



GFMA Global FX Division

Market Architecture Group

Material Swap Characteristics – Dodd Frank Business Conduct Rules

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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.

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Background

This document relates to certain requirements set out in 17 CFR Part 23 Business Conduct Standards for Swap Dealers and Major Swap Participants with Counterparties (“Part 23”) as issued by the CFTC to implement provisions of Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”).

§23.431 sets out certain requirements relating to disclosures of material information and, specifically, that:

“(a) At a reasonably sufficient time prior to entering into a swap, a swap dealer or major swap participant shall disclose to any counterparty to the swap (other than a swap dealer, major swap participant, security-based swap dealer, or major security-based swap participant) material information concerning the swap in a manner reasonably designed to allow the counterparty to assess:

.....

(2) The material characteristics of the particular swap, which shall include the material economic terms of the swap, the terms relating to the operation of the swap, and the rights and obligations of the parties during the term of the swap; and

.....”

Suggested approach

The Market Architecture Group has reviewed this requirement and suggests that for eligible foreign exchange transactions, material characteristics be based upon the terms included in long form confirmation for each eligible product, but excluding any that are not believed to be material or economic.

The MAG has applied this to the flow FX products and sets out overleaf suggested terms for such products.

Suggested terms for flow products

Option	NDF	NDO	Forward
Buyer	Reference Currency Buyer	Buyer	Forward Rate
Seller	Reference Currency Seller	Seller	Amount and currency payable by Party A
Premium	Notional Amount	Premium	Amount and currency payable by Party B
Currency Option Style (European / American)	Forward Rate	Currency Option Style (European / American)	Settlement Date
Currency Option Type (Call / Put)	Reference Currency	Currency Option Type (Call / Put)	
Call Currency and Call Currency Amount	Reference Currency Notional Amount	Call Currency and Call Currency Amount	
Put Currency and Put Currency Amount	Valuation Date	Put Currency and Put Currency Amount	
Strike Price	Settlement Date	Strike Price	
Expiration Date	Settlement Currency	Reference Currency	
Expiration Time	Settlement Rate Option	Settlement Currency	
Latest Exercise Time (American Style Only)	Disruption Fallbacks	Valuation Date	
Exercise Period (American Style Only)	Price Source Disruption	Expiration Date	
Settlement Date	Other Disruption Fallbacks	Expiration Time	
Premium Payment Date	Price Materiality [Applicable to BRL]	Latest Exercise Time (American Style Only)	
	Primary Rate [Applicable to BRL]	Exercise Period (American Style Only)	
	Secondary Rate [Applicable to BRL]	Settlement Date	
	Price Materiality Percentage [Applicable to BRL]	Premium Payment Date	
	Relevant Cities for Business Day(s) for Valuation Date	Settlement Rate Option	
	Relevant City for Business Day for Settlement Date	Disruption Fallbacks	
	Deferral Period for Unscheduled Holiday	Price Source Disruption	
	Unscheduled Holiday	Other Disruption Fallbacks	
	Valuation Postponement for Price Source Disruption	Price Materiality [Applicable to BRL]	
	Fallback Survey Valuation Postponement	Primary Rate [Applicable to BRL]	
	Cumulative Events	Secondary Rate [Applicable to BRL]	
	Maximum Days of Postponement	Price Materiality Percentage [Applicable to BRL]	
	Calculation Agent	Relevant Cities for Business Day(s) for Valuation Date	
		Relevant City for Business Day for Settlement Date	
		Deferral Period for Unscheduled Holiday	
		Unscheduled Holiday	
		Valuation Postponement for Price Source Disruption	
		Fallback Survey Valuation Postponement	
		Cumulative Events	
		Maximum Days of Postponement	
		Calculation Agent	
Quote Information	Information that would be updated with every price		
Transaction Information	Information that would be updated for every swap requested		
Static Information	Information that would be communicated and available by reference for every swap requested along with FX Definitions		

Note that the proposed division between Quote and Transaction information is based on the most common way of quoting products