



EUROPEAN CENTRAL BANK

EUROSYSTEM

DG MARKET OPERATIONS

ECB-PUBLIC

21 July 2017

ECB Operations Managers Group

Frankfurt am Main, Thursday 22 June 2017, 13:00 – 17:00 CET

Summary of the discussion

1. MiFID II impact for the FX market

A. Harvey (GFMA) briefed the Members on the legislation Markets in Financial Instruments Directive II (MiFID II) and Regulation (MiFIR), which are expected to enter into force within a six-month horizon (3 January 2018). The complexity and depth of the legislation are significant, and it is therefore crucial for banks to carefully and individually assess the impact on their institutions. It was emphasised that the FX market was presented with specific harmonisation challenges because of its cross-border characteristics. The scope of the legislation in relation to FX includes all FX products with the exception of FX spot. According to ESMA's definition, this market segment can be initially classified as illiquid until further data on market activity becomes available. The main challenges for the FX market (focusing on Operations) were discussed amongst Members, including reporting. On the one hand, the historical absence of ISINs in the FX market was mentioned to be one of the main challenges as new flows will need to be accommodated within the industry. On the other hand, based on the experience with the Legal Entity Identifier (LEI) in EMIR, the extension to MiFID will present challenges in that counterparties outside of the EU may be required to have a LEI, which will likely increase the possibility of managing missing and unregistered LEIs. He finally mentioned that GFMA provides studies to its Members on these topics, published on the GFMA GFXD website, and it is recommended to establish an on-going dialogue with the regulators in order to discuss the upcoming obligations.

2. The Enterprise Ethereum initiative and technological developments

J. Faura (Head of R&D Santander, and Chair of the Enterprise Ethereum Alliance) gave a presentation about the use of private Blockchain and 'smart contracts' in enterprise settings. He introduced the concept of distributed ledgers and their ability to store common programs, called 'smart contracts', protected by cryptography and hyper-replication in multiple nodes, and therefore shared by multiple enterprises on a decentralized platform. Smart contracts can be adapted to diverse uses through the use of tokenization techniques, i.e. using them to represent 'fiat' assets that are in fact under custody in traditional enterprise systems – for example funding a digital money account backed by funds in an omnibus account, and then executing bank transfers using these 'tokenized' funds. Smart contracts can increase the speed of circulation of money between market participants, decrease liquidity needs and potentially impact back-office organization over the medium term. The Enterprise

Ethereum Alliance initiative launched in February 2017 brings together banks, non-financial corporates and leading technology firms intending to improve and adopt the Ethereum protocol for enterprise uses. Ethereum is the leading smart contract-enabled Blockchain protocol being used in the world today, both in a large, uncensored public network (the Ethereum network) as well as in private deployments at corporates and public institutions. Finally, the Lyra network in Spain was mentioned as an example of collaboration between leading enterprises from the private sector with the public sector to implement an actual, smart contract-enabled Blockchain platform that can support transactions between parties with legal validity.

3. Follow-up on common topics shared with other ECB contact groups

Following-up on the feedback received from other ECB contact groups (FXCG, BMCG, and MMCG) on horizontal topics for co-operation with the ECB OMG, M. Stubbe (Chairman of the ECB OMG and Head of FOS Division in Directorate General Market Operations of the ECB) collected the Members' views on three suggested areas of interest, where specific topics could be analysed from a bank's operations perspective: the current regulatory agenda, Brexit and technological developments. As a way forward, OMG Members commonly agreed on prioritising work connected with the implementation of regulations (MiFID II, EMIR, CSDR), owing to the degree of complexity and the stringent timelines to comply. It was mentioned that the selection of the specific topics will start in the coming weeks. In parallel, the development of Brexit negotiations would be closely monitored, and technological developments would be regularly discussed at OMG meetings.

4. Confirmation and settlement process at a major market player

J. de Wolf (Rabobank) introduced the organisation of his institution, a Dutch cooperative bank with substantial activities in financial markets nationally and at a global level. It performs confirmation and settlement processes for a wide range of instruments in the FX, money market, fixed income and commodity space. It was mentioned that while different systems were being used to handle trade and operations, the bank recently embarked on a project to streamline and integrate systems, covering front, back and risk functions, with the aim to increase STP rates, general efficiency of processes and reduce operational risks. Members reaffirmed the importance of timely confirmations of trades and quality of data.

5. Update on FX Global Code of Conduct

G-C. Marhic (ECB) updated the group on the latest developments relative to the FX Global Code ("the Code") following its publication on 25 May 2017. He first elaborated on the new governance framework of the Code which has been formalised under the Global Foreign Exchange Committee (GFXC). The GFXC brings together central banks and the private sector via the local foreign exchange Committees, and its main responsibility is focused on promoting, maintaining and updating the Code. In line with the conduct of the BIS FX survey, major updates of the Code will be organised on a triennial basis, where it may be requested from the wholesale market participants to renew their Statement of Commitment, the main instrument for demonstrating adherence to the Code. G-C. Marhic then touched upon the work conducted to enhance the adherence to the Code from a market and central bank perspective. He emphasised that, as communicated by a press release on 25 May, ESCB central banks support the publication of the FX Code and expect their regular FX counterparties to adhere to the Code.