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Global FX Division

BENEFITS OF AUTOMATED CONFIRMATIONS

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What is confirmation?

‘Confirmation’ is a risk management technique by which the parties to a transaction validate the key economic and legal terms of that transaction with each other after execution.

Why should you automate your confirmations?

We recognise that automation may be a challenge for many counterparties. There may be a lack of infrastructure, regulatory complexities, or concern about cost and benefits. However, the GFXD and its members firmly believe that the operational and legal risk-reduction that automation delivers outweigh the associated costs and that **automating confirmations should be a key priority for the industry**.

The FX Global Code (2021)¹, which has been drafted to apply to all FX market participants, states:

*“Market Participants should confirm FX trades as soon as practicable after execution, amendment, or cancellation. **The use of automated trade confirmation matching systems, when available, is strongly recommended.**”*

*“Confirmations should be transmitted in a secure manner whenever possible, and electronic and **automated confirmations are encouraged.** When available, standardised message types and industry-agreed templates should be used to confirm FX products.”*

“Open communication methods such as e-mail can significantly increase the risk of fraudulent correspondence or disclosure of Confidential Information to unauthorised parties.”
(Principle 46, emphasis added)

Automation enhances the risk management benefits of the confirmation process:

1. Compliance: many jurisdictions encourage automated methods as a means of meeting deadlines for timely confirmations².
2. Legal certainty and market risk: automation speeds up the process by which contractual agreement of the transaction is reached and ensures any discrepancies are flagged as close to trading as possible. This benefits counterparties even where local rules also require exchange of paper confirmations.
3. Operational risk: automation removes manual-touchpoints, thereby increasing Straight Through Processing (STP) and reducing the risk of errors or fraud. Some automated services integrate the confirmations process into other parts of the FX value chain, increasing efficiency and allowing the status of transactions to be tracked real-time.
4. Standardisation: automated services use industry agreed message types, helping with record keeping and integration into other services.

¹ https://www.globalfxc.org/docs/fx_global.pdf

² E.g. HKMA Supervisory Policy Manual ‘Margin and risk mitigation standards for non-centrally cleared OTC derivatives’ 2017 §4.2; MAS ‘Guidelines on Risk Mitigation Requirements for Non-Centrally Cleared Over-The-Counter Derivatives Contracts’ 2019 §4

How can you automate your confirmations?

Automated confirmation services can be grouped into three main types:

Direct connectivity to SWIFT ³	Use of third-party e-platform	Use of a bank’s e-platform
<ul style="list-style-type: none"> • Users view and confirm trades with multiple counterparties, often automatically • Can be integrated into other SWIFT message services, e.g. payments 	<ul style="list-style-type: none"> • Users view and confirm trades electronically with multiple counterparties • Can often be integrated into other services across the FX value chain 	<ul style="list-style-type: none"> • Users view and confirm trades electronically with that bank • Can often be integrated into other services across the FX value chain

For more information on the options available to you for automating your confirmation process, please contact your counterparty direct, via your relationship manager.

Maximising the benefits – automating the confirmation of bilateral net settlement amounts

In addition to trade confirmations, confirmation of bilateral settlement nets⁴ can also be automated in a similar manner. This brings additional benefits such as:

- A reduction in operational costs and risks from manual processing errors;
- Better management of credit and liquidity;
- A reduction in settlement fails and increase in the number of successful net settlements; and
- Automated population of key data fields, which may help in meeting some regulatory obligations.

As above, this can be done via third party or bank platforms, or via SWIFT message. For more information on the options available to you, please contact your counterparty direct, via your relationship manager.

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About the GFXD

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 23 global foreign exchange (FX) market participants, collectively representing the majority 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. For more information, please see: www.gfma.org/foreign-exchange/

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³ SWIFT (www.swift.com) is a member-owned provider of secure, standardised financial messages

⁴ The act of aggregating payments between counterparties into a single amount or cashflow per currency, for settlement on a specific value date. For more information on its benefits & practicalities, see https://www.gfma.org/wp-content/uploads/2021/07/20210728_gfxd_netting_paper_final.pdf