GFMA Global FX Division

GFXD Standardised Practices for Client Onboarding

Version: July 2021

About the Global FX Division (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[1], collectively representing the majority 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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Contacts

Onboarding requirements vary between firms. For more information on individual onboarding requirements, please contact your counterparty direct, via your relationship manager.

For queries about this document, please contact:

- Andrew Harvey / aharvey@eu.gfma.org / +44 (0) 203 828 2694
- Fiona Willis / fwillis@eu.gfma.org / +44 (0) 203 828 2739

[1] Bank of America, Bank of New York Mellon, Barclays, BNP Paribas, Citi, Credit Agricole, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, Lloyds, Mizuho, Morgan Stanley, MUFG Bank, NatWest Markets, Nomura, Northern Trust, RBC, Standard Chartered Bank, State Street, UBS and Wells Fargo.

[2] According to Euromoney league tables.

Executive Summary

To expedite the onboarding process:

It may help to consolidate documentation requirements across an organisation and for the consolidated list to reside with a nominated point person (relationship manager).

Further clarity should be provided on what information is required for post trade purposes:

- **To establish efficient trade confirmation practices**
- **To define how cash flows should be settled (where and the method to be used)**
- **To enable both parties to meet their multiple regulatory obligations**

Any consolidated requirements should be communicated during initial onboarding discussions.

1. Introduction

Whilst each organisation will have its own individual requirements for the onboarding process (driven by proprietary and/or jurisdictional needs), the GFXD believes that there is an opportunity to identify a minimum set of standardised practices/considerations. We believe such a set of standards will help to expedite the effective dissemination of data and therefore potentially reduce the time taken to onboard a new client or fund. This will have a positive impact on risk management for firms and their clients and will provide for a more efficient process once trading commences.

The onboarding process is key in managing risk and ranges in scope from performing client due diligence to determining how trades will be legally confirmed and settled. Due to the wide-ranging nature of this process, it is likely that several different departments within an organisation could be involved at various times before a final sign-off is provided. It is therefore key that information is provided in a concise and accurate manner, and that any requests for information from clients are complete in nature. We believe that this is fundamental to achieving the desired efficiencies for the benefit of banks and their clients.

