GFMA Global FX Division

Market Architecture Group

Lifecycle events

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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/

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

Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") requires market participants to report all FX 'swaps' to a Swap Data Repository (SDR). Under 17 CFR Part 45 Swap Data Recordkeeping and Reporting Requirements ("Part 45") as issued by the CFTC to implement provisions of the Dodd-Frank Act, the reporting party is required to report trade events to the SDR to maintain an accurate depiction of all reported trades throughout their lifecycle. If a trade event is "Price-Forming", or requires a change to trade details previously reported to the real-time price feed under 17 CFR Part 43 Real-Time Public Reporting of Swap Transaction Data ("Part 43"), then the changed trade details including price, must be re-reported to the real-time feed.

Under Part 45, each swap must be assigned a Unique Swap Identifier ("USI"). Certain events require market participants to create new representations of the trade, which in some cases may require the assignment, and dissemination, of a new USI. Largely, this occurs in the situations where one trade becomes many. In certain few events, many trades may become one. Where child trades with new USIs are created, it has been suggested that the integrity of the trade information be maintained by reporting the child trade details with the USI of the parent trade(s).

The FX Market Architecture Group has reviewed the trade lifecycle events which occur in the FX cash and options markets. The matrix contained in this document shows those events, and provides the MAG's suggestion as to whether such event is considered reportable under Part 43 or is reportable under Part 45 and whether the event might call for the generation of new USIs.

The MAG notes that market participants frequently maintain internal trade attributes which are not reportable and, if changed would not necessarily cause the changed trade to be reported.

FX Trade LifeCycle Events

Activity	Confirmed	USI Created	Price forming	Product: Forward — Applicable	Product: NDF / Cash Settled Forward — Applicable	Product: Vanilla / American Option — Applicable	Product: NDO / Cash Settled Option — Applicable	Product: Simple Exotic — Applicable	Product: Complex Exotic — Applicable
Allocate	N	Y	N	Y	Y	Y	Y	Y	Y
Average (Aggregation)	Y	Y	N	Y	Y				
Cancel	Y	N	N	Y	Y	Y	Y	Y	Y
Cash Settlement	N	N	N		Y		Y	Y	Y
Clearing	Y	Y (1)	N	Y	Y	Y	Y	Y	Y
Draw Down (Contractual rather than Termination)	N	N	N	Y	Y	Y	Y	Y	Y
Early Termination	Y	N	Y	Y	Y	Y	Y	Y	Y
Exercise (2)	N (3)	N	N			Y	Y	Y	Y
Expire	N	N	N			Y	Y	Y	Y
Fixing - Under DateSchedule (4)	N	N	N						Y
Fixing - Non-deliverable / Cash Settled (5)	N	N	N		Y		Y	Y	Y
Give-up	Y	Y (6)	N	Y	Y	Y	Y	Y	Y
Knock-in	N	N	N					Y	Y
Knock-out	N	N	N					Y	Y
Modify (Economic)(7)	Y	N	Y	Y	Y	Y	Y	Y	Y
Modify (Non-Economic)	N	N	Y/N (8)	Y	Y	Y	Y	Y	Y
New	Y	Y	Y	Y	Y	Y	Y	Y	Y
Non Deliverable Disruption Events	N	N	N		Y		Y	Y	Y
Novation	Y	Y (9)	N	Y	Y	Y	Y	Y	Y
Partial exercise (10)	Y	Y	N			Y	Y	Y	Y
Partial termination (11)	Y	N	Y	Y	Y	Y	Y	Y	Y
Payment (contractual)	N	N	N					Y	Y
Rebate payout	N	N	N					Y	Y
Roll-forward / Extend / HRRO (Historic Rate Rollover) / Increase (12)	Y	N	Y	Y	Y				
Touch	N	N	N					Y	Y
Window close	N	N	N					Y	Y
Window open	N	N	N					Y	Y

(See notes overleaf)

Y	Signifies an event which would result in the creation of new trades with new USIs.
Y	Signifies a price-forming event which would require reporting under 17 CFR Part 43.

Y (1) New USIs for Clearing	The existing bilateral trade would be terminated and two new trades between the DCO and the parties come into existence each with a new USI.
(2) Exercise	Exercise is believed not to be reportable under 17 CFR Part 43 as the exercise event is contract intrinsic and the price of the exercise product is not representative of the prevailing market. The exercise product would have the same USI as the parent trade as this is not viewed as a new trade. If the exercise product is reportable, the trade details would change to those of the exercise product and be reported with the original USI.
N (3) Confirmation of Exercise	Market practice is that exercise is not confirmed, but the details of the resulting spot product are.
(4) & (5) Fixing - Under DateSchedule Fixing - Non-deliverable / Cash Settled	Fixings are suggested as not reportable as FpML does not support the expression of an amendment to a trade to include details of a fixing. It is suggested that if it became reportable, the fixing event would be a non price forming event as it is contract intrinsic.
Y (6) New USIs for Prime Brokerage Give up	The trade begins with the report of the EB-PB trade (which may be rejected by the PB). The PB-Client trade would then be reported with a second USI (non price forming, referencing the USI of the EB-PB leg).
(7) Modify (Economic)	An economic modification which reflects a contract-intrinsic event is not believed to be price forming. Any other economic modification is suggested to be a price forming event.
Y/N (8) Modify (Non Economic)	Any modification, economic or otherwise, which is a correction to a trade detail previously reported under 17 CFR Part 43 is suggested to be reported. For example, a change to the notional may not be viewed as price-forming, but would nevertheless be reported under 17 CFR Part 43.
Y (9) New USIs for Novation	The USI of the underlying novated deal may change depending on whether the RP changes. The MAG believes that under the ourRef yourRef protocol, each party would represent the trade at a repository with its own ID. Then before and after the novation, the application of reporting party rules would deliver one of those values as the USI. Thus if the RP changes, the USI would change and the prior USI would be reported accordingly. Between the transferor and the transferee, the novation involves the payment of a fee, and is believed to be price forming. The MAG suggests that the transferee report the fee for the purpose of CFR 17 Part 43 by reporting the trade details of the underlying contract and the fee as Additional Price Notation. It is suggested that steps should be taken so that a repository does not report details of the fee to the remaining party. The report of the novated trade between the remaining party and the transferee is not believed to be price-forming. The trade would be reported under 17 CFR 45 without any details of the fee. In the case of partial novation, inevitably a new trade with a new USI would be created. As suggested above, this would be non price-forming, but any fee trade would be.
(10) Partial Exercise	Firms would reduce the notional of the initial trade and (to the extent that it is reportable) report a new trade for the portion exercised with a new USI. Neither the partial exercise nor the new trade would be price-forming events. The normally price-forming nature of a new trade event would be suppressed.
(11) Partial termination	The MAG believes that firms may represent partial termination by booking an opposing trade, or adjusting the notional of the initial trade. In the first case, the event would be a new trade and be price forming; in the second case the amendment would be a price forming change.
(12) Roll-forward / Extend / HRRO / Increase	The MAG believes that firms may represent extensions or increases by booking a new trade, or adjusting the maturity or notional of the initial trade. In the first case, the event would be a new trade and be price forming; in the second case the amendment would be a price forming change.
	For any event which results in a new trade with a new USI, the MAG believes that the should new trade refer back to the parent trade's USI.