The Global Financial Markets Association (GFMA) represents the common interests of the world’s leading financial and capital market participants, and speaks for the industry on the most important global market issues. GFMA’s mission is to provide a forum for global systemically important banks to develop policies and strategies on issues of global concern within the regulatory environment.
In the five years since the onset of the global financial crisis, regulatory reform has been at the top of the policy agenda in North America, Europe and Asia – and rightly so. Sweeping change was needed. And significant change is being implemented, by regulators and by industry, to the way in which banking institutions are managed and supervised.

The new regulatory environment is still taking shape. And while we cannot yet know all its contours or consequences, the five-year mark is an appropriate juncture to take stock of what has been achieved and consider the outlook for the international financial markets.

This first Annual Review from the Global Financial Markets Association (GFMA) is our first step towards taking stock on the financial industry’s behalf. At this important stage in the reform programme, there is a palpable need for a clear voice to speak up on the impact of regulation on global systemically important banks.

This Annual Review shows that GFMA has been in action on a wide range of fronts in the past year: seeking to mitigate the extra-territorial effects of regulations; helping to establish a framework for cross-border resolution of distressed firms; promoting best practices for financial benchmarks; and developing the first system of Legal Entity Identifiers for market participants.

In all these diverse areas, our actions have been informed by three key principles:

- Consistency: in a business where activities and institutions are global but the detail of regulation is regional or national, it is vital that decision-makers strive to maintain a level playing field and minimise distortions and incentives to regulatory arbitrage.
- Transparency: which begets the confidence on which markets are founded – for example, clear and transparent governance in the operation of financial benchmarks.
- Free Markets: the free flow of capital enables investment and economic growth; barriers to its movement generally create impediments to both. In making the system safer, we believe regulators need to be constantly alert to barriers that could arise as unintended consequences of their programme. Equally, we argue it is an important priority to put in place credible and globally consistent arrangements for cross-border resolution without systemic disruption and without exposing the taxpayer.

By promoting these principles, GFMA will continue to develop as an important voice for this most global of industries, and as a valued interlocutor for senior financial policy-makers from Basel to Beijing.

Over the coming year, we and our affiliate organisations AFME in Europe, ASIFMA in Asia and SIFMA in North America will promote our points of view on regulation – and more importantly, on the vital role of the capital markets in funding economic growth and job creation.

I would like to thank the hundreds of member firms gathered under the umbrella of our affiliates for their support, the staff of these organisations for the important work they do in the name of GFMA, and of course the important stakeholders who have taken the time to speak with us and read our policy submissions in the past year. We look forward to even more intensive interactions in 2013.

Chairman of the Board
Head of Global Commodities
JPMorgan Chase & Co.
Financial markets are global, but financial regulation is still mainly a matter for national governments or regional institutions such as the European Union. Even if those governments make great efforts, as has been the case in the G20 over the past four years, to work together on the regulatory agenda, there is an ever-present risk that national or regional implementation will collide or conflict, with detrimental effects on markets and the global economy.

That, in essence, is the key reason for GFMA’s existence. Our overarching goal is to promote the consistent implementation of regulatory reform across national borders. To that end, we bring together the leading financial trade associations of North America, Asia and Europe to present united policies and strategies on the most important questions facing the world’s capital markets and its global systemically important banks (G-SIBs).

In 2012, a critical year of regulatory change, GFMA undertook initiatives across a significant range of issues:

**EXTRATERRITORIALITY** We have made a strong case to US and European authorities that inconsistent regulatory requirements in different jurisdictions threaten the ability of market participants to raise capital, manage risk and contribute to economic growth.

**CROSS-BORDER RESOLUTION** We argue that progress on agreeing to a global framework for recovery and resolution of distressed banks is a vital pillar of the reform agenda, to address the problem of banks seen as “too big to fail”.

**FINANCIAL TRANSACTION TAX** Proposals for a financial transaction tax are moving forward in Europe. We believe such a tax would have negative repercussions for the economy, seriously damaging investors, pensioners and businesses.

**COMPENSATION** We accept that compensation must be tied to sustainable long-term performance and effective risk management. But we believe interventions from the authorities to regulate pay structures should be limited and flexible. Ultimately compensation is a matter for shareholders in dialogue with boards of individual institutions.

**MARKET PRACTICES** Following the issues during 2012 over LIBOR, we advocate for consistent and transparent regulation of all systemically important benchmarks around the world, and have advanced a set of best-practice principles concerning the governance and operation of financial benchmarks.

