operational response to market events – relating to Argentine Peso NDF failures in September 2019**

Daniel Horgan (Citigroup) provided an overview of the events that unfolded in the Argentine Peso NDF market in September 2019, following the imposition of capital controls and which led to an Exchange Rate Divergence event. Members shared some of their high-level observations, thematic issues, and learning points since this event.

9. **Standardisation of reject codes**

Hugo Gordon (The Investment Association, IA) presented the IA's recently published position paper² on reject codes, following a consultation with its members and other relevant market participants in the wholesale FX market. The paper focused specifically on the request-for-quote model, and proposed a standardised messaging protocol with a defined set of reject codes that could assist asset managers understand why a trade had not proceeded.

² <https://www.theia.org/sites/default/files/2020-02/20200205-standardisationofrejectcodes.pdf>

The position paper set out thirteen high-level reject codes categories – seven categories for quote rejection, and six for trade rejection – which could be consistently used across all execution providers.

The IA had invited all execution providers to provide their mapping of their existing reject codes to the categories to their asset management clients by the end of Q1 2020, and would ask its members for feedback on progress in Q2 2020.

10. **FX Settlement Crisis Management Playbook**

Jon Goddard (Bank of New York Mellon) gave the committee an overview of the FX Settlement Crisis Management Playbook (“the Playbook”) which had been produced to respond to the core objectives set from the Sector Desktop Exercise that was carried out in 2015. The Playbook had last been updated in Q1 2019, and Mr Goddard agreed to lead a review of the Playbook in collaboration with other members. It was recognised that the playbook should then undergo a legal review. Members discussed some of the options around publishing the Playbook on an extranet so that it would be more accessible to relevant stakeholders.

ACT: Mr Goddard to arrange a review of the Playbook in collaboration with other members.

11. **FCA Regulatory Update**

Babatunde Carew (FCA) updated members on ESMA’s review of topics under MiFID II and MiFIR while noting that the review of non-equity transparency topics was particularly relevant to the committee.

Mr Carew explained that ESMA will be launching a consultation paper in late February which will be open for 6 weeks and noted that the following topics were of particular interest: Pre-Trade Transparency Waivers and Exemptions; Definitions of actionable indications of interest (AIOIs); Systematic Internalisers (SIs); and Post-Trade Transparency. Mr Carew also noted that the ESMA consultation paper does not discuss changing the current status of all FX derivatives as being illiquid.

12. **Education & Outreach**

i. UK Finance update

Andrew Rogan (UK Finance) updated members on UK Finance’s approach to operational resilience, following the regulatory authorities’ recent publication of consultation papers on a new operational resilience framework.

Mr Rogan outlined that following the publication of the new operational resilience framework, UK Finance have identified operational resilience as a strategic priority. Mr Rogan welcomed the consultation papers, noting that more work needs to be carried out on governance and the way in which boards are involved in the new process and framework.

Mr Rogan also highlighted that the cyber-attack on Travelex had provided a number of important lessons for industry in terms of how to respond and communicate in response to similar attacks.

ii. ECB OMG update

Steve Forrest (UBS) provided the committee with an update from the European Central Bank (ECB) Operations Manager Group (OMG). Mr Forrest noted the three main topics covered were: a presentation on the strategic outlook from the perspective of Euroclear which Central Securities Depositories Regulation (CSDR), a presentation by Allied Irish Bank and BBVA on their respective back-office transformation journeys, and the European Master agreement.

iii. GFXD update

Steve Forrest (UBS) gave the members an update of the Global Financial Markets Association's (GFMA) recent Global Foreign Exchange Division (GFXD) meeting. This had covered a discussion on the 2019 BIS Triennial Survey and some of the headline trends relating to PvP settlement, the fall in share of spot trades as a proportion of total FX trades, and decreased share in inter-dealer trading volumes as a proportion of total volumes.

13. **Any other business**

James Manchester (Secretariat, Bank of England) noted that the annual FXJSC Operations Sub-committee contingency test would be taking place at some point before the next meeting. It was announced that Mr Manchester would be stepping down from the FXJSC Operations Sub-committee, and he was thanked for his contributions.

The next meeting of the FXJSC Operations Sub-committee was scheduled to be held on 13 May 2020.