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

TO:
Yuh Chang Chen
Chief Commissioner
Financial Supervisory Commission
Executive Yuan
Republic of China

30 August 2011

Re: Taiwan Trade Repository for Foreign Exchange Transactions

Dear Mr. Chen,

The Global Foreign Exchange Division ('GFXD') welcomes the opportunity to comment on Gretai's recently issued specifications document for a cross-asset class trade repository. On behalf of its members, the GFXD would like to take the opportunity to comment on a number of issues around the implementation of a trade repository for foreign exchange transactions and to discuss these in more detail with you with the aim of aligning and coordinating development work as closely as possible to the benefit of both regulators and industry.

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 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 market place.

FX trade repository initiative

The GFXD welcomes the goals of enhancing regulatory oversight and promoting greater transparency. It is working with its members to implement a trade repository for the FX industry that aims, to the greatest extent possible, to meet global regulatory needs.

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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, Morgan Stanley, Nomura, RBC, RBS, Société Générale, Standard Chartered Bank, State St., UBS, and Westpac

[2] According to Euromoney league tables

Its members recently announced their recommendation to partner with DTCC and Swift to develop a global foreign exchange trade repository. This selection was the result of an extended evaluation, Request for Information (RFI) and public Request for Proposal (RFP) process that began back in December 2010, with the RFP issued in April 2011.

The project is currently in the scoping phase and key work areas will cover overall functionality, technology, connectivity, messaging and data formats amongst other areas. However, this must crucially be framed in the context of understanding how the needs of multiple regulators can be met. The GFXD would welcome the opportunity to discuss this in more detail with you.

A common, global approach to trade repositories

The selection of a preferred partner for trade repository services arises from the general preference of the industry for the use of global trade repositories, rather than multiple, fragmented local repositories. This is because they provide the chief benefits of enhanced regulatory oversight and efficiency of data capture. This is particularly the case for the FX market which is characterised by vastly higher number of transactions and participants when compared to other asset classes given its position as the basis of the global payments system.

Comprehensive oversight

Trade repository information must be consistent, complete and as non-duplicative as possible in order for it to be meaningful, both for market surveillance and systemic risk monitoring. Global trade repositories provide a centralised point for submission of data, giving regulators access to both on and offshore trades and allowing them to build a complete picture regarding the positions of overseen entities. Since local regulators may typically only exert jurisdiction over local firms, currencies traded offshore by offshore entities would not be subject to regulation. They would therefore not be reported to the local repository, limiting the usefulness of that subset of data. Building an accurate picture of systemic risk or trade activity becomes significantly more difficult where the trade population is fragmented across a number of localised trade repositories, particularly considering the volume of participants and transactions present in the FX market, and in the absence of standardised global formats. The value of a comprehensive data set can also extend to implementation of other regulatory initiatives, for example, in analysing whether to mandate clearing for particular products and in establishing block trade sizes and appropriate reporting delays.

Efficiency

There are a number of efficiency arguments for global trade repositories from all market participants' perspectives.

- Cost – global trade repositories reduce the implementation costs related to building out and connecting to relevant trade repositories for both regulators and market participants alike. For reporting parties, global trade repositories allow a centralised reporting channel with common technology, messages and trade formats. Given the number of market participants engaging in cross-border transactions, local repository reporting may add significant costs for both buy and sell side participants as they are required to report to a number of repositories. Hardest hit might be the smaller, regional banks that would likely be expected to undertake the burden of international reporting on behalf of their clients. Centralised client due diligence would also produce significant savings.

- Data consistency and common standards – agreed global data formats and standards for LEIs and product and trade identifiers would also promote significant benefits for all users. Where local repositories prevail, regulators will need to be able to interpret and aggregate data across a number of differently formatted outputs, which can be inefficient at best. Timely access to and interpretation of a comprehensive data set will be important in times of market crisis and this will be hindered if regulators are required to seek trade and position data from a number of repositories.
- Implementation – global trade repositories may also help to minimise the risks of conflicting implementation deadlines and reduce time to market.

Accommodating different jurisdictional requirements

Of course, any global trade repository must meet the needs of the multiple regulators that it serves. In order to do that, the GFXD and its members support the efforts being made across international forums to standardise both data formats and reporting requirements and expects to engage in these arenas and with regulators bilaterally. The current implementation status of global regulation does mean that final requirements have not yet been set and so any moves to implement trade repositories should be done so with flexibility in mind. It is important to stress that the development of the FX trade repository is being done so with global regulatory reporting in mind and not simply with a focus on the US's Dodd-Frank rules. This extends to reviewing the options for the legal entity structure to address any indemnity requirements, building data centres in location-neutral venues and submitting the FX trade repository for regulation in multiple jurisdictions.

Whilst the industry would prefer global data repositories to be implemented for the reasons set out above, the GFXD understands that certain jurisdictions prefer to mandate the use of a local trade repository. A number of operating models are being considered and it may be possible to implement a local trade repository within a global framework without necessarily ceding physical control to an offshore location. Such a local instance might even be operated by the regulator under licence from a global provider. In instances where a separate local repository is conceived and built, for the reasons outlined above, it would be preferable for the local repository to utilise agreed global formats and parameters to facilitate reporting, and better still to allow trade data to be fed from a global trade repository to a local repository and possibly vice versa.

The GFXD believes there are a number of potential operating models that might satisfy individual regulatory needs and would welcome the opportunity to discuss your requirements and how an industry solution might be conceived to meet them. Should you wish to do so, or if you have any questions on the above, then please do not hesitate to contact me at +44 (0) 207 743 9319 or at jkemp@gfma.org.

Yours sincerely,

James Kemp

Managing Director

Global Foreign Exchange Division