Global Foreign Exchange Division
St Michael's House
1 George Yard
London
EC3V 9DH

TO:

Debra MacIntyre
Senior Legal Counsel, Market Regulation
Alberta Securities Commission
403-297-2134
debra.macintyre@asc.ca

Michael Brady
Senior Legal Counsel
British Columbia Securities Commission
604-899-6561
mbrady@bcsc.bc.ca

Wendy Morgan
Legal Counsel
New Brunswick Securities Commission
506-643-7202
wendy.morgan@nbsc-cvmnb.ca

Abel Lazarus
Securities Analyst
Nova Scotia Securities Commission
902.424.6859
lazaruah@gov.ns.ca

Dean Murrison
Director, Securities Division
Financial and Consumer Affairs Authority of Saskatchewan
dean.murrison@gov.sk.ca

6 September 2013

Re: Canadian Securities Administrators. CSA Staff Notice 91-302 – Updated Model Rules – Derivatives: Product Determination and Trade Repositories and Derivatives Data Reporting

The Global Foreign Exchange Division (GFXD) of the Global Financial Markets Association (GFMA) welcomes the opportunity to comment on behalf of its members on the Updated Model Rules issued by the Canadian Securities Administrators (CSA, or, the Committee). The GFXD was formed in cooperation with the Association for Financial Markets in Europe (AFME), the Securities Industry and Financial Markets Association (SIFMA) and the Asia Securities Industry and Financial

Markets Association (ASIFMA). Its members comprise 22 global FX market participants,[1] collectively representing more than 90% of the FX market.[2] Both the GFXD and its members are committed to ensuring a robust, open and fair marketplace and welcome the opportunity for continued dialogue with global regulators. The GFXD welcomes the opportunity to set out its views in response to your consultation paper.

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As discussed in our response dated 4 February 2013 to the CSA Consultation Paper 91-301 (Draft Model Rules), the FX market presents some unique challenges for reporting when compared with other asset classes: notably the high volume of transactions and the wide universe of participants, especially as FX forms the basis of the global payments system. Given the cross-border nature of the FX market, participants face significant challenges in being able to report in multiple jurisdictions.

We broadly support the proposed approach outlined in the Updated Model Rules (and Model Guidance) and, specifically, the various amendments made to reflect our comments on the Draft Model Rules. Our comments below are limited to key issues which we believe remain, or are newly raised, by CSA Consultation Paper 91-302.

MODEL PROVINCIAL RULE (AND EXPLANATORY GUIDANCE) – DERIVATIVES: PRODUCT DETERMINATION

1. **Clause 2(c)(i)(B) – FX security conversion transactions**

   We welcome the addition of clause 2(c)(i)(B) which allows for a longer settlement period (*i.e.*, > T+2) for an FX trade entered into to facilitate the settlement of a securities transaction ("FX Security Conversions"). Although the treatment of an FX Security Conversion as a spot trade and therefore an "excluded derivative" under the Updated Model Rules is generally consistent with the approach taken by the CFTC and SEC in their adopting release of the final product definitions in the United States,[3] market participants would nonetheless be challenged with interpretive and practical issues surrounding the "contemporaneously with a related securities trade" and "security purchase" language in the Updated Model Rules and Guidance.[4] The CFTC acknowledged these issues when it granted time-based no-action relief to market participants in May 2013.[5] Unfortunately, these issues remain today, as evidenced by the concerns recently raised to the CFTC in a letter from the SIFMA Asset Management Group requesting interpretive guidance on the types of FX trades which constitute FX Security Conversions.[6] We strongly urge the CSA to clarify or confirm that the types of examples set forth in the SIFMA AMG Letter would fall within the definition of "excluded derivatives." We believe this would ensure that the original objectives behind the recognition of FX Securities Conversions as "excluded derivatives" in the Updated Model Rules and Guidance are fully achieved.

