GFMA Global FX Division

FX Market Architecture Group

Proposed FX Taxonomy

Version 1

Background to the FX Market Architecture Group (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

Introduction

The proposed FX taxonomy has been developed to assist regulatory reporting initiatives, including risk aggregation. The taxonomy forms the first stage of development of unique product identifiers (UPI), which will be assigned to a particular level of the taxonomy.

Proposed taxonomy

						FX Taxonomy	
Base Product	Spot	NDF	NDO	Forward	Vanilla Options	Simple Exotic	Complex Exotic
Sub-product						Barrier	
						Binary/Digitals	

The table above summarises the working group's proposed FX taxonomy. In arriving at this, the working group looked first and foremost at the intended use – the aggregation of risk for regulatory reporting. The key omission from the taxonomy relates to FX swaps. In this regard, it was determined that the use of "spot", "forward" and "Non Deliverable Forward" (NDF) allowed for the categorization of risk on both the near and far-leg of the FX swap and enables the regulator to aggregate risk as per common practice in the FX market – by value date / tenor rather than by making a product distinction which was deemed immaterial to the aggregation and presentation of risk.

Further, the working group considered the lack of standard representation for FX swaps in the industry and determined that there is a subset of the FX market who represent FX swaps as two distinct legs, without retaining the referential integrity between those legs and that a requirement to report or verify swap transactions as a single transaction would impose great costs on those parties to re-architect their systems in order to comply with the reporting requirement.

Detailed FX Taxonomy

FX Derivatives Summary

#	Asset Class	Base Product Std Product Matrix	Sub-Product
1	FX	Spot	
2	FX	NDF	
3	FX	NDO	
4	FX	Forward	
5	FX	Vanilla Options	
6	FX	Simple Exotic	Barrier
7	FX	Simple Exotic	Binary/Digitals
8	FX	Complex Exotic	