Global Foreign Exchange Division
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London
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<u>TO</u>:

Mr. Patrick Pearson
Head of Unit, Financial Markets Infrastructure
European Commission
Via email: Patrick.Pearson@ec.europa.eu

September 24, 2019

Re: Intra-group exemption from margin requirements under EMIR

Dear Mr. Pearson,

We, the Global Foreign Exchange Division (GFXD) of the Global Financial Markets Association (GFMA), refer to the letter addressed to you on September 20, 2019 from the European Association of Co-operative Banks (EACB), the European Banking Federation (EBF), the European Savings and Retail Banking Group (ESBG) and the International Swaps and Derivatives Association (ISDA) ("the Associations") regarding the EU's adoption of equivalence decisions in respect of margin obligations for cross-border, intra-group non-centrally cleared OTC derivatives transactions and the current (time-limited) derogation for such transactions under the EMIR Margin RTS.

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 a significant portion of the FX inter-dealer market. 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 the effective and efficient exchange of currencies underpins the world's entire financial system. The FX market is also the basis of the global

[1] Bank of America Merrill Lynch, Bank of New York Mellon, Barclays, BNP Paribas, Citigroup, Crédit Agricole, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, Lloyds Bank, Mizuho, Morgan Stanley, MUFG Bank, Natwest Markets, Nomura, Royal Bank of Canada, Scotiabank, Société Générale, Standard Chartered Bank, State Street, UBS, Wells Fargo and Westpac.

payments system. The volume of transactions is therefore very high, and these transactions are often executed by market participants across geographical borders.

We agree with the Associations that intra-group non-cleared OTC derivatives transactions are an important component of centralized risk management. Intra-group transactions, which are often effected across borders, may facilitate more effective risk management, while aggregating trades across group companies and managing the risks on a portfolio basis can create scale efficiencies and netting benefits. Imposing margin on these transactions would discourage affiliates from effectively and efficiently managing their risk exposures arising from non-centrally cleared OTC derivatives transactions. Furthermore, we note that the exchange of margin for cross-border intra-group transactions is not a universal requirement in other jurisdictions.

Furthermore, we also are of the view that equivalence decisions as to other jurisdictions' margin standards, made on the basis of comparability in outcomes with the BCBS-IOSCO framework, are very helpful to the industry, and ensure an efficient and globally consistent approach to margin regulation for cross-border transactions.

Accordingly, as with the Associations, we too are supportive of the current derogation for cross-border intra-group non-centrally cleared OTC derivatives transactions being extended beyond January 4, 2020, and of appropriate equivalence determinations being made in respect of third country jurisdictions' margin regulations as soon as possible, prioritizing those jurisdictions which have already implemented BCBS-IOSCO compliant margin regulations as highlighted in the Associations' letter.

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 emphasize the desire of its members for globally coordinated regulation, which we believe will be of benefit to both regulators and market participants alike.

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We greatly appreciate the opportunity to share our views on this topic. Please do not hesitate to contact Andrew Harvey on +44 20 3828 2694, aharvey@gfma.org or Victoria Cumings on +1 212 313 1141, email vcumings@gfma.org, should you have any questions or wish to discuss any of the above.

Yours sincerely,

James Kemp
Managing Director
Global Foreign Exchange Division, GFMA