2. **Clause 2(c)(ii) and (iii) – intention and rollover**

   We welcome the revisions in Clause 2(c) relating to the contractual obligations of two transacting parties with respect to transactions in currency and, in particular, the delivery aspects and relevant settlement periods. However, language in the Updated Model Rules

[1] Bank of America Merrill Lynch, Bank of New York Mellon, Bank of Tokyo Mitsubishi, Barclays Capital, BNP Paribas, Citi, Credit Agricole, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, Lloyds, Morgan Stanley, Nomura, RBC, RBS, Société Générale, Standard Chartered Bank, State St., UBS, and Westpac.

[2] According to Euromoney league tables

[3] *See* http://www.cftc.gov/ucm/groups/public/@lrfederalregister/documents/file/2012-18003a.pdf (pages 48256-48258).

[4] Analogous terms/concepts in the final product definitions of the CFTC and SEC are "executed contemporaneously," "purchase and sale".

[5] http://www.cftc.gov/LawRegulation/CFTCStaffLetters/13-13.

[6] Available at http://www.sifma.org/comment-letters/2013/sifma-amg-submits-comments-to-the-cftc-requesting-interpretive-guidance-relating-to-certain-foreign-exchange-transactions/ ("SIFMA AMG Letter").

and Guidance continues to create a high degree of uncertainty for market participants surrounding the long-standing practice of payment netting in the institutional FX market – specifically, whether the use of payment netting undermines the characteristics of an FX trade executed as a deliverable, short-term (spot) trade as such and therefore as an "excluded derivative". It is also worth noting that similar concerns have been raised with regulatory authorities in the United States with respect to Commodities Exchange Act, as amended by Dodd-Frank, and recent implementing regulations.

Payment Netting in the Settlement Process. As raised in the our original comment letter[7] to the Draft Model Rules, bilateral payment netting is "[a] form of netting where two counterparties agree (via a legally-enforceable netting agreement) to settle transactions by making or receiving a **single** payment in **each** of the currencies (*i.e.* each counterparty has an obligation to pay a single amount in those currencies in which it is a bilateral net seller).[8] This reduces the value at risk by replacing multiple gross obligations (that would, otherwise, be settled on a trade-by-trade basis) with one netted obligation [in each currency]" (emphasis added)[9] Such netting can also be performed on a multilateral basis, *e.g.*, through a multi-currency settlement provider for payments like CLS Bank.

For well over a decade, payment netting has been, and continues to be, encouraged by prudential regulators in the FX market as a tool for reducing the size of principal risk exposures, and is part of best practices for the market.[10] These arrangements are entirely distinguishable from agreements between two counterparties (i) to net cash settle in a single currency, *i.e.*, to settle one or more FX trades by netting all obligations (in multiple currencies) to a single or reference currency; (ii) to net offsetting obligations and cancel and replace the original contracts which created such obligations with new contract (commonly referred to as "book-outs", or legal novation netting/compression); and/or (iii) to continuously or automatically "roll forward" the settlement date of such contracts by amending the settlement dates to a later date (often referred to as "rolling FX spot", a common practice in the retail FX market which involves historical rate rollovers).

The view of the GFXD's members is that when transacting parties execute deliverable FX trades, such as FX spot, an agreement to apply payment netting to currency obligations due between the parties for **settlement** purposes does not, and should not, be considered as "result[ing] in a transaction not being physically settled." Clarification in the Updated Model Guidance is required on this point. Further, while the effectiveness of payment netting in reducing risk in the funding process is a direct result of the trading activity of a client with dealer, it should be clear these factors do not "negate the intention to deliver" and is not relevant to any "facts and circumstances" test in the Updated Model Guidance.[11] These concepts, which are raised in the Updated Model Guidance under "Intention requirement (subparagraph 2(c)(ii))," are not appropriate to apply to the institutional FX market for the reasons described below.

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7 http://www.gfma.org/correspondence/item.aspx?id=518.

8 *See* Basel Committee on Banking Supervision (BCBS) *Supervisory Guidance for managing risks associated with the settlement of foreign exchange transactions*, consultative document (August 2012). http://www.bis.org/publ/bcbs229.pdf.

