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## GFMA's Global Foreign Exchange Division (GFXD)

### "FX Prime Brokerage – Recommended Practices for Limit Monitoring" (Aug 2026)

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#### Executive Summary

- FX prime brokerage has become a major component of the FX market, with daily FXPB volume of \$2.2tn representing 43% of daily FX spot volume and 23% of total FX market volume. Growth has been driven by increased adoption of new trading technologies, including dynamic real-time credit solutions, broader participation from new market participants, and sustained market volatility.
- Increased prudential obligations, incl. SA-CCR, have accelerated the use of capital optimisation tools such as trade compression. These tools can help banks and FXPBs improve operational, credit and capital management processes. This is particularly relevant for FXPBs because each FXPB transaction involves two underlying trades, increasing sensitivity to SA-CCR impacts.
- However, increased use of trade compression may create downstream limit-monitoring challenges across the FXPB ecosystem. For example, where trades on the FXPB/dealer leg are compressed, market participants need a consistent approach to the treatment of the corresponding client trade under Designation Notice (DN) trading limits.
- The absence of a uniform market practice for treating FXPB limits after trade compression increases the risk of limit disputes among market participants. Differing measures of total client exposure between FXPBs and executing dealers can negatively affect client trading volumes, even where credit lines remain available as determined by the FXPB.
- This paper identifies how trade compression can affect the calculation of limits and the limit-monitoring process and sets out recommended practices to help streamline limit management, reduce disputes, and deliver operational efficiencies for FXPB market participants.
- Finally, the paper is a call to action for FXPB market participants, including vendors, to maximise the opportunities created by greater process and capital efficiency across the FXPB ecosystem. Future growth in FXPB represents a significant opportunity but realising that opportunity will require prioritised investment in automated downstream systems that enable more dynamic limit monitoring and allow trade management and optimisation tools to take full effect.

### **Summary of Recommended Practices:**

**By understanding these challenges, the industry is better placed to manage and optimise the FXPB process. GFXD therefore proposes the following recommended practices, which are explained in more detail in the body of this document.**

1. FXPB trades should be included within bank trade compression processes where individual bank credit policy, technology and operational capability allow. A more uniform industry approach to including FXPB trades within wider bank trade compression processes would help reduce inconsistent limit calculations and increase capital and credit efficiencies across the FX ecosystem.
2. The PB should advise the ED and client of any impact from trade compression on FXPB net open position (NOP) limit usage as soon as technically possible, preferably through automated, real-time dynamic credit tools.
3. Dynamic credit monitoring solutions should be used, where available, to ensure limits are updated in real time to reflect changes in NOPs following trade compression.

## Introduction

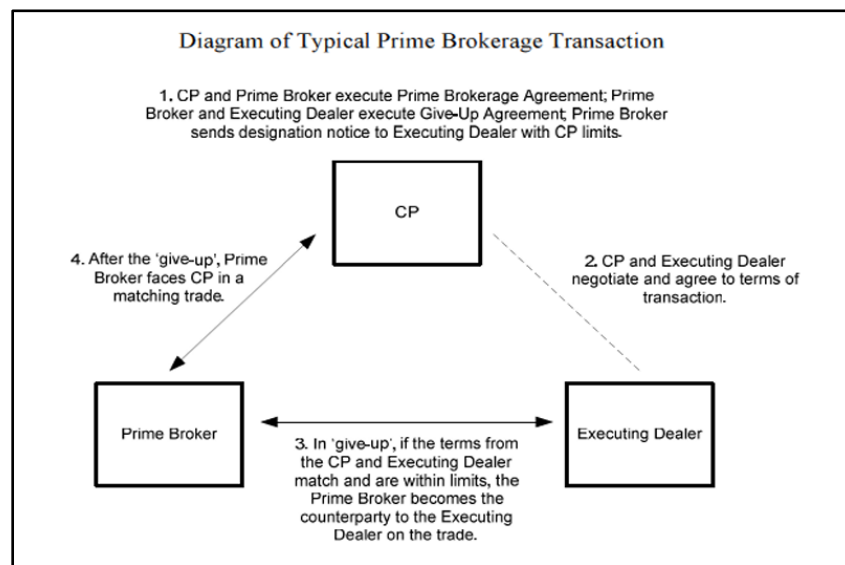
The latest 2025 BIS Triennial FX survey revealed the daily volume for the FXPB market is \$2.2tn - 43% of daily FX Spot market and represents 23% of the total FX market volume. This growth has been driven by a combination of factors – including market volatility, new market participants, the development of new electronic trading technologies and the adoption of dynamic real-time credit solutions.