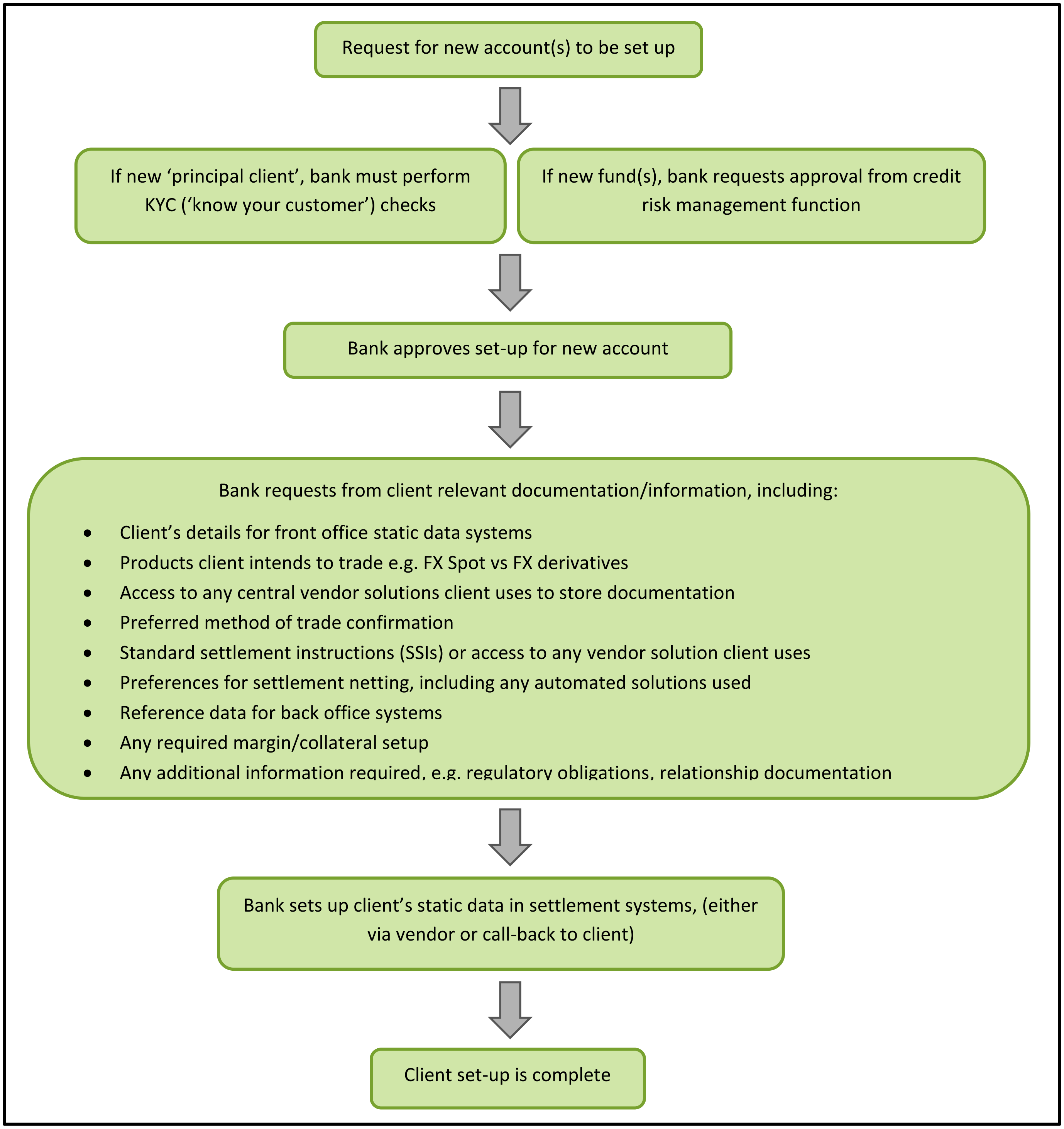
In this document we have grouped our thoughts by those individual post trade processes which typically require additional information from a new client or fund. In order to promote active dialogue between counterparties, we have demonstrated what we believe are key considerations for an efficient and effective onboarding process.

We also recommend that this document could also be of benefit in aiding any internal discussions between those individual departments involved in the process.

2. The Onboarding Procedure

To help in our discussion, we believe it is helpful to represent a stylized example of an onboarding procedure, included below in Figure 1. Onboarding requirements will differ between institutions; however, the basic steps are common across institutions.

Figure 1: Stylized onboarding procedure



Even with the stylised representation in Figure 1, it is clear that multiple departments within an organisation may be involved in the onboarding process and that communication between these departments is key to ensuring efficient onboarding.

The GFXD therefore recommends that the full information required from a counterparty is collectively agreed upon upfront by the organisation which is requesting the information.

We suggest that the information is requested by an agreed centralised resource and that once received that information is effectively distributed to those internal teams which require it.

3. Post Trade Processes

The GFXD Operations Committee has identified 3 areas within the post trade environment which are likely to require specific pieces of information to be agreed between the two counterparties to the trade and would benefit from being included within the onboarding process.

a. Trade Confirmation

The GFXD recommends that the preferred method of trade confirmation should be discussed and agreed upon during onboarding.

Legal confirmation is the process by which counterparties to a trade establish that they agree on the terms of that trade. It allows accurate market risk management and prevents discrepancies from arising that could disrupt the settlement of the trade.

Whilst there are multiple methods in use to legally confirm FX trades, and processes may depend on the type of FX instrument traded, we support that the most efficient and secure methods of trade confirmation are via electronic messaging standards or alternatively via automated confirmation matching platforms. Principle 46 of the FX Global Code[3] states that *"market participants should confirm FX trades as soon as practicable"* and that *"electronic and automated confirmations are encouraged"*.

By defining how trades will be legally confirmed during the initial stages of the onboarding process, Operations teams are able to effectively plan and prioritise requirements before the commencement of trading. Such planning will enable better risk management as well as providing for a more efficient process once trading commences.

