

# Minutes

## FOREIGN EXCHANGE JOINT STANDING COMMITTEE OPERATIONS SUB-COMMITTEE

03 September 2020

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Time: 14:00 – 16:00

Location: Teleconference

Attendees: **Adam Jukes** – *Deutsche Bank*  
**Babatunde Carew** – *FCA*  
**Daniel Horgan** – *Citigroup*  
**David Broadway** – *The Investment Association*  
**Gavin Platman (Deputy Chair)** – *Insight Investment*  
**James Kaye** – *HSBC*  
**Jason Flynn** – *JP Morgan*  
**Joe Halberstadt** – *SWIFT*  
**John Blythe (Chair)** – *Goldman Sachs*  
**John Hagon** – *CLS*  
**Kerry Peacock** – *MUFG Bank*  
**Mike Irwin** – *XTX Markets*  
**Sharon Chapman** – *Barclays*  
**Steve Forrest** – *UBS*  
**Terri Van Praagh** – *Northern Trust*

FXJSC Secretariat: **David Edmunds** – *Bank of England*  
**Devin Bennie** – *Bank of England*  
**Lauren Hustwitt** – *Bank of England*  
**Matt Dukelow** – *Bank of England*  
**Paul Avanzato (Legal Secretariat)** – *Bank of England*

Guest attendees: **Charlotte Buckingham** – *Bank of England*  
**Manesh Powar** – *Bank of England*  
**Alan Marquard** – *CLS*

Apologies: **Andrew Rogan** – *UK Finance*  
**Claire Forster-Lee** – *Morgan Stanley*  
**Jon Goddard** – *BNY Mellon*

**Minute**    **Minute**  
**no.**

1.        **Welcome and apologies for absence**

John Blythe (Chair, Goldman Sachs) welcomed members to the FXJSC Operations Sub-committee meeting held via conference call.

2.        **Minutes of 13 May 2020 meeting**

The minutes of the 13 May 2020 meeting were agreed. There were no matters arising.

3.        **FXJSC Turnover Survey Results**

Charlotte Buckingham and Manesh Powar (Bank of England) delivered a presentation on the April 2020 FXJSC Turnover Survey results<sup>1</sup>. Average daily reported UK FX turnover had fallen by 16% since October 2019 to \$2.4 trillion. Turnover had fallen across all instruments, with FX Swaps and Currency Swaps the hardest hit (falling 20% and 37% respectively since October 2019). Spot FX had fallen by 10% since the October survey. This is in line with recent trends and it saw a 14% fall year on year. Members discussed that this may have been a result of firms taking a 'risk-off' approach, while a lack of commerce and corporate business to necessitate trades may also be a primary driver.

USD/EUR remained the most traded currency pair. USD/JPY was reported as the second most traded currency pair with USD/JPY seeing a 6% decline in turnover since the October 2019 survey, but a 12% rise year on year. Turnover had fallen in GBP/USD and EUR/GBP currency pairs, by 32% and 31% respectively since October 2019. Members discussed that this fall in Sterling may be driven by Brexit uncertainty while manufacturing recovery may have led to more requests for Dollar/Yen.

The proportion of turnover transacted in the Interdealer Direct category had fallen from 28% to 23% since October 2019, and it was suggested that this had been driven by the FX swaps market. Interdealer Direct still remained the most common execution method despite an increase in the volumes traded via Electronic Trading and Electronic Broking systems. Members observed that this increase is as expected, due to increased working from home.

4.        **CLS: Settlement Risk**

Members welcomed a presentation by Alan Marquard (CLS) on FX Settlement Risk. Mr Marquard noted that the Bank for International Settlement (BIS) Quarterly Review in December 2019 concluded that of \$18.7 trillion of daily FX payment obligations, approximately half (\$8.9 trillion) are at risk. Mr Marquard explained that in this context 'at risk' refers to trades which are eligible for, but not settled with, Payment Versus Payment (PvP) protection and that in the period from 2013-2019 the proportion of trades at risk has risen relative to total volumes.

Mr Marquard noted that CLS is undertaking significant work to try to address this settlement risk through: data analysis to determine what flow is not settled through PvP, and for what reason; evaluation of industry codes to determine amendments to promote PvP and best practice; and to encourage awareness of the Basel Committee on Banking Supervision's (BCBS) supervisory guidance for managing risks associated with the settlement of foreign

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<sup>1</sup> The April 2020 FXJSC Turnover Survey results can be found at:  
<https://www.bankofengland.co.uk/markets/london-foreign-exchange-joint-standing-committee/results-of-the-semi-annual-fx-turnover-survey-april-2020>

exchange transactions<sup>2</sup>. Members discussed that, in terms of risk mitigation, more trades with PvP protection is better for industry as it removes Herstatt risk with bilateral trades.