| OTC foreign exchange turnover - FX Prime Brokered ( Source: BIS Triennial Surveys in \$M) |                 |            |                  |                   |                 |                 |
|-------------------------------------------------------------------------------------------|-----------------|------------|------------------|-------------------|-----------------|-----------------|
|                                                                                           | Total FX Market | Total FXPB | FXPB % FX Market | Total Spot Market | Total FXPB Spot | FXPB % Spot mkt |
| 2025                                                                                      | 9,510,240       | 2,163,092  | 23%              | 2,951,766         | 1,281,225       | 43%             |
| 2022                                                                                      | 7,467,541       | 1,317,240  | 18%              | 2,085,324         | 793,513         | 38%             |
| 2019                                                                                      | 6,580,943       | 1,488,252  | 23%              | 1,978,785         | 918,457         | 46%             |
| 2016                                                                                      | 5,066,414       | 887,151    | 18%              | 1,652,349         | 564,007         | 34%             |
| 2013                                                                                      | 5,356,570       | 1,130,816  | 21%              | 2,046,697         | 769,633         | 38%             |

Source: Triennial Survey Data (BIS.org)

FXPBs are an essential service within the FX market ecosystem, enabling clients to source FX liquidity from a variety of liquidity providers. This service is enabled by the triparty FXPB model (client/prime broker (PB)/executing dealer (ED)) which allows executing dealers and clients to trade bilaterally and book trades against the FXPB who governs the credit relationship, collateral and margin requirements and transaction settlement between the FXPB and executing dealer (See Figure 1).

*Figure 1: Diagram of Typical Prime Brokerage Transaction<sup>1</sup>*



<sup>1</sup> CFTC No-Action Relief Letter No. 12-53 (December 2012)

Successful governance of the credit relationship requires FXPBs to maintain a dynamic approach to credit limit management across multiple market participants. The increased adoption of real-time credit solutions has further facilitated FXPB market growth – by enabling more efficient access to credit to where and when it’s needed most, a process that was outlined in the GFXDs second FXPB paper “Promoting Greater Adoption of Dynamic, Real-time Credit Solutions in the FX Market.”<sup>2</sup>

Stricter regulatory obligations for banks, including capital (e.g., SA-CCR) and margin (UMR),<sup>3</sup> increase the cost of offering non-cleared derivatives, by requiring additional capital/balance sheet capacity to support trading volumes across products and tenors. FXPBs are potentially more sensitive to the impact of SA-CCR, given there are two trades underlying each FXPB transaction.

These constraints have led to the increased adoption of credit and capital management tools – such as trade compression<sup>4</sup> and FX clearing.<sup>5</sup> These tools assist banks to optimize capital and margin obligations and help to enable additional capacity to support trading and can lower operational costs. Increased adoption could also support future growth of the FXPB market.

## Challenges

The increased use of these tools may have potential downstream effects on the limit monitoring processes for the FXPB ecosystem. For example, when trades from the dealer leg are compressed, and therefore technically no longer exist, what is the preferred approach for the treatment of the client trade under the Designation Notice (DN) trading limits?

Trade compression processes can present other downstream limit monitoring system challenges, including operational, technological and structural (credit) barriers – which have all combined to stifle the success of a more uniform approach to FXPB limit monitoring to date.

Whilst acknowledging these challenges, there is a need to develop a series of recommended preferred practices to help establish a more consistent approach to monitoring exposure limits across all three participants - clients, executing dealers, and prime brokers.