9 This can also be achieved by a group of counterparties in a multilateral setting, as recognized by the US Treasury in its final determination to exempt FX swaps and forwards from most requirements of the Dodd-Frank Act. *See* *http://www.gpo.gov/fdsys/pkg/FR-2012-11-20/pdf/2012-28319.pdf* (page 69704): "Applying appropriate mechanisms during the settlement process to net qualifying foreign exchange swap and forward transactions conducted by a group of parties should satisfy the limitations under the CEA because the essential elements of each of those transactions—namely, an exchange of two different currencies at a predefined, fixed rate—are left intact."

10 *See Guidelines for Foreign Exchange Trading Activities* and *Management of Operational Risk in Foreign Exchange*, each revised in November 2010 by The Foreign Exchange Committee (FXC) and published at http://www.ny.frb.org/fxc/about.html. The FXC is an industry group that has been providing guidance and leadership to the global FX market since its founding in 1978, and includes representatives of major financial institutions engaged in foreign currency trading in the United States and is sponsored by the Federal Reserve Bank of New York.

11 Where payment netting is not applied, there would be no uncertainty or interpretive issues with respect to FX trades retaining their characteristic as deliverable FX spot trades; however, payment netting functions as a vital risk mitigant for this systemically important market.

Because trading in deliverable FX spot serves a critical role in the global payment system, confirmation from the CSA of our members' view, and appropriate revisions to the Updated Model Guidance by the CSA, are needed to ensure a level of consistency among market participants with respect to the treatment of the same products/activities under the Updated Model Rules and, as a result, both preserve payment netting and minimize any unnecessary disruption to the current institutional FX market structure.

Policy implications. We believe there are serious policy repercussions which must be carefully considered by the CSA, in consultation with the Bank of Canada, if the CSA were to consider adopting a contrary view.

- *Risk of undermining well-established use of payment netting as an effective risk mitigant for settling deliverable FX – which would increase risk to the financial system.* In some instances, clients are requesting funding on a gross basis (no payment netting) to ensure its FX spot trades are not at risk of being characterized as financially settled products. Should the historical trend of payment netting be reversed, credit risk, settlement risk, liquidity risk and systemic risk in the financial system would increase.

- *Risk of bifurcating the current single, well-functioning, deliverable FX market – which would be unnecessarily disruptive.* If the current institutional G10 FX spot market were to be split into a "deliverable (physically settled)" and "non-deliverable (non-physically settled)" market based on concepts raised in the Updated Model Guidance, this would result in decreased volume, decreased liquidity and increased prices. The potential impact on the dealers, specifically their ability to differentiate between deliverable and trades, etc., is not known. Likewise, the potential impact on CLS Bank, the FX market's systemically important financial market infrastructure, is also not known although volumes can be expected to decrease significantly.

- *Risk of negatively impacting common policy objectives of central banks.* Central banks globally have had a historical interest in institutional FX market practices, with particular emphasis on risk management, and the impact of these practices for several reasons, including the efficiency of interbank settlements and markets; the stability and containment of systemic risk; and the effectiveness of policy instruments (*i.e.*, the ability to maintain effectiveness of policy instruments used to pursue ultimate objective of stability of central bank's currency; and to ensure continued ability to oversee developments in markets through which monetary and exchange rates policies are implemented).[12] For these reasons, it is important that central banks and treasury functions fully understand the implications of the CSA recharacterizing historical FX spot trading activity as non-deliverable, financially settled products on these policy objectives.

Core Attributes in Institutional FX Market, with Key Distinction between Gross Obligations and Funding. There is a set of core attributes in the single, deliverable institutional (*i.e.*, non-retail) FX market which is shared among institutional market participants and which contribute to this deep, liquid and well-functioning global payment system. These core attributes include trade execution, operational processing (confirmation and matching), and funding (to discharge obligations under the each trade), while maintaining a fundamental key distinction between individual FX trades (or contracts) and funding.

- Each deliverable FX spot/forward/swap trade between two transacting parties is an agreement to deliver one currency in exchange for another on a gross basis at a pre-determined fixed rate of exchange. With respect to FX spot, the agreed settlement date is T+2 and, for some currency pairs, T+1.

[12] *See* BIS 1990 Lamfalussy Report (available at http://www.bis.org/list/cpss/index.htm).

