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Financial Supervisory Service
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Via email: bichang@fss.or.kr

December 31, 2016

Re: Guidelines on Margin Requirements for Non-Centrally Cleared OTC Derivatives Transactions

Dear Sir/Madam,

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 "Guidelines on Margin Requirements for Non-Centrally Cleared OTC Derivatives Transactions" issued by the Financial Supervisory Service ("FSS") on December 14, 2016 (the "Guidelines").

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 25 global foreign exchange (FX) market participants,[1] collectively representing around 85% 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 FX market is the world's largest financial market and effective and efficient exchange of currencies underpins the world's entire financial system. Many of the current legislative and regulatory reforms have had, and will continue to have, a significant impact upon the operation of the global FX market, and the GFXD wishes to emphasise the desire of our members for globally coordinated regulation which we believe will be of benefit to both regulators and market participants alike.

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[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, Scotiabank, Société Générale, Standard Chartered Bank, State Street, UBS, Wells Fargo and Westpac.

[2] According to Euromoney league tables.

The FX market is also the basis of the global payments system. The volume of transactions is therefore very high and these transactions are often executed by market participants across geographical borders. As reported by the Bank for International Settlements (BIS) in their Triennial Central Bank Survey: Foreign Exchange Turnover in April 2016, over 77% of FX activity was executed by market participants across five global jurisdictions,[3] hence the strong view from the GFXD that regulations should be harmonised at the global level. 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 and transparent FX market.

We fully support the FSS taking initiatives to implement the G20 commitments to reform the OTC derivative markets and, with respect to the Guidelines specifically, respectfully make two comments:

1. Exclusion of physically-settled FX swaps and forwards from the margin requirements under the Guidelines.

We strongly welcome and support the FSS's decision to exclude physically-settled FX swaps and forwards from within scope of the margin requirements under the Guidelines (Section II.1. and Footnote 4). As indicated in the March 2015 "Margin requirements for non-centrally cleared derivatives" by the Basel Committee on Banking Supervision and International Organization of Securities Commissions (the "International Margin Framework"), these products merit exclusion from the scope of non-centrally cleared margin requirements due to their unique characteristics.

Furthermore, the FSS's approach to physically-settled FX swaps and forwards is consistent with the treatment of these deliverable FX products in the U.S., Japan, Singapore, Canada and Australia, where physically-settled FX swaps and forwards are similarly excluded from both initial and variation margin requirements under the final US Prudential Regulators' Rules, US CFTC Rules, Canadian, Singapore, Japanese and Australian non-centrally cleared margin rules. We are in discussions with the Hong Kong regulators to do the same.

2. The importance of harmonization of margin requirements and availability of substituted compliance for the FX market.

Given so much of the FX market is transacted across borders, as highlighted above we urge the FSS, when implementing final non-centrally cleared margin requirements, to strive for margin regulations that are as consistent and harmonized as possible with those in other jurisdictions globally, and comparable overall with the standards for margin requirements for non-centrally cleared derivatives established in the International Margin Framework.

[3] BIS 2016 Triennial Survey: http://www.bis.org/publ/rpfx16.htm, see pp.8 and 14.

We also strongly support the FSS's development of a sensible substituted compliance/equivalence regime which may be relied upon where transactions are effected by parties cross-border.

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We appreciate the opportunity to share our view on the Guidelines. Please do not hesitate to contact John Ball on +852 2531 6512, email jball@gfma.org, or Victoria Cumings on +1 212 313 1141, email vcumings@gfma.org, should you wish to discuss any of the above.

Yours sincerely,

James Kemp
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