[3] https://www.globalfxc.org/docs/fx_global.pdf

b. Settlement of cash flows

The GFXD recommends that (i) the use of Standard Settlement Instructions, (ii) the method in which FX cash flows are agreed and processed and (iii) an approach to settlement netting should be agreed during the onboarding process.

Settlement method

For FX there are generally 4 main methods for settling cash flows. The GFXD considers that these should be used in the following order of preference:

1. Automated 'payment v payment' bilateral/multilateral netting mechanisms
2. Automated netting technologies
3. Manual settlement netting processes
4. Gross settlement

The GFXD supports that a consistent settlement practice is preferable to ad hoc arrangements. Operational systems generally require a client to be set up as settling either net or gross. Switching between gross and net settlement therefore requires an additional manual process which is more likely to result in errors.

Settlement netting

Principle 50 of the FX Global Code states that *"Market Participants should properly measure, monitor and control their Settlement Risk equivalently to other counterparty credit exposures of similar size and duration"*. Settlement netting results in fewer, smaller cashflows providing benefits from reductions in settlement risk, operational costs and capital charges. Automating this process further enhances these benefits by reducing manual processing errors and increasing the number of successful settlement nets[4].

Settlement instructions

Additionally, we recommend that the account details where funds are due to be received should be agreed during the onboarding process. These account details, if consistently applied, are known as Standard Settlement Instructions (SSI). Typically, many new accounts using SSIs will require inputting and verifying into payment systems which, if processed manually, can take considerable time. Principle 51 of the Global Code states that *"changes, notifications and new SSIs should be delivered via an authenticated, and standardised, message type whenever possible"*.

Considering this, we suggest that centralised resources for the exchange of SSIs are particularly effective:

- First, they allow market participants to store the details for all their settlement accounts in a single place for counterparty access. This means that any changes made are communicated automatically to any counterparties using that platform, removing a manual process that would otherwise be time-consuming and potentially open to error.

[4] For more information on the benefits and practicalities of settlement netting, please see GFXD's paper: https://www.gfma.org/wp-content/uploads/2021/07/20210728_gfxd_netting_paper_final.pdf

- Second, where the vendor platform offers authentication of SSIs, the counterparty can consume any updates without having to perform additional checks, for example by placing a call with the SSI owner.

c. Regulations

The GFXD suggests that, should either party have additional regulatory obligations which may impact a relationship, these are identified, understood and discussed at the time of onboarding, including those relating to data privacy.

In addition to managing those risks associated with post trade processes, such as trade confirmation and cash flow settlement, post trade teams are often accountable for performing certain regulatory obligations. These obligations will vary depending on geographical location, counterparty type and the nature of the trading relationship. Some of these have been included below, noting that this list is not exhaustive.

- **KYC:** as highlighted in the FX Global Code under Principle 37, KYC ("Know Your Customer") requires a set of due diligence checks which are important for combatting financial crime and money laundering.
- **Regulatory Reporting:** following the 2009 G20 commitments, many jurisdictions have, or soon will implement pre/post trade transparency and reporting obligations. The data required for organisations to meet these obligations is varied, especially when trading between jurisdictions.
- **LEI:** many jurisdictions now require a Legal Entity Identifier (LEI)[5] to be obtained by each market participant before trading of certain instruments (e.g. FX derivatives) can commence. The LEI is currently a requirement for certain trade reporting obligations.
- **Recordkeeping:** certain jurisdictions require extensive recordkeeping by market participants, and that derivative trades are reported to central authorities by one or both counterparties to the trade. Such requirements are likely to result in request for additional data.

d. Conclusion

Several benefits have been identified in the above document which we believe can provide a more efficient onboarding process and therefore help to manage those risks resulting from post trade requirements. Whilst the onboarding process itself will vary from firm to firm, these opportunities exist to standardise when requests for information are made and how this can be effectively coordinated through the onboarding process.

[5] https://www.gfma.org/policies-resources/gfma-isda-faqs-on-obtaining-an-lei/