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FAQ: The FX Options Clearing & Settlement Project

The GFMA Global FX Division (GFXD)

Who is the GFMA Global FX Division (GFXD)?

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 Global Foreign Exchange Division (GFXD) of GFMA was formed in co-operation with AFME, ASIFMA and SIFMA. The Division's members comprise 22 global FX market participants, collectively representing more than 90% of the FX market. For more information, visit <http://www.gfma.org/fx>.

What is the FX Options Clearing & Settlement Project?

This new initiative of the foreign exchange (FX) industry, led by GFXD, is intended to address the clearing requirements applied to over-the-counter (OTC) FX options arising from the G-20 commitments to reform the OTC derivatives markets.

What is the objective of the Project?

The objective of the Project is to ensure that any clearing solutions developed for OTC FX options appropriately address the distinguishing characteristics of the FX market, in particular the settlement of trades on a physically settled (i.e., not net cash-settled) basis. The industry intends to approach these clearing requirements globally and in a comprehensive, fact-based and analytical manner, aiming to be responsive to regulatory expectations set forth by the Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commissions (CPSS-IOSCO), specifically their proposed principles for financial market infrastructures (FMIs) and central banks' broad policy interests in FX.

How will Project objectives be accomplished?

The Project will collect and analyze data from each of the 22 GFXD member firms going back over the last five years. This data will help to inform potential CCP solutions for OTC FX options. Once potential solutions have been identified, the Project will then commence an impact analysis of each, followed by outlines for implementation and actual implementation.

When did the Project start?

The FX Options Clearing & Settlement Project was formally commenced in February 2012.

How will the Project be coordinated across multiple jurisdictions?

GFXD recognizes the importance of maintaining an active dialogue with key stakeholders in the FX market across a number of jurisdictions to ensure this very important work is both transparent to, and coordinated with, key stakeholders. The Project will engage interested central banks, securities regulators and other regulators with authority over central clearing counterparties (CCPs). Additional outreach will be made to interested CCPs, regional FX industry forums, settlement infrastructures and buy-side participants.

What are important upcoming target milestones for the Project?

The Project will undergo several phases to meet its objectives. Of note:

- February 2012: Initial outreach to regulators globally and other interested stakeholders identified above.
- March 2012: GFXD aims to make a formal data request to the 22 GFXD firms in mid-March, with a target April deadline for receipt of this data.



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Once the data has been appropriately analyzed, GFXD intends to publish a summary of results to the public in an aggregated, non-confidential manner in the summer of 2012. Following this publication, GFXD will commence investigation of potential CCP solutions for OTC FX options, followed by an impact analysis. The impact analysis will inform the later stages of the Project, such as implementation.

Questions?

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