**LEGAL ENTITY IDENTIFIER** We have made significant progress during 2012 towards developing a Legal Entity Identifier (LEI) throughout the world’s markets. The eventual establishment of such a measure will enable organisations to measure and manage risk more effectively, and also improve efficiency and customer service in the industry.
“We enable the world’s leading financial and capital market players to speak with one voice on the major issues facing global markets.”

Simon Lewis, CEO, GFMA

**FOREIGN EXCHANGE** GFMA’s Global FX Division has taken a leading role in discussions with multiple jurisdictions, covering issues such as clearing, execution and reporting consultations. During 2012, the Division advocated for the exemption of FX forwards and swaps from a central clearing regime, and the US Treasury’s final decision not to include these products in the full provision of Dodd-Frank was in line with GFMA’s stance.

**COMMODITIES** We have been a leading advocate for a level playing field in the commodities markets for banks alongside other players. We have also taken a key role in IOSCO’s consultation on the Functioning and Oversight of Oil Price Reporting Agencies, and continue to press for the introduction of a regulatory framework governing these agencies, comparable to those operating in other areas.

**OTC DERIVATIVES** The global swaps market requires harmonisation of regulations dealing with such issues as registration, trading, clearing and reporting. GFMA has continued to press the case for consistency across borders with authorities in North America, Europe, Asia and Australia.

**TRADING BOOK** Working with ISDA and IIF, GFMA has commented on Basel proposals for a revised approach to capital requirements for the trading book. We advocate that the new market risk framework should allow for flexibility in implementation and should be appropriately risk-adjusted.
Bringing together the insight of our member firms and the technical expertise of GFMA staff, we have engaged extensively with regulators and politicians in multiple jurisdictions on a wide range of critical issues.

28 G-SIBs HEADQUARTERED IN 11 JURISDICTIONS

- United Kingdom: 4
- Switzerland: 2
- Sweden: 1
- Netherlands: 1
- Germany: 1
- China: 1
- Italy: 1
- Japan: 3
- United States: 8
- Spain: 2
GLOBAL SYSTEMICALLY IMPORTANT BANKS

Global systemically important banks (G-SIBs) are integral to the cross-border capital flows that facilitate the world economy, and as such ensuring they are adequately capitalised and managed is critical to protecting the world’s markets.

Following the lessons of 2008, there is broad agreement that banks and other financial institutions must carry sufficient levels of capital to protect themselves and the wider economy from systemic risk. The G-SIB capital surcharge reflects the amount of additional loss absorbency that should be required of each firm, based on its global systemic footprint.

We have been clear and consistent in our view that new capital requirements for G-SIBs should be implemented in a measured and consistent way that recognises the progress made under recovery and resolution plans (RRPs) to make banks safer and ensure that a failing G-SIB would not cause systemic disruption. Individual jurisdictions have authority to impose additional capital charges on institutions over and above those required by Basel III. Many countries are in the process of increasing capital requirements; for example, the EU, the UK, and the US are developing processes under which supervisors will establish additional buffers.

In addition, many local supervisors assign foreign institutions incremental capital requirements on a case-by-case basis. In many cases, G-SIBs may have to hold an amount of capital higher than its G-SIB surcharge would require due to additional local and regional requirements. Thus, GFMA has called for regulators to consider the delicate balance between maintaining robust capital requirements and enabling banks to support economic growth.

GFMA has led the industry in liaising with the Financial Stability Board (FSB) on the adoption of a common data template which aims to standardise definitions of the data elements requested in current and pending international and national regulatory reporting initiatives. These common data templates will provide further consistency and clarity and will allow regulators to assess and communicate with G-SIBs more effectively.
In early 2013, the Governors and Heads of Supervision (‘GHOS’) agreed important changes to the Liquidity Coverage Ratio (‘LCR’). GFMA has welcomed the changes and is encouraged by the extent to which policymakers have listened and responded to the well reasoned arguments that members and the industry have been making. We have noted in particular: the broadening of the range of assets eligible for inclusion in the liquid assets buffer; the refinement and clarification of the operational requirements in relation to the use of liquid assets; and the application of more realistic run-off rates to corporate deposits and some other liabilities. The GHOS announced also that there will be an internationally agreed phase-in of the LCR from 60% in 2015 to reach 100% in 2019 and the expectation that banks will be able to use their liquid asset buffers during periods of stress.

