



**GFMA Global FX Division**

**Market Architecture Group**

**Determining Buy – Sell / Long – Short Positions**

## **Background to the GFMA FX Market Architecture Group (MAG)**

### **About the GFMA FX Division**

The Global Financial Markets Association (GFMA) joins together some of the world's largest financial trade associations to develop strategies for global policy issues in the financial markets, and promote coordinated advocacy efforts. The member trade associations count the world's largest financial markets participants as their members. GFMA currently has three members: the Association for Financial Markets in Europe (AFME), the Asia Securities Industry & Financial Markets Association (ASIFMA), and, in North America, the Securities Industry and Financial Markets Association (SIFMA).

The GFMA Global FX Division, headquartered at AFME in London, was formed in June 2010 to support efforts to promote an efficient global FX market, monitor regulatory developments that could affect the foreign exchange markets and assist the industry in building out the infrastructure of the future. Its members comprise 22 global FX market participants, collectively representing more than 90% of the FX market (according to Euromoney surveys).

### **About the MAG**

The MAG is a working group of the GFMA FX Division. Its principal remit is to promote common industry standards and workflows in response to the new international regulatory environment. As such, the group wishes to foster dialogue and discussion with a wide range of market participants, vendors, industry utilities and regulators. The group works closely with ISDA in respect of other asset classes to harmonise cross-asset approaches where possible.

As the first key leg of implementing regulatory reform, the group is focusing on the approach to global trade reporting. This work includes focusing on the development of identifiers (in particular unique transaction identifier workflows and product identifiers / taxonomies) and protocols for determining various reporting responsibilities. All of the MAG's relevant documentation is posted on the GFMA's website at: [http://www.gfma.org/initiatives/foreign-exchange-\(fx\)/fx-market-architecture/](http://www.gfma.org/initiatives/foreign-exchange-(fx)/fx-market-architecture/)

Whilst the group will continue to focus on supporting regulatory reporting, it will also be discussing approaches to all new regulatory infrastructure, including in respect of clearing and execution. Market participants are encouraged to communicate with the MAG on these, or any other related issues.

### **Important notice**

Please note that any materials issued by the MAG contain suggestions and comments on approach based solely upon the views of the participants of the MAG. These materials have not been validated with regulators or any other participants, stakeholders or advisers (including legal advisers) to assess compliance with legislation in any applicable jurisdiction, and GFMA makes no representations as to the accuracy or completeness of the materials.

The materials issued by the MAG are provided for informational purposes only. They do not constitute, and should not be relied upon as, legal, tax or other advice.

It is up to individual market participants to determine how best to meet any relevant regulatory requirements and to ensure that they conduct their own appropriate due diligence when implementing processes and procedures, including, as necessary, seeking advice or guidance from local regulators and legal or other advisers.

GFMA has no obligation to update, modify or amend the materials issued by the MAG or otherwise to notify a reader thereof in the event that any such materials become outdated, inaccurate or incomplete.

Neither GFMA nor any participant of the MAG shall have any liability (in contract, tort, negligence or otherwise) to any GFMA member or any other person with respect to any use they make of these documents.

## **Contacts**

MAG Chairs: Jesse Drennan ([jesse.r.drennan@us.hsbc.com](mailto:jesse.r.drennan@us.hsbc.com))

Harmeet Singh ([harmeet.s.singh@baml.com](mailto:harmeet.s.singh@baml.com))

GFMA: Andrew Harvey ([aharvey@gfma.org](mailto:aharvey@gfma.org))

Email: [FXMAG@gfma.org](mailto:FXMAG@gfma.org)

## 1. Background

This document sets out suggestions for determining whether, from each counterparty's position, a trade is a buy or sell, or long or short position. This may be relevant for recordkeeping and reporting purposes for numerous jurisdictions<sup>1</sup>.

Previously, the MAG has set out suggestions for determining the Reporting Party for the purposes Dodd-Frank reporting<sup>2</sup>. The MAG suggests leveraging these protocols as the basis for making such a determination. Accordingly, in order to determine the relevant position, the FX cash rule and option rules would be applied as follows:

**The FX Cash Rule:** The sell side or short position would be determined by the party that is selling risk in the currency which is first when sorted alphabetically by ISO code. For example, in a USD-CHF forward trade, it would be each party's position relevant to the CHF leg of the trade that will determine the buy or sell position.

**The Option Seller Rule:** The sell side or short position would be determined by the seller of the product.

### Application to the FX Taxonomy

Taxonomy	Rule	Comment
Forward	FX Cash Rule	For FX Swaps, the position would be determined by applying the FX Cash rule to the far-leg of the swap
NDF	FX Cash Rule	
Option	Option Seller Rule	
NDO	Option Seller Rule	
Simple Exotic	Option Seller Rule	
Complex Exotic	See Comment	For a complex exotic product where there is an unambiguous seller of the product, the Option Seller Rule would apply. The seller determination would be driven by the seller as agreed in the standard FPML representation of the product. If there is no clear seller then the FX Cash Rule would apply.

Please see the discussion notes in the Reporting Party document for further background behind these suggestions.

---

<sup>1</sup> For example, under CFR Part 23, section 201(a)(2) [see 77 FR 20202] each swap dealer and major swap participant must keep records that reflect whether each position recorded is "long" or "short". Similarly, in ESMA's Consultation Paper on Draft Technical Standards for the Regulation on OTC Derivatives, CCPs and Trade Repositories [ESMA/2012/379], counterparties are required to submit trade data indicating whether from the counterparty's perspective the trade is a buy or sell.

<sup>2</sup> See "Determining the Reporting Party under Dodd-Frank in the Foreign Exchange Market" at <http://www.gfma.org/initiatives/foreign-exchange-%28fx%29/fx-market-architecture/>