

RESPONSE TO CONSULTATION PAPER

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Consultation topic:	Policy Consultation on Margin Requirements for Non-Centrally Cleared OTC Derivatives
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Confidentiality	
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General comments:

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 *Policy Consultation on Margin Requirements for Non-Centrally Cleared OTC Derivatives* issued by the Monetary Authority of Singapore (MAS) on October 1, 2015.

The GFXD was formed in co-operation 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 24 global foreign exchange (FX) market participants,¹ collectively representing more than 90% of the FX inter-dealer 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 supports the MAS's efforts to establish margin requirements to reduce the build-up of systemic risk arising from uncleared derivatives. We view the policy proposal in Singapore as achieving the international regulatory framework's goal of promoting global consistency and reducing regulatory arbitrage opportunities with respect to the treatment of physically-settled FX forwards and swaps.

We have not answered all of the questions in the Consultation Paper, but have instead focused our responses on those questions where we wish to provide comments reflecting specific FX perspectives.

We welcome the opportunity to comment on the related draft subsidiary legislation to be consulted upon by the MAS at a later date.

Question 1. MAS seeks comments on the proposed product scope, whether any other products should be exempted from margin requirements and the basis for such exemptions.

For the reasons set forth below, we strongly support the Policy Consultation's exemption of physically-settled FX forwards and swaps from the MAS's margin requirements.

We note the MAS's expectation that, notwithstanding the exemption, entities still appropriately manage the risks associated with such FX transactions, with reference to the MAS's guidelines on risk management and 2013 BCBS FX Supervisory Guidance.

As cross-currency swaps can be decomposed in a sequence of FX forwards, we also believe that the MAS's margin requirements should not apply to the fixed physically-settled FX transactions

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, Mizuho, Morgan Stanley, Nomura, RBC, RBS, Société Générale, Standard Chartered Bank, State Street, UBS, Wells Fargo and Westpac.

² According to Euromoney league tables.

associated with the exchange of principal of cross-currency swaps and request that this be made clear in the exemption.

The predominant risk in FX transactions is settlement risk.

In the FX market, the main counterparty risk is settlement risk, not mark-to-market risk. Settlement risk has been virtually eliminated due to the creation of CLS Bank in 2002, an organization operating a payment-versus-payment settlement system and which is subject to a cooperative oversight arrangement among 22 central banks whose currencies CLS Bank settles (including the MAS).

FX forwards and swaps are mostly short-term transactions.

According to the BIS 2013 Triennial Survey, approximately 70% of the market for FX swaps and approximately 40% of the market for FX forwards matured in one week or less, and approximately 96% of the market for FX swaps and approximately 95% of the market for FX forwards matured in one year or less,³ meaning a significant reduction in counterparty credit risk as compared to other classes of derivatives with more long-dated tenors.

Global co-ordination in respect of uncleared margin requirements is required because the FX market is a central component of the global payment system.

The FX markets are global and thus cross-border in nature. As reported by the BIS in its 2013 Triennial Survey, over 75% of FX activity was executed by counterparties across five global jurisdictions; hence the continued view of the GFXD that regulations impacting the FX market should be harmonized at the global level.

We emphasize, and see that the MAS understands, the importance of ensuring that the regulatory treatment of FX products remains internationally consistent. Cross-border markets cannot operate in conflicting regulatory landscapes and the natural outcome, should this be the case, is unwanted fragmentation of what is an already highly automated, transparent and well-functioning FX market.

The exemption of physically-settled FX forwards and swaps from the MAS's margin requirements is consistent with the treatment of such products by the BCBS/IOSCO *Margin Requirements for Non-centrally Cleared Derivatives* (March 2015)⁴ and the US, EU and Japan rules/proposals.

Question 2. MAS seeks comments on the proposed entity scope, and whether there are any other types of entities that should be subject to margin requirements, and the basis for such inclusions.

³ BIS 2013 Triennial Survey, available at <http://www.bis.org/publ/rpfx13fx.pdf>

⁴ Available at <http://www.bis.org/bcbs/publ/d317.htm>

We have no comments in response to this question.

