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TO:

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05 July 2016

Dear Secretariats, Ms Hurman and Mr Olson

Re: Identification of the "direction" (payer/receiver) for a FX swap and a FX forward

The Global Foreign Exchange Division (GFXD) of the Global Financial Markets Association (GFMA) is writing to both CPMI and IOSCO to provide further commentary on the 12 May 2016 CPMI-IOSCO Harmonisation Group ODE industry call, itself leveraging feedback provided from the industry via public consultation and the February workshop in Washington DC.

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 FX market participants,[1] collectively representing more than 80% 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.

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Executive Summary

Where there is an exchange of currencies and a single payer/receiver is required, the GFXD requests that the CPMI-IOSCO Payer ID/Receiver ID proposal is complemented with the FX Cash Rule to ensure that the identification of the payer/receiver is clear.

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

The GFXD supports the CPMI-IOSCO proposal in principle, but would like to raise one important concern regarding the identification of payer/receiver in FX transactions.

Before considering the features of FX swaps and FX forwards and the application of payer/receiver to such instruments, it is important to understand how the market defines a FX swap product. Such a definition is important when considering consistent application for FX swaps and FX forwards.

FX swap definition

Under the US CEA[3], a 'foreign exchange swap' is narrowly defined as "a transaction that solely involves -

> (A) an exchange of 2 different currencies on a specific date at a fixed rate that is agreed upon on the inception of the contract covering the exchange; and
>
> (B) a reverse exchange of [those 2 currencies] at a later date and at a fixed rate that is agreed upon on the inception of the contract covering the exchange."

The GFXD has therefore historically supported the position that a FX swap is composed of 2 individual FX forwards. A FX swap should therefore be reported to the respective trade repository as 2 individual FX forwards, each with its own individual UTI, each being connected with a 'link-id' to enable the consumers of the trade repository data to see that both trades are related. While each of the FX forwards are related, they are separately cash managed/funded, legally confirmed and risk managed by the counterparties involved.

We also recommend that the two legs should be separately reportable regardless of tenor, i.e. that the near leg of an FX swap is never regarded as a FX spot trade.

Payer/Receiver of a FX swap and FX forwards (deliverable and non-deliverable)

We note that the ODE sub-stream recently presented to the working group a proposal to identify the counterparty of the payer leg as the 'Payer ID' and subsequently the counterparty of the receiver leg as the 'Receiver ID' for FX products (except for options and swaptions).

Where the requirement is to report a single payer/receiver, the GFXD believes that the CPMI-IOSCO Payer ID and Receiver ID proposal will need to be complemented with the FX Cash Rule[4] to ensure that it is clear, (given that a FX forward is an exchange of 2 currencies) who is the payer and who is the receiver.

We appreciate that it is currently possible for reporting parties always to report trades from their own point of view with regards who is the payer or receiver. This requires regulators to apply interpretive measures to obtain a consistent data set, especially where a trade has more than one report, for example a cross-border trade, or one within a dual-sided reporting system. Consistent application of the FX Cash Rule removes the interpretive burden from regulators in this regard.

For example, using a USDEUR FX forward with parameters as follows:

A buys USD from B
A sells EUR to B

3 https://www.law.cornell.edu/uscode/text/7/chapter-1
4 The FX Cash Rule: The sell side or short position would be determined by the party that is selling risk in the currency which is first when sorted alphabetically by ISO code. For example, in a USD-CHF forward trade, it would be each party's position relevant to the CHF leg of the trade that will determine the buy or sell position.

- A is thus a receiver of USD and a payer of EUR
- B is thus a receiver of EUR and a payer of USD

Using the FX Cash Rule, regardless of which party makes the report, the Payer ID for this USDEUR FX forward would be party A, Receiver ID would be party B (party A is the seller of EUR, which is the lowest ISO currency code in the transaction)[5].

On this basis, we propose that the Payer ID/Receiver ID complemented with the FX Cash Rule is used for FX swaps and FX forwards to avoid confusion and ensure an efficient and effective market structure.

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We appreciate the opportunity to share our views on this topic with CPMI and IOSCO. Please do not hesitate to contact Andrew Harvey on, aharvey.gfma.org or telephone +44 203 828 2694 of Fiona Willis on fwillis@gfma.org or telephone +44 203 828 2739 should you wish to discuss any of the above.

Yours sincerely,

James Kemp
Managing Director
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5 However, we note that this approach would not be effective if a counterparty to a FX swap represented the FX swap as a single FX swap transaction instead of 2 FX forwards. A single representation would not take into effect the reverse exchange of currencies referenced in the CEA definition above and would need an artificial interpretation or rule to help determine which was the counterparty of the payer leg and which was the counterparty of the receiver leg.