This paper considers how the adoption of credit and capital management tools such as trade compression may impact the limit monitoring process for the FXPB market by the following:

- Provide a series of preferred practices to establish a more uniform approach to FXPB limit monitoring
- Identify the challenges/barriers to broader adoption
- Highlight how these practices increase efficiency, and optimize capital and credit processes for the FXPB ecosystem

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<sup>2</sup> [GFXD - Promoting Greater Adoption of Dynamic Real-time Credit Solutions \(June 2023\)](#)

<sup>3</sup> The Uncleared Margin Rules (UMR), as part of the 2010 Dodd Frank Act require the exchange of both initial margin (IM) and variation margin (VM) for over-the-counter (OTC) derivatives

<sup>4</sup> “Compression is a process of replacing multiple offsetting derivatives contracts with fewer deals of the same net risk to reduce the notional value of the portfolio” [BIS Glossary "Compression trades"](#)

<sup>5</sup> Clearing in the FX OTC market transfers the risk of holding unsettled trades from banks to a central counterparty (CCP) [FX Clearing Today.pdf](#)  
Deutsche Bank Research July 2025

## Limit Monitoring Process

Banks establish credit limits to support client trading activities to enable access to market liquidity and better execution. These defined trading limits provide safeguards to limit the total volume, tenor and type of FX products that any one counterparty can transact with another. This process is governed by prudential credit limits, the individual bank credit policy and supported by legal documentation e.g., ISDA, Master FXPB Give-Up Agreements.

Banks also have the additional regulatory responsibility to maintain adequate capital buffers to support the client and bank trading activities – an obligation (and cost) that can limit the size of the overall exposures any one institution can support.

New processes have evolved to assist market participants in managing their trading and client exposures, that can offer additional trading capacity by optimizing their trade portfolios and hence improving their capital and credit exposures.

This section will identify how these new processes – such as trade compression, can help optimize credit and capital exposures and further review how these changes can impact the calculation of limits and the limit monitoring process.

### a. Trade Compression

Trade compression is “the process of identifying offsetting trades that can be collapsed into smaller positions”<sup>6</sup> (as shown in Figure 2) and is predominantly used for G10 currencies, for both deliverable and non-deliverable forwards (NDFs). The benefits of trade compression are “1) reduction of gross notional outstanding, which can contribute to capital savings under Basel III regulations and 2) reduces the trade count to provide operational efficiency.”<sup>7</sup>

Trade compression can occur bilaterally “involving only two counterparties that compare portfolios and identify offsetting trades for termination or replacement”<sup>8</sup> or multi-laterally, often facilitated by a specialist service provider.<sup>9</sup> Bilateral compression can be used between the PB and the underlying PB client. The incidence of trade compression processes has increased over recent years due to the operational and cost benefits of having a reduced number of individual trades, in addition to the benefits received from lowering counterparty credit risk and capital requirements.

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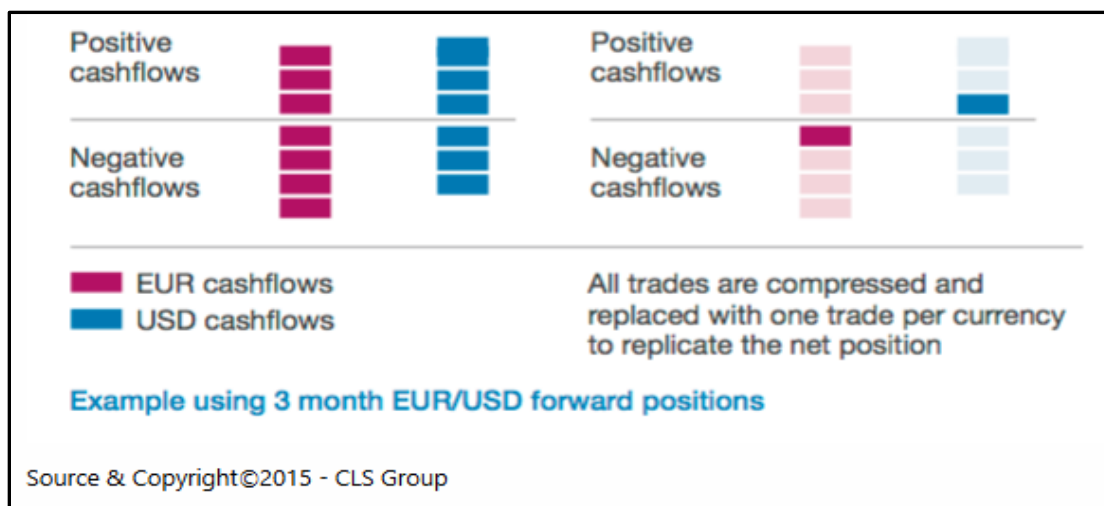
<sup>6</sup> [ForexClear - Trade Compression Overview](#)

<sup>7</sup> Ibid

<sup>8</sup> [RBA Financial Stability Review 2016 - Box D: Trade Compression \(April 2016\)](#).