GFMA welcomes as well the GHOS decision to review the proposed Net Stable Funding Ratio (‘NSFR’) standard and prior to the announcement GFMA had submitted a letter to the BCBS restating our thinking in relation to this measure. More widely, we have continued to mention that the LCR and a standard based over a longer timeframe could provide useful indicators of liquidity risk but that they should not be viewed as a substitute to adequate supervision. This should include the holistic assessments of firms’ liquidity risk by supervisors on a case by case basis rather than an over-reliance on one-size fits all measures.
EXTRATERRITORIALITY

The increasingly complex interaction between jurisdictions requires a proactive approach from regulators to dealing with overlap and extraterritoriality. GFMA sees the establishment of a sympathetic, reliable and understandable set of global standards as a priority.

The proliferation of extraterritorial legislation, if left unchecked, can distort competition and lead to market fragmentation, duplication of regulation and the growth of incompatible or conflicting standards and requirements. Without a concerted effort, this issue will continue to impede the smooth functioning of global markets and constrain economic growth.

GFMA made progress in 2012 on this issue. In April, we wrote US Secretary of the Treasury Timothy Geithner and European Commissioner for Internal Market & Services Michel Barnier urging them to agree on a solution to address the key concerns over extraterritoriality—-in particular the negative impact it has on the ability of market users and participants to raise capital, manage risk and contribute to economic growth.

Serious challenges remain, however. With the Commodity Futures Trading Commission (CFTC) weighing whether to demand strict adherence to Dodd-Frank rules beyond US shores where there is a connection to a US entity, that alone is enough to bring this issue into sharp focus for markets across the world. By highlighting the proliferation of extraterritorial issues, we are confident of persuading regulators to recognise the pressing need to develop a more co-ordinated approach.

Our work in this area has focused on providing regulators and national legislators with a clear illustration of the scope and scale of extraterritorial legislation across global markets. One of our core suggestions has been for regulators to conduct a Global Impact Assessment. We believe this would make it possible to establish whether there are other means to secure the authorities’ objectives that are less disruptive to firms and their clients. In conjunction with the International Banking Federation (IBFed), the International Swaps and Derivatives Association (ISDA), and The Financial Services Roundtable (FSR), we are urging three initial approaches to extraterritorial issues:

• Mutual recognition
• Exemptive relief
• Targeted rules convergence
TRADING BOOK

The 2008 financial crisis highlighted the need to review capital requirements for trading book activities. The Basel Committee on Banking Supervision (BCBS) published its long-awaited Fundamental Review of the Trading Book (FRTB) in May 2012. GFMA, working alongside other trade associations, is supportive of the FRTB’s aims and objectives both in strengthening capital standards and delivering a regulatory framework which achieves comparable levels of capital internationally. The BCBS has recognised that the principal criticism of the Basel 2.5 framework is the “patchwork” nature of rules. Value at Risk (“VaR”), stressed VaR, Incremental Risk Charge and the Comprehensive Risk Measure all, to some extent, cover the same risks. GFMA believes that in crafting a new coherent framework, however, great care needs to be taken not only to simplify the overall trading book framework but, more importantly, to achieve a closer alignment between risk and regulatory capital. GFMA supports the continued development of risk sensitive models to calculate regulatory capital and believes that firms should be encouraged to continually develop and improve models, and work with regulators to strengthen modeling standards. GFMA led an outreach programme, together with other trade associations, IIF and ISDA, with regulatory officials who are members of BCBS’s Trading Book Group to endorse industry views on trading book capital requirements.
CROSS-BORDER RESOLUTION

Developing a framework for cross-border resolution of distressed firms has been a primary goal for GFMA over the past 12 months.

GFMA is strongly supportive of an effective framework for the recovery and resolution of financial services firms and a globally coordinated approach to resolution. Such a framework is an essential component of a financial sector reform programme and lies at the heart of well functioning financial markets.

GFMA responded to the joint CPSS-IOSCO Recovery and Resolution Consultative Report on resolving financial market infrastructure bodies in which we tackled some of the issues facing markets made up of entities that operate across borders. In our response to the Financial Stability Board (FSB) Consultative Document, Recovery and Resolution Planning: Making the Key Attributes Requirements Operational, we commented on the FSB’s proposed guidance for developing globally consistent approaches to recovery and resolution planning.

GFMA representatives assisted in bilateral talks between the Federal Deposit Insurance Corporation (FDIC) and the Bank of England that influenced the FDIC and Bank of England recent joint paper on resolving Global Systemically Important Financial Institutions (G-SIFIs) through the application of the bail-in tool in the US and UK. This represents the first significant effort to institutionalise a coordinated cross border approach to resolution since the crisis which GFMA will encourage other countries to develop in 2013.

