GFMA Global FX Division

FX Market Architecture Group

Proposal for Determining the Reporting Party under Dodd-Frank in the Foreign Exchange Market

Version 7

Background to the MAG

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.

The MAG is a working group made up of volunteer FX Division member banks. On behalf of division members, it is fostering industry dialogue and discussion towards developing industry trade workflow standards in response to the new regulatory environment.

In order to contact the MAG, please email to: FXMAG@gfma.org

Summary

Under the US Dodd-Frank Act, there is a requirement for all non-spot trades to be reported to a “Swaps Data Repository”. Under this requirement one party to the trade must bear the responsibility to ensure that the trade is reported. The CFTC in their rule making has created a hierarchy whereby Swaps Dealers always report when trading with Major Swap Participants and End Users, Major Swap Participants always report when trading with End Users. Within each group however, it is left to the industry to determine which party will be required to report.

This document proposes the following:

- The net receiver of premium for an option product or structure or of note product will bear the responsibility to report the transaction
- For zero-premium trades, the FX Cash rule shall be adopted
- For NDF and CFD products, the FX cash rules shall apply
- For index (or basket) products, the seller of the index will be the reporting party
- For cash FX trades where parties are both buyer and seller, then the seller of the currency which is first when sorted alphabetically by ISO code will bear responsibility to report the trade
- For products with multiple legs, where each leg of the trade is separately confirmed, the trade will be decomposed with each leg having a reporting party as outlined above
- If the trade fails to meet any of the above criteria, then it will fall to the FX cash rule.

Discussion in support of the proposal

The assignment of the reporting party is built on a principles basis and can be leveraged to further guide product specific discussion which may not be covered by the broad statement above.

Principle 1: *Rules must cater to the lowest common system denominator*

There are several means for booking trades in the FX marketplace which are economically equivalent but create different types of trade records which may or may not be linked. As such, the individual legs of an execution (i.e. near and far leg of a swap, multi-leg option strategy for which there is no agreed confirmation template, etc) will be reported independently (in the same way that they are confirmed) and as such will be assigned independent reporting parties.

Principle 2: *the seller of risk is the reporting party*

For products where there is a single exchange of cash there is a clear buyer and a clear seller of the product. Thus:

- The net receiver of premium takes on the obligation to report.
- For index products the seller of the index is obligated to report
- In the case of cash FX and options where no premium is exchanged, the seller of risk is open to interpretation and therefore will utilize the FX cash rules.

Principle 3: *the reporting party should be apparent to any party reviewing the trade, regardless of market experience or knowledge*

In defining the reporting party for cash FX, a number of potential outcomes were explored. The first would involve defining the relative economic strength of one currency versus another. However, this is dynamic and changes over time and requires an agreement as to which metric or metrics to apply to determine relative economic strength. This also captures NDF and CFD trades as non market specialists may not know if a currency's typical market convention is non-deliverable or deliverable.

Secondly, the use of quote terms on the trade was also explored as being a viable option as the seller of the nominator currency in the dealt rate taking on the reporting obligation. Particularly for infrequently traded crosses this raised the issue of reporting obligation transparency. The quote terms for GBP-USD may be well understood but quote terms on TRL-KRW may be less well known obfuscating the reporting obligation to non market specialists.

The solution settled upon as meeting the second principle was to use the alphabetic order of the ISO currency codes. For instance trading CHF-CAD, CAD comes first alphabetically and so the seller of CAD will take on the obligation to report.