5. **Global Foreign Exchange Committee (GFXC) Update**

David Edmunds (FXJSC Secretariat, Bank of England) updated members on the key topics discussed at the GFXC meeting held via teleconference in June 2020. These included: discussions on recent market conditions and operational resilience in light of Covid-19; FX settlement risk; and next steps on the GFXC's three-year review of the FX Global Code.

Mr Edmunds explained that that the GFXC had agreed to hold an additional meeting in September 2020. The meeting would focus on the progress of, and any proposals made by, the three-year review working groups, as well as a follow-up discussion on FX settlement risk.

6. **FX Settlement Crisis Playbook**

Steve Forrest (UBS) updated members on the FX Settlement Crisis Playbook ("the Playbook") review, welcoming members who previously participated to assist in the review. It was also noted that the Playbook would also go through a legal review.

Mr Forrest invited members to review the Playbook to determine whether it is fit for purpose and up to date.

7. **The Future of Post Trade**

Mike Irwin (XTX Markets) updated members on the Bank of England's recent publication, the Future of Post Trade report<sup>3</sup> and creation of the Post Trade Taskforce.

Mr Irwin noted the purpose of the task force is to bring together experienced market participants, active in conducting post-trade processing activities, to address industry coordination challenges. In November the taskforce subcommittee plans to convene a number of technical, subject matter expertise working groups to look into three case studies identified by the Post Trade Taskforce: client on-boarding; uncleared margin; and non-economic data.

Mr Irwin noted that applications are welcome from any other third parties who wish to join.

8. **FCA Regulatory Update**

The FCA noted that a priority remains on responding to the impact of Covid-19 and mitigating its negative effects as far as possible, and guidance for firms had been published on their website.

It was also noted the FCA, along with the Bank of England and HM Treasury, continue to prepare for a range of Brexit scenarios to ensure a smooth transition as possible and has been engaging with firms, trade and consumer bodies. The FCA has continued to advise the UK Government on UK-EU Free Trade Agreement negotiations and is working to onshore the EU rulebook to ensure that the UK and EU to have the most equivalent framework post-Brexit.

The FCA highlighted a range of regulatory initiatives in the pipeline, specifically: Call for Input (CFI) to better understand how wholesale financial participants are accessing and using market data and advanced analytics; and

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<sup>2</sup> <https://www.bis.org/publ/bcbs241.htm>

<sup>3</sup> <https://www.bankofengland.co.uk/-/media/boe/files/report/2020/the-future-of-post-trade-report.pdf>

an 'Approach to' document setting out the FCA's strategic approach to ensuring market integrity, particularly within wholesale markets.

9. **SWIFT Update**

Joe Halberstadt (SWIFT) noted that 7 changes are being planned as part of SWIFT standards release 2021. These include 4 changes that were deferred from 2020, due to Covid19. The additional changes are clarifications to usage rules for Standing Settlement Instructions and Digital Options and a substantive change submitted by the International Swaps and Derivatives Association (ISDA) to add support for cash-settled forwards and options in G10 currency pairs. These changes remain subject to country voting and SWIFT Board approval.

10. **Education & Outreach**

i. **Investment Association update**

David Broadway (The Investment Association) noted that the Investment Association had recently published an updated LIBOR transition roadmap for buy-side firms, while a key focus remains on sustainable finance which its members are navigating and looking to determine how to deliver against their clients' objectives. It is also renewing its focus on Brexit as the end of the transition period approaches.

In terms of Covid-19, the Association is working on how the asset management industry can best support economic recovery; and in the FX space specifically, work streams such as custodial timestamping and reject codes are resuming.

ii. **ECB OMG update**

Steve Forrest (UBS) provided an overview of the topics discussed by the European Central Bank (ECB) Operations Managers Group (OMG) at two recent meetings, held in June and September respectively

Mr Forrest noted that when the ECB OMG met in June the agenda had focused on how institutions had coped with the Covid-19 pandemic. In September, agenda items had included a presentation by SWIFT on Cyber Risk; an update on FinTech and; a discussion of FX settlement risk.

iii. **GFXD update**

Mr Forrest provided members with an overview of topics recently discussed by the Global Financial Markets Association (GFMA) recent Global Foreign Exchange Division (GFXD) meeting. Mr Forrest explained that the impact of Covid-19 had been a substantial focus. In addition, the GFXD had discussed FX settlement in emerging markets, and its future work programme.

11. **Any other business**

The FXJSC Secretariat highlighted that the Bank of England had planned on hosting a webinar in September on Cross Border Payments. The aim of the webinar is to brief the private sector on the report that the Committee for Payments and Market Infrastructure (CPMI) produced explaining how the Bank wants to improve cross-border payments, and to see seek private sector engagement and input.

The Chair invited members to express their interest in the vacant Deputy Chair position. Members were invited to direct expressions of interest to the FXJSC Secretariat.

**Next FXJSC Operations Sub-committee meeting: 12 November 2020**