<sup>9</sup> A non-comprehensive list of compression service providers include: Capitolis, TriOptima, Quantile

Figure 2 - EURUSD Portfolio Compression Example (Source: triReduce CLS Forward FX Compression (Nov 2015))



#### b. Approaches to Limit Monitoring/Management

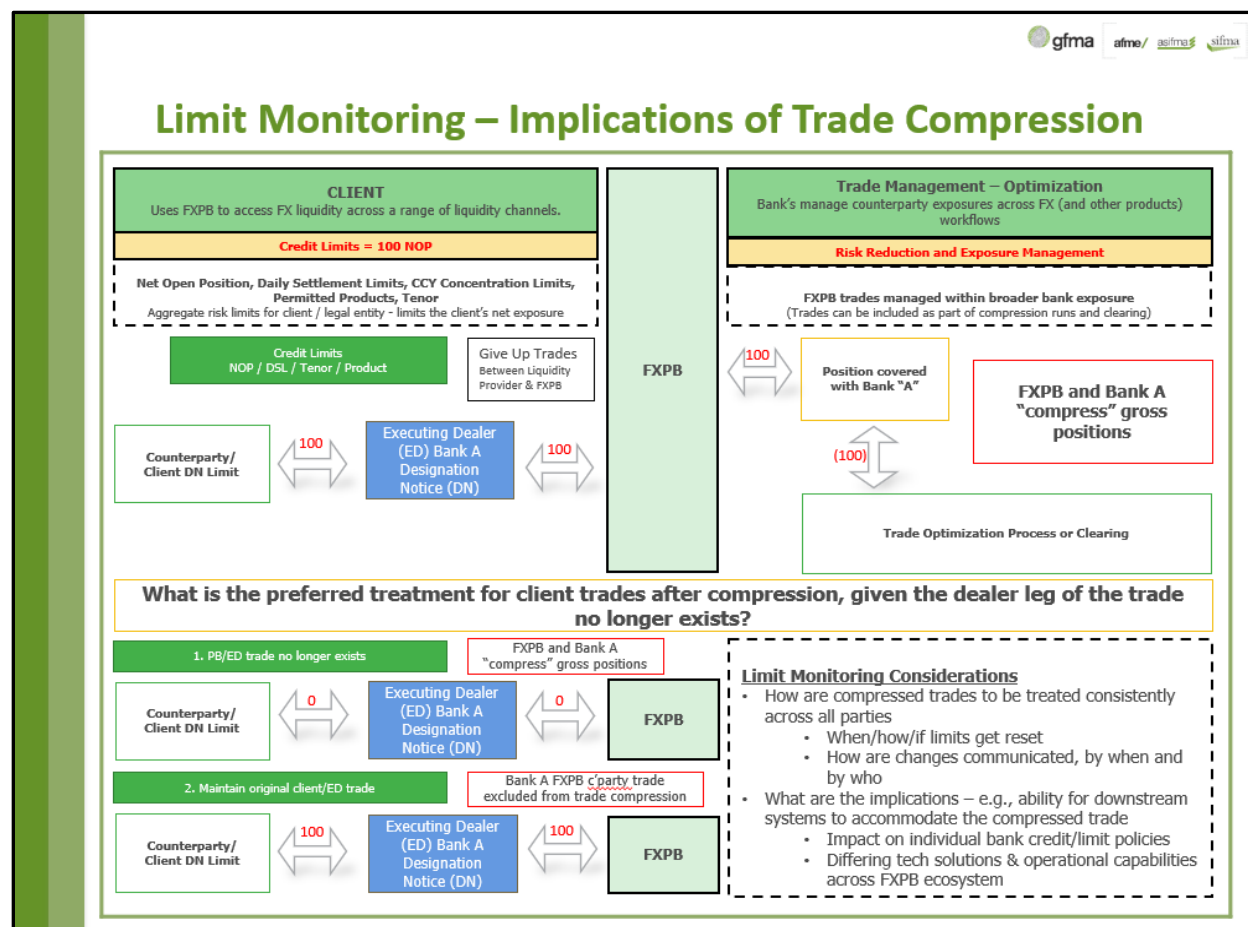
Executing dealers (EDs) and prime brokers (PBs) may have different approaches to credit limit management, creating the risk of a fragmented approach to credit calculation and therefore different NOPs. If the dealer legs of the trade (ED and PB banks) are being compressed or cleared (and therefore no longer exists) logic suggests that the underlying client NOP should also be updated to reflect the change.