- Funding is a separate and distinct, but related, process to the settlement of underlying gross obligations due under the terms of each trade executed between the transacting parties.[13]
- Funding enables/leads to settlement, *i.e.*, the discharge of obligations due between the transacting parties.
- Payment netting is a risk mitigation technique which makes the funding process more efficient and safer. Payment netting can be performed on a bilateral or multilateral basis, and multilateral payment netting is typically more efficient than bilateral payment netting.[14]
- Payment netting never affects or modifies the gross obligations due between the transacting parties under an FX trade.

Key Distinction is Important. These core attributes, with the key distinction between settlement and funding, are extremely important and relevant:

- *Netting of payments for funding purposes does not change gross obligations due under each trade.* Payment netting only reduces settlement risk, liquidity risk and systemic risk in the settlement process. As noted above, payment netting does not change or reduce credit risk of gross obligations on a transacting party's books, nor does it change or reduce the legal obligations to deliver and receive gross obligations between two transacting parties on the agreed settlement date.[15] Global regulatory policy statements evidence support of payment netting in the institutional FX market for well over two decades,[16] and the FX industry has promoted and implemented payment netting through published industry guidelines and best practices.[17]

- *Each deliverable FX trade settles.* Each trade is individually confirmed and processed through to the agreed settlement date, at which time appropriate credits and debits entries are made to reflect settlement of the gross obligations due under that trade for trade. The amounts and rate of the gross currency obligations due under each trade are always agreed, known and fixed throughout the life of each trade, from trade date to

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[13] To further illustrate this point, CLS Bank is a multilateral payment netting system. CLS Bank processes and settles payments relates to underlying trades, such as FX. CLS Bank does not settle trades, *i.e.*, the gross obligations due under the trades. Processing the payments related to the trades does lead to eventual discharge of the gross obligations due under the trade. In this way, CLS is no different than a multi-currency version of LVTS in Canada, Fedwire/CHIPS for USD, CHAPS for GBP, TARGET in Europe or any other payment system that processes payments – none of these payment systems actually process or settle underlying trades, relating to FX or otherwise.

[14] Payment netting of funding is a means for participants to manage their exposure to credit risk, settlement risk and liquidity risk. CLS Bank provides a multilateral means for doing so. However, because not all institutional market participants use CLS Bank and not all currencies are eligible for settlement in CLS Bank, participants often apply payment netting on a bilateral basis to their funding requirements.

[15] By way of illustration, when funding is performed on a net basis (*e.g.*, net funding of 100 USD and 50 EUR), if only some of this is funded by one party, none of the underlying trades are in fact settled. If this were to constitute an event of default under a master agreement between the two parties, such party could be considered in default and subject to close-out under the master agreement. All the trades would be *valued* and netted to single currency amount. In contrast to other markets where there are "book-outs"/compression/tear-ups via legal novation netting which results in the creation of a new trade which cancels and replaces previously executed trades – which would actually change legal obligations <u>and</u> credit risk.

[16] *See, e.g.*, 1989 BIS Angell Report, 1990 BIS Lamfalussy Standards, 1993 BIS Noel Report, 2001 BIS Core Principles for Systemically Important Payment Systems, 2012 BIS Principles for FMIs; and 1996 BIS Allsopp Report, 1998 BIS FX Progress Report and 2008 BIS FX Progress Report (available at http://www.bis.org/list/cpss/index.htm) – which promote payment netting as an effective mechanism for reducing credit, settlement, liquidity and systemic risk in the institutional FX market given its unique settlement features (namely, settlement risk which is the risk of principal); track bilateral and multilateral payment netting statistics over the years, noting that the increase in payment netting practices not only reduces risk, but increases volume of trading activity and thus liquidity in deliverable FX products; recognize that payment netting reduces payments, and extent of reduction is dependent on trading behaviors of participants (specifically, if result of payment netting in any particular currency is greater than zero, payment will be made in that currency from one party to the other); and note that financial market infrastructures (FMIs) can perform bilateral or multilateral netting (multilateral netting simply provides greater netting efficiencies and therefore opportunity for risk reduction, and presents cross-border complexities and implications).

