

# Minutes

## FOREIGN EXCHANGE JOINT STANDING COMMITTEE OPERATIONS SUB-COMMITTEE

12 November 2020

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Time: 14:00 – 16:30

Location: Teleconference

Attendees: **Adam Jukes** – *Deutsche Bank*  
**Boyd Winston (Alternate)** – *JP Morgan*  
**Babatunde Carew** – *FCA*  
**Claire Forster-Lee** – *Morgan Stanley*  
**David Broadway** – *The Investment Association*  
**Gail Smith** – *RBC*  
**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 (Deputy Chair)** – *MUFG Bank*  
**Lee Runacres (Alternate)** – *Northern Trust*  
**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*  
**Paul Avanzato (Legal Secretariat)** – *Bank of England*

Guest  
attendees: **Alison Kett** – *Bank of England*  
**Amy Sinclair** – *Bank of England*  
**Elizabeth Gilbert** – *Bank of England*  
**Oge Udensi** – *UK Finance*  
**Orlando Fernandez Ruiz** – *Bank of England*  
**Sumita Ghosh** – *Bank of England*

Apologies:  
**Dan Horgan** – *Citigroup*  
**Matt Dukelow** – *Bank of England*  
**Terri Van Praagh** – *Northern Trust*

**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. Mr Blythe welcomed new members Gail Smith (RBC) and Claire Forster-Lee (Morgan Stanley).

**2. Minutes of 3 September 2020 meeting**

The minutes of the 3 September 2020 meeting were agreed. There were no matters arising.

**3. Diversity & Inclusion in the FX Market: Meeting Varied People Event**

Sumita Ghosh and Amy Sinclair (Bank of England) updated members on some of the Bank of England's key Diversity and Inclusion initiatives and upcoming Meeting Varied People (MVP) event and workstream. Ms Ghosh highlighted that diversity and inclusion is a top strategic priority for the Bank of England; some of the initiatives highlighted included inclusive and pooled recruitment; career progression through mentoring and promoting opportunities through specialised sponsorship programmes; valuing differences and diversity of thought, as well as championing wellbeing and resilience.

The MVP event, due to take place on 21 April 2021, aims to diversify the Bank of England's market intelligence external contacts and supporting more diversity among Markets' committee membership, as well as support a pipeline of diverse talent to further encourage market-wide diversity.

**4. Operational Resilience: Outsourcing**

**i. Regulatory framework and consultation paper: Outsourcing and third party risk management**

Orlando Fernandez Ruiz and Elizabeth Gilbert (Bank of England) presented on the Bank of England's regulatory framework on outsourcing and third party risk management consultation paper<sup>1</sup>. Mr Ruiz and Ms Gilbert gave a brief overview of the consultation paper's objectives and highlighted that the main proposal was to strengthen the Prudential Regulatory Authority's (PRA) regulation of outsourcing and third party risk management through a principle-based policy framework.

Ms Gilbert summarised the key areas of feedback received from the consultation paper, which included: alignment with international regulations and standard; scope and definitions; proportionality; sub-outsourcing; and data security.

Members discussed the differences between outsourcing from a technology perspective in terms of cyber resilience as opposed to outsourcing from a business and operational resilience perspective as well as fourth party risk.

**ii. Outsourcing and third party vulnerabilities**

Oge Udensi (UK Finance) provided an overview of recent activity undertaken by UK Finance to respond to the Bank of England's consultation paper, on outsourcing and third party risk management, on behalf of its members. Four key areas of feedback were noted: alignment with European Banking Authority (EBA) guidelines; further guidance on tailoring application of the proposed

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<sup>1</sup> <https://www.bankofengland.co.uk/prudential-regulation/publication/2019/outsourcing-and-third-party-risk-management>

requirements; clarification on the definition of materiality and how it will be assessed and; plans for an outsourcing register.

Ms Udensi outlined a number of industry actions on third party risk initiatives being led by UK Finance's Cross Market Operational Resilience Group (CMORG). These initiatives include work on a supplier assurance standard, whereby UK Finance, is working to develop a new supplier assurance standard, and the Chief Information Officer (CIO) Forum's work on Cloud Controls Framework, which aims to provide a set of control objectives for all public cloud implementations.

Members discussed the challenges faced by firms with an overseas third party presence and the importance of communication in preparing overseas staff throughout the pandemic. It was noted that although there was positive news related to how firms adapted during the pandemic, more work is required in strengthening contingency planning and operational resilience, as future disruption events could have a very different impact.