Some banks exclude the client trades booked under their FXPB business from trade compression processes, due to credit policies, technical constraints and other downstream operational complexities for the management of FXPB trades, in order to maintain static NOP/daily settlement limits (DSLs) and to monitor the underlying client activity.

Figure 3 outlines the two differing approaches to trade compression and the impact on credit limits:

1. **PB/ED trade no longer exists** - the practice of compression suggests the original ED client trade no longer exists under the DN so limit could be re-plenished
2. **Maintain original PB/ED trade** – ED bank credit departments keep the client trade out of bank trade compression processes due to individual bank credit policies and downstream operational and technological system challenges

Figure 3: Trade Compression and Impact on Limit Monitoring



There are several important considerations with both approaches **the common denominator is a lack of a uniform practice to the treatment of FXPB limits after trade compression - creates potential discrepancies in credit limits across PB-ED parties to the trade.**

These two practices illustrate the current market dilemma - the challenge is that banks may be unlikely or unable to change their approach to credit limit management to accommodate a change to FXPB limit monitoring to include compression processes. This is because of the bespoke and strict nature of individual bank credit policies, and also due to technological and operational capabilities governing processes at each individual bank.

The differing approaches lead to an increase of limit disputes among the market participants as there are differing accounts of total client exposures – potentially having negative impacts on trading, despite the availability of credit lines as determined by FXPB.

Other considerations include the communication process – when, how and who should communicate changes that may impact limits. The ability to effect changes is also dependent on the



technology/credit limit management solution being used to calculate the exposure. This theme is covered in more detail below.

Supervisory guidance has been provided by the NY Fed “FX Prime Brokerage Best Practice Recommendations”<sup>10</sup> which offers guidance on the procedure for credit calculation as stated in the give-up agreement between prime broker and client. The agreement “should clearly specify the permitted transaction types, tenors, and credit limits and *the procedure by which such limits are to be calculated.*” The practice of trade compression post-dates this publication and guidance remains unclear.

Principle 41 of the FX Global Code, provides guidance which directly addresses the responsibility of both PBs and EDs “for Real-Time monitoring of their available (credit) lines/or designation limits.”<sup>11</sup>

**Recommendation 1: FXPB trades should be included within bank trade compression processes where individual bank credit policy, technology and operational capability allow. A more uniform industry approach to including FXPB trades within wider bank trade compression processes would help reduce inconsistent limit calculations and increase capital and credit efficiencies across the FX ecosystem**

### **c. Limit Replenishment Process**

The allocation and management of client/counterparty credit and trading limits is a key responsibility of each bank. The FXPB tri-party deal process involves the PB (bank) who governs the PB credit trading relationship through a series of DN with ED banks to enable the underlying client to access.

The ED credit checking process is two-fold 1) with the client/counterparty under DN limits as determined by the PB and 2) direct with the PB bank. The ED trades with the underlying client (under NOP/DN limits as designated by the PB) and maintains limit monitoring processes concurrently for the 1) client and 2) the PB bank.

As outlined earlier, each bank may adopt a different approach to client limit monitoring when compression processes have taken place. Figure 4 below lists a series of considerations for the impact of trade compressions on the current limit replenishment process.