[17] *See, e.g,* FXC Guidelines (1997 FX Netting; and 2001/2002/2004/2010 Trading; 1999/2004 Recs for Non-dealers; 2004/2010 Ops Best Practices; 2010 Tools for Credit Risk available at http://www.ny.frb.org/fxc/about.html).

the agreed, specified settlement date. This is in contrast to traditional OTC derivatives where settlement is based on valuation, *i.e.*, by reference to something thing else, including a reference currency. Further, because each trade represents a gross obligation to deliver one currency in exchange for another, that is not only the legal obligation but also, and importantly, the risk and exposure that the transacting parties face until settlement is completed on the settlement date. This is not settlement by valuation, or by reference to something else, as is the case for traditional derivative products, nor is the settlement date of the trade being changed, as is the case in retail FX.

With respect to the credits and debits referred to in the preceding paragraph, we are concerned with language in the Updated Model Guidance which states "delivery to mean actual delivery of the original currency contracted for either cash or though electronic funds transfer. In situations where settlement takes place though delivery of an alternate currency or account notation without actual currency transfer, there is no settlement by delivery and therefore that the exclusion in paragraph 2(c) would not apply." When applying payment netting to the funding required to discharge gross obligations due under any number of FX trades across several currencies, the net funding due in one or more currencies could be zero. We do not believe this is, or should be, relevant to determining whether an FX spot trade is a bona fide deliverable (physically settled) FX spot trade when such trade is not executed as such but all the legal obligations and associated risks are of a deliverable FX spot trade (and not a financially settled product or product of a longer duration).[18] However, because this language in the Updated Model Guidance could suggest otherwise, we request confirmation or clarification on this point.[19]

Unique to Institutional FX Market. These core attributes, with the key distinction between settlement and funding, is unique to the institutional FX market.

- *Retail FX*. First, in contrast to the retail FX market, the settlement date (T+2) for an FX spot trade are not changed in the institutional FX market. Each institutional FX trade is a separate trade/ticket that reaches maturity when it is settle on its (original) specified settlement date, with profit/loss realized on that date. Second, in the retail FX context, the settlement date of any FX spot trade which remains open is required to be rolled forward, *i.e.*, its settlement date is changed to a future date, *automatically and only with the service provider*. Third, each institutional FX trade is

[18] There is a wide spectrum of market participants who transact in the institutional FX market for singular or mixed reasons, including to acquire a foreign currency in connection with commercial or financial transactions, access a source of funding, hedge investments in different currencies, maintain a benchmark in a foreign currency market, enhance the liquidity of investments in its portfolio, enhance returns, etc. Any suggestion or expectation expressed in the Model Rules or Guidance that the underlying reason for trading is relevant to the treatment of a deliverable FX spot trade in the institutional FX market as an "excluded derivative" would be unprecedented. For the reasons raised in this letter, it is more appropriate, as well as practical and feasible, to focus on the core attributes which exist in the institutional FX market which distinguish these FX spot trades from other markets regulated, historically and most recently, by the CSA.

[19] It is also worth noting that the language in the Model Rules may raise questions concerning CLS Bank, where settlement is conducted on a gross basis for each matched pair of payment instructions relating to a single underlying FX trade. Specifically, CLS Bank settles such payments when it simultaneously (i) debits a gross amount of one currency to the single multi-currency account of one Settlement Member and credits such amount in such currency to the single multi-currency account of another Settlement Member; and (ii) debits the gross amount of another, countercurrency to the second Settlement Member's account and credits such gross amount in such countercurrency to the first Settlement Member's Account. Each Settlement Member's multi-currency account is an account on the books and records of CLS. Settlement is performed in reliance on funding CLS Bank receives from its Settlement Members which is calculated on a multilateral netted basis. Settlement Members satisfy their funding requirements to CLS Bank using central bank funds via RTGS systems, but this funding process is an entirely separate (albeit related) process to settlement of payment instructions in CLS Bank. We request confirmation or clarification that the language in the Model Guidance ("account notation without actual currency transfer") does not intended to capture these facts, whether in a multilateral context like CLS Bank or a bilateral context outside CLS Bank and including circumstances when payment netting results in funding being zero in one or more currencies.

entered into at then current market rates whereas retail FX involves historical rate rollovers[20] which results in unrealized profit/loss.