GFMA continues to work on developing a common set of resolution tools via AFME’s work on the EU proposal for a Bank Recovery and Resolution Directive. GFMA intends to build on the EU framework with its work in Asia, and is laying a foundation by commissioning a major survey of existing resolution regimes in eight key Asian countries.
Confidence in financial benchmarks is vital to the effective functioning of markets. Recently, the integrity of some of the most significant financial indices has been called into question, hurting investor confidence and contributing to public distrust in the financial industry.

In the wake of the serious issues that arose during 2012 concerning the London Interbank Offered Rate (LIBOR), greater scrutiny on standards of governance and the drafting and regulation of benchmarks was inevitable - and necessary. The publication of the Wheatley Review in the UK and the enquiries into financial benchmarks by a variety of other authorities including IOSCO and the European Commission mark the beginning of a new era of oversight.

Restoring confidence also demands action by the financial industry itself. This is why GFMA members came together to determine a set of best practice standards for financial benchmarks. GFMA strongly encourages benchmark sponsors to proactively adopt these principles. We have submitted these recommendations to a number of regulators and governing bodies around the world, including the European Commission and the IOSCO task force on financial benchmarks led by Martin Wheatley of the UK’s Financial Services Authority and Chairman Gary Gensler of the Commodity Futures Trading Commission. GFMA welcomes the reviews of the regulatory framework for financial benchmarks by the global regulatory community and has disseminated the Principles to regulators worldwide. GFMA believes that all systemically significant benchmarks should be required to meet global standards and be subject to regulatory review. We recommend that these reviews should be co-ordinated globally to ensure consistency and encourage the regulatory community to use our Principles as a basis to guide the development of a regulatory regime.

**MARKET PRACTICES**

The overall responsibility for the benchmark process lies with the sponsor. The sponsor has three basic obligations:

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**GOVERNANCE**

An appropriate governance structure should be in place for oversight of the benchmark.

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**BENCHMARK METHODOLOGY**

Sound design standards should be used in devising the benchmark and in ongoing processes related to its operations.

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**CONTROLS**

An appropriate system of controls should be implemented to promote the efficient and sound operation of the benchmark process.
FOR EXCHANGE (FX)

GFMA is committed to developing a set of principles to harmonise those areas of FX most in need of reform. With 22 of the leaders in FX trading across the world (representing around 90% of the global market) as members, we have a clear mandate to speak across a range of topics. Through its work in multiple worldwide jurisdictions, our Global FX Division has become one of the industry’s key central discussion and decision-making forums.

Following concerted arguments by GFMA, a milestone was marked in November 2012 towards the reform of the FX framework. The US Treasury made the decision to exempt FX forwards and swaps transactions from the clearing and exchange trading requirements of the Dodd-Frank Act, with the introduction of further risk and cost into FX transactions through a centralised clearing system seen as counterproductive.

Our view is that moving FX swaps and forwards to centralised clearing would not only have created additional costs for businesses and investors, but would also have increased systemic risk. The US Treasury decision provides the clarity the industry needs to further develop the infrastructure of the future, and the FX Division continues to work globally to achieve convergence on this approach.

This includes working with the European Securities and Markets Authority (ESMA) to remove FX instruments from mandatory clearing. Encouraging signals have also emerged from jurisdictions in Hong Kong, Singapore, Japan and Australia. The Division has also worked on the BCBS/IOSCO margin consultation, where again it is that the imposition of mandatory margining would carry the danger of increasing costs for all users.

Elsewhere in 2012, the Division successfully worked with DTCC on the development of the Global Trade Repository for FX. This repository has now been approved by the CFTC and is in a testing phase – where it is hoped the approach will produce a far more effective and efficient reporting solution for all market participants.

The establishment of the Global FX Division has been instrumental in these efforts. With representatives in Europe, North America and now Asia-Pacific, GFXD is a truly global organisation, able to engage consistently with regulators, central banks and lawmakers to ensure the global FX market is not fragmented and remains cost effective for end users.
COMMODITIES

Pursuing a transparent and stable market for commodities has formed one of the central planks of GFMA’s work. Through our Commodities Working Group (CWG), we have led efforts to improve the levels of transparency and efficiency in global markets, including working with IOSCO on its consultation on the Functioning and Oversight of Oil Price Reporting Agencies and opposing position limit regimes.