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

David Edmunds (FXJSC Secretariat, Bank of England) updated members on the key topics that would be discussed at the GFXC meeting on 8 December 2020. The discussion would focus on the GFXC's three-year review of the FX Global Code and would be informed by the initial findings and recommendations of the GFXC's working groups across five areas: (i) Disclosures; (ii) Anonymous Trading; (iii) Algos & TCA; (iv) Buy-side Outreach; and (v) Execution Principles. Settlement risk would also be considered by the GFXC as part of the three-year review.

The FXJSC Secretariat would circulate the GFXC papers to FXJSC Operations Sub-committee members to provide feedback.

**6. Barclays – Operations overview**

Sharon Chapman (Barclays) provided committee members an overview of Barclays' operational structure as part of their post-trade services from an educational perspective.

The discussion covered broadly the Transaction Lifecycle concept (TC) then high level outline of matrix versus functional complement structure. The seven main divisions included in Barclays' operational structure are split into: a middle office team; securities group covering all security settlement; asset servicing in addition to interest claims; cleared derivatives and; reconciliations and treasury groups. Final group of Cost Asset Operations deal with transaction reporting, collateral margining and this is where the FX cash settlement resides.

Ms Chapman also covered some of their specialist roles versus processing roles in locations, and high level split between onshore and offshore support within the FX/MM settlement.

**7. FCA Regulatory Update**

The FCA highlighted that the European Securities and Markets Authority (ESMA) published a review of the Market Abuse Regulation (MAR) in September which sets out proposals for targeted amendments in MAR. ESMA concluded that further analysis was required in relation to spot FX contracts.

The FCA noted that pre-hedging was also included within the scope of the MAR review, which ESMA may look to provide further guidance on.

**8. SWIFT Update**

Joe Halberstadt (SWIFT) noted that changes are planned to MT300 messages for cash-settled forwards in G10 currency pairs. The SWIFT Transaction Management Platform (TMP) for payments is continuing to be developed and is scheduled for launch in 2022, which will migrate all payments to ISO20022 messaging format. Mr Halberstadt confirmed that currently there are no plans to migrate FX to ISO20022.

**9. CLS Update**

John Hagon (CLS) updated members on ClearedFX and the proposed on-boarding of JPY to the LCH service. It was also noted that trialling had restarted with Eurex but that there is no firm outlook for go-live at this stage. While settlement volumes and values peaked in May, they are now back to more "normal" levels. CLS have recently on-boarded a new settlement member, bringing the total members to 73, with an additional member due to go-live at the end of November.

CLS highlighted that it is still in discussions with the Chilean Central Bank about on-boarding their currency.

CLS are continuing to promote the importance of Payment Versus Payment (PvP) settlement and are working to provide a solution for non-CLS currencies. This links with the consideration the GFXC is giving to how the PvP elements of settlement risk should be reflected in the FX Global Code (principles 35 and 50).

Mr Hagon noted that CLS are hosting a pre-recorded panel on FX settlement risk the week of 16 November.

**10. Education & Outreach**

**i. Investment Association update**

David Broadway (The Investment Association) updated members on the recent post-trade operations committee which spoke regarding settlement risk. The post-trade operations committee determined to re-examine the barriers firms can face when on-boarding new clients and firms through custodians on CLS settlement. Work is being carried out to determine what can be done to alleviate this in order to make the process easier.

Mr Broadway highlighted that work continues on reject codes and custodian timestamping and making final refinements to the Investment Association's algo due diligence survey for FX.

**ii. GFXD update**

Steve Forrest (UBS) provided members with an overview of topics recently by the Global Financial Markets Association (GFMA) recent Global Foreign Exchange Division (GFXD) meeting. Topics on the agenda included operational resiliency and cybercrime as well as Turkish Lira claims from the August. Mr Forrest updated members on the two main working groups from the GFXD, looking at vendor outreach and how to get more volume and eligible trades into CLS. The GFXD also discussed operational preparedness for negative interest rates.

**11. Any other business**

The Chair thanked all members who expressed interest in the vacant Deputy Chair position and for their nominations. It was noted that, following careful consideration from the FXJSC Secretariat and Operations sub-committee Chair, Kerry Peacock (MUFG) would assume the role as of immediate effect.

The FXJSC Secretariat noted that the FXJSC Operations Sub-committee

meeting dates for 2021 would be circulated by end 2020.