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<sup>10</sup> [Foreign Exchange Prime Brokerage: Product Overview and Best Practice Recommendations](#) (NY Fed FX Committee 2005 Annual Report)

<sup>11</sup> [FX Global Code - Principle 41 "Considerations Related to Prime Brokerage Activities"](#)



Figure 4: Considerations for FXPB Limit Replenishment Process

| Considerations for the Limit Replenishment Process |                                                                                                                                                              |                                                                                                                                                                                                                                            |                                                                                                     |                                                                                                       |
|----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| Topic                                              | 1. Original ED trade no longer exists                                                                                                                        |                                                                                                                                                                                                                                            | 2. Maintain original ED trade                                                                       |                                                                                                       |
|                                                    | Process                                                                                                                                                      | Key Considerations                                                                                                                                                                                                                         | Process                                                                                             | Key Consideration                                                                                     |
| Replenish Client Limit Y/N                         | Yes                                                                                                                                                          | 1. Timing of limit replenishment<br>2. Credit policy of bank                                                                                                                                                                               | No                                                                                                  | Credit policy of bank                                                                                 |
| Timing of Limit Replenishment                      | Timing of 'when' the limit may be replenished (noting the underlying client may not be aware of bank's risk managing process and timing of compression runs) | 1. The use of dynamic credit monitoring solutions is encouraged, to help ensure limits are updated in real-time to reflect any changes to NOPs<br>2. Consider the use of throttles/speed humps to manage the timing of limit replenishment | N/A                                                                                                 | Risk profile of the bank maintains trade under existing NOP Limits and limit monitoring systems       |
| Limit Clarity (NOP, Daily Settlement Limit - DSL)  | Transparency required for limit utilization                                                                                                                  | DSL Framework (NOTE - NOP can be amended up OR down with new trades being added or removed)                                                                                                                                                | Maintained under existing NOP/DSL framework                                                         | No change to existing process                                                                         |
| Technology                                         | Capability exists to manage the impact of trade compression runs on downstream trading and risk management systems, and timing of communications             | 1. Lack of a common tech solution across FXPB ecosystem creates interoperability challenges<br>2. How to communicate/notify limit changes                                                                                                  | Technology constraints limit the operational ability to include FXPB trades within compression runs | Impact on downstream operations<br>Lack of a common tech solution creates interoperability challenges |
| Communication                                      | Timely communication of any changes to outstanding NOP is required to executing broker and client                                                            | Timely and consistent process for notification across all 3 counterparties (client, dealer, PB). Ideally to occur in real-time via automated, dynamic credit solutions                                                                     | Maintained under existing NOP/DSL framework                                                         | No change to existing process                                                                         |
| Documentation                                      | Need to include language to enable trade compression, clearing                                                                                               | Documentation needs to include what, how and when' of any changes to the NOP from the trade compression process. Vendors may be well-placed to assist in streamlining this process.                                                        | No changes required                                                                                 | N/A                                                                                                   |

#### d. Timing and Communication of Limit Replenishment

If the NOP limits change to reflect the benefits of trade compression – it's critical to identify when the limit replenishment should occur, and how and when this change should be communicated. Importantly, a consequence of trade compression is the impact may vary on the NOP **by either increasing or decreasing** the limits, as new trades are added on or old trades are removed. Limit monitoring processes need to be dynamic and able to reflect these changes as soon as technically possible, ideally in real-time.

As the PB governs the client credit trading relationship across the EDs, timely communication of the changes to the NOP reflecting trade compression processes should be made as soon as technically possible. The use of automated, dynamic credit monitoring solutions can help to enable this to occur in real-time.

The communication process should be well documented under existing legal/DN agreements between PBs and EDs, documenting the standard information required in each communication. This information should include details on the 'what, how and when' of any changes to the NOP from the trade compression process. Vendors may be well-placed to assist in streamlining this process.

Consideration of what controls may be needed to prevent 'unlimited trading' - as monitored under daily settlement lines (DSL) limits. Tools such as timing throttles or "speed humps" are used to moderate the client trading volumes and enforce a 'break period' (e.g., limit reset the next trading day), to help ensure alignment with DN limits and with the overall risk profile of the bank.