We focused our work on several markets during 2012. Over the course of the year, we submitted a number of comment letters on the state and conduct of the wholesale energy market – an area of vital interest to regulators, investors and the public alike.

Such a critical market demands consistent, transparent and sound pricing practices. This can only be achieved within properly functioning price reporting mechanisms that conform with best practice in other product areas as outlined in our Principles for Financial Benchmarks. We have promoted this concept at every opportunity.

In Europe, we particularly focused on proposed financial regulations such as MiFid II, market integrity issues in general and implementation challenges in the gas and power markets.
SHADOW BANKING

Effective regulation of shadow banking has become a pressing issue over the past 12 months. The growth of this sector demands a response from regulators and market participants alike. We recognise that there may be gaps in monitoring for non-banking activities where systemic risk has not been addressed or identified.

LEGAL ENTITY IDENTIFIER (LEI)

Developing a clear, consistent framework of identification for market participants across the world has been one of GFMA’s principal aims. Without a globally consistent system of Legal Entity Identifiers (LEIs), the dangers of systemic risk and confusion remain unacceptably high. Adoption of a broadly accepted system would allow for accurate identification of parties to financial transactions, facilitating a consistent, integrated view of exposures.

With this in mind, we have worked towards consensus with all stakeholders during 2012. Bolstered by the FSB’s support, the journey towards a consensus progressed significantly. The FSB set up its own expert group to explore the issue, and we served via participation on the Private Sector Participatory Group.

The board’s work culminated in the submission of proposals to the G20 Finance Ministers, which received enthusiastic support. “We endorse a charter for the regulatory oversight committee which will act as the governance body for the global legal entity identifier system to be launched in March 2013,” the G-20 draft communiqué read.

The FSB’s work on the LEI will soon be transitioned. The FSB is expected to launch the Regulatory Oversight Committee (ROC) as the permanent governance body for the Global LEI System in January 2013. ROC members will include regulatory and supervisory authorities, public international institutions and standard setters. GFMA and its members will continue to provide input in the ongoing discussion about the operational processes and governance that will form the backbone of the global LEI system.
GFMA relies on — and is strengthened by — the expertise of its member associations and network of affiliated experts

While global challenges demand global solutions, there is no question that regional knowledge and insight are critical in comprehending the issues and designing effective responses. This is where our member associations count.

GFMA brings together three bodies located in the world’s major financial and political centres: the Association for Financial Markets in Europe (AFME) in London and Brussels, the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington DC.

Each member trade association operates independently and is funded by its own members. When a specific issue clearly represents a common interest that transcends regional perspectives, GFMA co-ordinates on-the-ground advocacy efforts in each region.

Over the past year, such issues have included margin requirements for non-centrally-cleared derivatives, the framework for dealing with domestic systemically important banks, the fundamental review of the trading book, and the development of concrete proposals on the implementation of a global Legal Entity Identifier (LEI) system.

We also collaborate with other organisations around the world. For instance, in 2012, we partnered with the newly formed Japan Financial Markets Council (JFMC), a new industry group established to engage in dialogue with policymakers over the impact of global regulatory reforms and their likely impact on market participants in Japan. The JMFC consists of five Japanese institutions and five international firms (represented through the International Bankers Association of Japan) that are active in Japan’s capital markets.

To ensure a deep understanding of our members’ challenges, we gather experts from banks, legal firms, academia and government to serve as our advisors on our most significant issues. The contrasting viewpoints and insights of these experts enable us to advocate more effectively on a range of topics and initiatives. Our network also helps to tailor our responses to the constantly changing landscape of global financial markets.
For more on each member association:

**afme**

Association for Financial Markets in Europe
[www.afme.eu](http://www.afme.eu)
London | Brussels

**asifma**

Asia Securities Industry & Financial Markets Association
[www.asifma.org](http://www.asifma.org)
Hong Kong

**sifma**

Securities Industry and Financial Markets Association
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Eddy Wymeersch
Independent Director
The GFMA website aims to engage and educate anyone interested in the challenges facing global financial firms. The website has been developed extensively over the past 12 months. As well as the latest industry news, the site highlights GFMA contributions to the debate through its position papers, studies and media presence.

The general public can access comment papers and the latest research produced by GFMA’s various working groups, as well as make contact with a range of bodies and individuals engaged in our Association. Users can also sign up to receive GFMA SmartBrief, a daily digest of global financial markets news and technical updates, and GFMA Weekly Update, a newsletter which summarises regulatory and legislative developments from across the globe.