Question 3. MAS seeks comments on the thresholds and exemptions in paragraphs 3.4 and 3.5, and the way these thresholds and exemptions should be determined.

We have no comments in response to this question.

Question 4. MAS seeks views on whether investment funds domiciled in Singapore should be subject to margin requirements, and the factors that should be taken into consideration in formulating the margin requirements for such investment funds.

We have no comments in response to this question.

Question 5. MAS seeks comments on the proposed margin obligations (including operational requirements) on MAS Covered Entities, specifically on the options of (i) a post-and-collect requirement; and (ii) a collect-only requirement, and the pros and cons for the suggested option.

We have no comments in response to this question.

Question 6. MAS seeks comments on the proposed thresholds set out in Section 4.

We have no comments in response to this question.

Question 7. MAS seeks comments on the proposed IM calculations and requirements, particularly, but not limited to, the recalculation frequency and requirements of IM, data history for IM calculation and the recalibration and back-testing requirements of the IM model.

We have no comments in response to this question.

Question 8. MAS seeks comments on the proposed VM calculations and requirements.

We have no comments in response to this question.

Question 9. MAS seeks comments on the proposed range of eligible collateral and corresponding schedule-based haircuts.

We have no comments in response to this question.

Question 10. MAS seeks comments on the proposed application of the 8% schedule-based standardised FX mismatch haircut when cash is used to meet the VM requirements in the case of an FX mismatch (i.e. where the collateral is denominated in a different currency from the settlement currency of the underlying derivative transaction).

Specifically, MAS seeks comments on whether cash collateral denominated in certain liquid currencies (please specify currencies) should be subject to a lower FX mismatch haircut (please specify). If so, what criteria should be used in assessing the liquidity of these currencies?

We support the comments made by ISDA and ASIFMA in response to this question in their joint comment letter dated 6th November, 2015.

MAS also seeks comments on whether there are cases where a higher than 8% FX mismatch haircut may be warranted.

We have no comments in response to this question.

Question 11. MAS seeks comments on the proposed safe-keeping of IM collateral.

We have no comments in response to this question.

Question 12. MAS seeks comments on examples of the types of legally-enforceable safe-keeping arrangements that may be put in place under paragraph 7.2 (b).

We have no comments in response to this question.

Question 13. MAS seeks comments on the proposal that all collateral arrangements need to be reviewed periodically with updated legal opinions to ensure that the arrangements continue to be legally enforceable.

We have no comments in response to this question.

Question 14. MAS seeks comments on the proposal to permit a one-time re-hypothecation of non-cash IM collateral and the liquidity implications of such a proposal.

We have no comments in response to this question.

Question 15. MAS seeks comments on the proposed treatment of intra-group transactions.

We support the comments made by ISDA and ASIFMA in their joint comment letter dated 6th November, 2015 with regard to exempting intra-group transactions from the margin requirements.

Question 16. MAS seeks views on the proposed treatment of cross-border transactions, and whether there are other arrangements that may better address concerns of level playing field and regulatory arbitrage. Please elaborate on the rationale for the suggested option.

We have no comments in response to this question.

Question 17. MAS seeks views on the proposed approach for the application of deemed compliance, particularly for cross-border transactions.

We have no comments in response to this question.

Question 18. MAS seeks comments on the proposed phase-in schedule for margin requirements to apply to MAS Covered Entities.

Whilst we note that the MAS has proposed a phase-in schedule for margin requirements that is consistent with the requirements set forth in the BCBS/IOSCO *Margin requirements for non-centrally cleared derivatives* (March 2015), we support the comments made by ISDA and ASIFMA in their joint comment letter dated 6th November, 2015 with regard to the extension and clarification of the transition period. Regarding implementation schedules in general, we urge the MAS to consider and aim for consistency with regulators in other jurisdictions. Harmonisation in the timing and implementation of the margin rules is important, to avoid situations where Singapore entities find themselves struggling to meet varying international schedules and requirements.