**Recommendation 2.** The PB should advise the ED and client of any impact from trade compression on FXPB net open position (NOP) limit usage as soon as technically possible, preferably through automated, real-time dynamic credit tools.

**Recommendation 3.** Dynamic credit monitoring solutions should be used, where available, to ensure limits are updated in real time to reflect changes in NOPs following trade compression.

#### **e. Technology – Tools for Managing Limit Monitoring**

Timely communication and notification of FXPB trades that have been compressed, is often dependent on the underlying technology and credit measurement tools/systems utilized for the booking of trades. The bespoke nature of these systems across the FXPB ecosystem and the ability to integrate with existing credit engines, trading systems and compression service providers may be impaired by the different system capabilities across participants.

These interoperability challenges created by the use of different technology solutions may limit the efficiency and ability to refresh positions in a timely, coordinated manner across ED, PB and client NOPs.

Future technological developments could focus on developing electronic notification systems, such as the DN notification system, the current process is dated and remains largely ‘paper-based.’ Electronic management of the DN process could foster further use of more dynamic credit monitoring tools – enabling the documentation *and* credit to dynamically support trading where and when it’s needed most.

Market participants could consider of the merits of establishing a centralized credit utility solution – where the individual banks could benefit from a centralized market utility to optimize the availability of credit in conjunction with feeds direct from the individual banks. Having a market-wide credit utility solution could be one way to help solve the different challenges of limit monitoring outlined above. By having a central credit utility – banks could maintain their existing in-house process and policies and connect direct to the utility platform, optimizing credit allocation and limit utilization for the broader FXPB ecosystem.

The FX industry has historically struggled to establish market utilities outside of CLS<sup>12</sup>, due to several challenges including - identifying a solutions provider, differing home country/host country regulatory requirements, agreeing commercial terms and how such a solution would be administered. Further analysis is required to review the feasibility of a credit utility for wholesale FX markets and is outside the scope of this document.

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<sup>12</sup> <https://www.cls-group.com/products/settlement/>

## Summary

The FXPB ecosystem has grown to play a critical role in the FX market – by being both a catalyst for growth that enables clients to source additional FX liquidity and for providing credit to support the increased trading volumes across the various FX market participants.

FXPBs and banks have benefited from the use of portfolio optimization tools, such as trade compression, by improving operational efficiencies, and lowering credit and capital obligations. This has a heightened benefit for FXPBs and bank balance sheets more broadly, given FXPBs are potentially more sensitive to the impact of SA-CCR, given there are two trades underlying each FXPB transaction.

## Call to Action

The paper highlighted a series of practices that can improve the efficiency of the limit monitoring process, while acknowledging the challenges to broader adoption of trade compression services within FXPB limit monitoring processes. These challenges include existing bank credit policies and downstream technical and operational impacts of changes to limit monitoring systems – which are not insignificant challenges and remain a key barrier to adoption.

Market participants are consistently seeking opportunities to optimize their trade portfolios – and lower their capital and operational costs. The FXPB pool of trades remains a significant opportunity for inclusion into trade compression processes – if the investment in automating downstream systems is prioritized to enable the efficient limit monitoring and trade management. The significant and increasing daily volumes of FXPB trading, warrants the additional focus and investment from market participants – to help ensure the increased efficiency and accuracy of limit monitoring systems is preserved.

By identifying opportunities for the increased use of trade compression processes *and* increased limit monitoring efficiencies - the goal is to foster greater process and capital efficiencies across the FXPB ecosystem for all market participants.

## Contacts

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## Background to the Global Foreign Exchange Division

The Global Financial Markets Associations (GFMAs) Global Foreign Exchange Division (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<sup>13</sup>, collectively representing the majority of the FX inter-dealer market<sup>14</sup>. 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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<sup>13</sup> Bank of America, Bank of New York, Barclays, BBVA, BNP Paribas, Citi, Credit Agricole, Deutsche Bank, Goldman Sachs, HSBC, ING, JP Morgan, Lloyds, Mizuho, Morgan Stanley, MUFG Bank, NatWest Markets, Nomura, Northern Trust, RBC, Standard Chartered Bank, State Street, UBS, US Bank and Wells Fargo

<sup>14</sup> According to Euromoney league tables