Stylized Examples. For illustrative purposes, we have included two simple examples of institutional FX spot trading in Appendix 1 which highlight the concepts and issues described above. We welcome an opportunity to review these examples with the CSA in greater detail.

MODEL PROVINCIAL RULE – TRADE REPOSITORIES AND DERIVATIVES DATA REPORTING

Part 3 – Data Reporting

1. **Clause 27(2) – reporting counterparty**

   We would like to reiterate our previous comments regarding the sophistication of a local counterparty to a trade. It is highly likely that a local counterparty will find it difficult to monitor compliance with this rule and, as such, we suggest that the local counterparty be given a limited time period within which to verify non-compliance and to report the relevant trade and suggest this be within T+2 of the trade execution, excluding any non-business days. We would also like to comment that it would be beneficial for the reporting counterparty to adhere to a single approach rather than having to adhere to individual jurisdictional requirements.

2. **Clause 31(2) – unique transaction identifiers (UTIs)**

   Since the Draft Model Rules were published, trade reporting is now operational in the United States and is expected to go live in Europe in January 2014. It is now clear that scenarios exist where counterparties to a trade could be required to produce/consume and report different trade identifiers to different regulatory bodies for the same trade, for example a unique swap identifier (USI) to the CFTC and a UTI to ESMA. In order to promote global harmonisation, we suggest that the CSA support the model whereby the reporting counterparty leverages an already existing trade identifier, in the event one already exists for other regulatory reporting in another jurisdiction.

3. **Clause 35(1) – valuation data**

   The current text does not make reference to a specific close when referencing the point at which valuation data must be reported. We therefore seek guidance that the previous business day quoted refers to the home jurisdiction of the reporting counterparty.

Part 4 – Data dissemination and access to data

1. **Clause 39 – data available to the public**

   We welcome the changes made to the fields "Required for Public Dissemination". However, we still have strong reservations with respect to the unintended disclosure of, or the ability or positions to be derived from public reporting. It is not clear for FX where the notional of a trade will be reported as the principal economic terms seem more aligned to other fixed income products. We seek clarification on the suitability of such fields for FX products. Further, we seek clarity on the timing of such data being reported publicly. In particular, the phrase "no later than" in clause 39(3) could be interpreted as being reported

[20] Historical rate rollovers involve the extension of an FX contract by a dealer on behalf of his customer at off-market rates According to the FXC, rolling contracts at historical rates is a dangerous practice which should be avoided absent compelling justification and procedural safeguards. As a result, the FXC recommended that non-market rates should not be permitted in interbank dealing and should be permitted in other circumstances only with strict management oversight. *See* FXC letter dated December 26, 1991, titled "Historical Rate Rollovers: A Dangerous Practice" (http://www.newyorkfed.org/fxc/annualreports/ar1995/fxar9526.html).

sometime between real-time (or as soon as technically possible), or the end of trade day after receiving the data, or the second day after receiving the data. The implications of real-time without the ability to protect the positional data or conduct trading strategies are critical. For instance, we previously recommended a process of notional capping and rounding of trade sizes to help ensure the anonymity of counterparties. We note the CSA commentary under S.39 of Appendix B of the Updated Model Rules and seek further clarity around the treatment of block trades.

Appendix A – Data fields

We would like to request clarification on the "Instructions" in populating the fields listed in Appendix A. In order to promote global harmonisation with respect to the format of responses, we request that instead of populating fields that are not applicable with "N/A", such fields are left blank. We note that this is how such fields are currently reported under the trade reporting rules in the United States.

We also wish to note that the Counterparty data field "Counterparty side" and fields under principal economic terms "Common data" are not suitable for FX products. We draw the CSA's attention to the fields reported currently under CFTC 17 CFR Part 45, as well as those listed in Exhibit B Primary Economic Terms published specifically for "Foreign Exchange Transactions." We would like to suggest that the CSA adopt an approach similar to the CFTC's for purposes of the Updated Model Rules. In furtherance of additional transparency and harmonisation, we also recommend that FpML is set as the standard, thus leveraging the additional detailed fields that are currently reported under the final trade reporting rules in the United States for FX.[21]

MODEL EXPLANATORY GUIDANCE TO MODEL PROVINCIAL RULE – TRADE REPOSITORIES AND DERIVATIVES DATA REPORTING

Part 1 – General Comments

1. Clause 2(4) – Definition of transaction

In light of our comments in response to the Draft Model Rules, we continue to assume that it is sufficient to link the UTI of a novated trade to the UTI of the original bilateral trade.

In addition, we would like to draw attention to clause 27(1)(a) with respect to the role played by a clearing agency and its reporting obligations for a cleared transaction, specifically, the view of the GFXD members that the reporting party (and not the clearing agency) should retain responsibility for determining the repository to which the cleared trade is to be reported. We seek confirmation from the CSA that it agrees with our view by providing greater clarity on this point in the Updated Model Guidance.[22]

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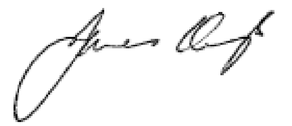
[21] 17 CFR Part 45.

[22] *See* GFXD letter dated January 7, 2013 to Chairman Gensler of the CFTC regarding the Chicago Mercantile Exchange Inc. ("CME") Submission #12-391. GFXD views the proposed CME rule which requires that trades cleared by it be submitted to its affiliated trade repository as (i) shifting the choice of trade repository from the reporting party (swap dealer (SD) or major swap participant (MSP)) to the CCP, (ii) forcing SDs and MSPs to use the CCP's affiliated trade repository – the result of which is anti-competitive and would weaken reporting infrastructure and increase costs). www.gfma.org/Initiatives/Foreign-Exchange-(FX)/GFMA-Submits-Comments-to-the-CFTC-on-the-CME-Group-Proposal-to-Require-Reporting-of-All-Swaps-Cleared-with-the-CME-SDR/

We appreciate the opportunity to share our views on this consultation paper issued by Canadian Securities Administrators. Please do not hesitate to contact me at +44 (0) 207 743 9319 or at jkemp@gfma.org should you wish to discuss any of the above.

Yours sincerely,



James Kemp
Managing Director
Global Foreign Exchange Division, GFMA[23]

[23] The Global Finanical Markets Association (GFMA) brings together three of the world's leading financial trade associations to address the increasingly important global regulatory agenda and to promote coordinated advocacy efforts. 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 are, respectively, the European, Asian and North American members of GFMA.

Appendix 1

Stylized Example

Illustration 1 – FX spot

TRADING ACTIVITY								
	Trade Date	Settlement Date	Product	Party A		Rate	Party B	
				Buy	Sell		Buy	Sell
Trade 1	June 1	June 3	FX spot	GBP 100	USD 175	1.75	USD 175	GBP 100
Trade 2	June 1	June 3	FX spot	USD 170	GBP 95	1.79	GBP 95	USD 170
Trade 3	June 1	June 3	FX spot	USD 150	EUR 125	1.20	EUR 125	USD 150
Trade 4	June 1	June 3	FX spot	EUR 125	GBP 115	0.92	GBP 115	EUR 125

OBLIGATIONS (GROSS BASIS)					
Party A	Settlement Date	Buy	Sell	From/To	Total # trades for settlement
	June 3	GBP 100	USD 175	Party B	Four
	June 3	USD 170	GBP 95	Party B	
	June 3	USD 150	EUR 125	Party B	
	June 3	EUR 125	GBP 115	Party B	

FUNDING (GROSS BASIS)						
Party A	Date	CCY	Outgoing	Incoming	From/To	Total # payments made to discharge obligations
	June 3	USD	175	170	Party B	Up to eight
	June 3	USD		150	Party B	
	June 3	GBP	95		Party B	
	June 3	GBP	115	100	Party B	
	June 3	EUR	125	125	Party B	

compared to

FUNDING(NET BASIS)				
CCY	Outgoing	Incoming	From/To	Total # payments made to discharge obligations
USD		145	Party B	Two
GBP	110		Party B	
EUR			Party B	

Illustration 2 – FX spot

TRADING ACTIVITY								
	Trade Date	Settlement Date	Product	Party A		Rate	Party B	
				Buy	Sell		Buy	Sell
Trade 1	June 1	June 3	FX spot	GBP 100	USD 175	1.75	USD 175	GBP 100
Trade 2	June 1	June 3	FX spot	USD 170	GBP 95	1.79	GBP 95	USD 170
Trade 3	June 1	June 3	FX spot	USD 150	EUR 125	1.20	EUR 125	USD 150
Trade 4	June 1	June 3	FX spot	EUR 125	GBP 115	0.92	GBP 115	EUR 125
Trade 5	***June 1***	***June 3***	***FX spot***	***GBP 110***	***USD 198***	***1.80***	***USD 198***	***GBP 110***

OBLIGATIONS(GROSS BASIS)					
Party A	Settlement Date	Buy	Sell	From/To	Total # trades for settlement
	June 3	GBP 100	USD 175	Party B	***Five***
	June 3	USD 170	GBP 95	Party B	
	June 3	USD 150	EUR 125	Party B	
	June 3	EUR 125	GBP 115	Party B	
	June 3	***GBP 110***	***USD 198***	***Party B***	

FUNDING (GROSS BASIS)						
Party A	Date	CCY	Outgoing	Incoming	From/To	Total # payments made to discharge obligations
	June 3	USD	175	170	Party B	Up to ***ten***
	June 3	USD	***198***	150	Party B	
	June 3	GBP	95	***110***	Party B	
	June 3	GBP	115	100	Party B	
	June 3	EUR	125	125	Party B	

compared to

FUNDING (NET BASIS)				
CCY	Outgoing	Incoming	From/To	Total # payments made to discharge obligations
USD	***53***		Party B	***One***
GBP			Party B	
EUR			Party B	

Illustration 3 – FX spot + FX swap

TRADING ACTIVITY

	Trade Date	Settlement Date	Product	Party A		Rate	Party B	
				Buy	Sell		Buy	Sell
Trade 1	June 1	June 3	FX spot	GBP 100	USD 175	1.75	USD 175	GBP 100
Trade 2	June 1	June 3	FX spot	USD 170	GBP 95	1.79	GBP 95	USD 170
Trade 3	June 1	June 3	FX spot	USD 150	EUR 125	1.20	EUR 125	USD 150
Trade 4	June 1	June 3	FX spot	EUR 125	GBP 115	0.92	GBP 115	EUR 125
Trade 5	***June 1***	***June 3 (near leg)*** ***June 4 (far leg)***	***FX swap****	***GBP 110*** ***USD 198***	***USD 198*** ***GBP 110***	***1.80***	***USD 198*** ***GBP 110***	***GBP 110*** ***USD 198***

****"derivative" under Model Rules***

OBLIGATIONS (GROSS BASIS)

Party A	Settlement Date	Buy	Sell	From/To	Total no. trades for settlement
	June 3	GBP 100	USD 175	Party B	***Five***
	June 3	USD 170	GBP 95	Party B	
	June 3	USD 150	EUR 125	Party B	
	June 3	EUR 125	GBP 115	Party B	
	June 3	***GBP 110***	***USD 198***	***Party B***	
	June 4	***USD 198***	***GBP 110***	***Party B***	

FUNDING (GROSS BASIS)

Party A	Date	CCY	Outgoing	Incoming	From/To	Total # payments made to discharge obligations
	June 3	USD	175	170	Party B	Up to ***ten***
	June 3	USD	***198***	150	Party B	
	June 3	GBP	95	***110***	Party B	
	June 3	GBP	115	100	Party B	
	June 3	EUR	125	125	Party B	
	June 4	***USD***		***198***	***Party B***	***Two***
	June 4	***GBP***	***110***		***Party B***	

compared to

FUNDING (NET BASIS)

CCY	Outgoing	Incoming	From/To	Total # payments made to discharge obligations
USD	***53***		Party B	***One***
GBP			Party B	
EUR			Party B	
USD		***198***	***Party B***	***Two***
GBP	***110***		***Party B***	