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GLOBAL FOREIGN EXCHANGE DIVISION

MEETING WITH ECB FX CG
7 July 2015

Agenda

- Clearing and Margin
- Execution / Transparency
 - MiFID
 - SEF
- FEMR Update and Standards PoC
- Single Code of Conduct Work
- GFXD Operations Committee/MAG Update

Clearing and Margin

- Clearing
 - ESMA took decision at the end of January 2015 not to support LCHs proposal for NDF clearing in Europe. Recent discussions with the CFTC suggests no plans to prioritise NDF clearing in the US.
 - No further news on FX options – LCH are now focussing on a FX Options clearing offering, expected to be voluntary at first rather than evoking a mandatory clearing obligation
 - We are expecting FX clearing consultations from HK during the summer of 2015, Singapore has just launched theirs. Canada consulted earlier this year
 - Vendor developments:
 - NASDAX in Europe have been approved to offer NDF/CSF and NDO clearing
 - CLS are developing their settlement model for physically cleared FX products, specifically developing a separate settlement cycle
- Margin
 - In February, BCBS IOSCO revised their “margin for non-centrally cleared derivative” rules
 - As a reminder both IM and VM applies to Options/NDF. VM only applies to Fwds/Swaps
 - There is a delay of 9 months to the implementation of requirements to exchange both IM and VM (to 1 September 2016)
 - There is a revised phase-in arrangement for the requirement to exchange variation margin (those ‘covered entities’ below the €3 trillion threshold get a further 6 months) to 1 March 2017
 - CFTC cross border paper issued for comment and European Regulatory CP on risk mitigation has been launched
 - ISDA have finalised their models for calculating IM under their Working Group on Margin Requirements (WGMR) Implementation Program - this is for all derivatives, including FX
- Compression
 - CLS/TriOptima compression service announced in January 2015

Execution / Transparency – MiFID

- MiFD Instruments
 - Expect final ruling on FX forwards etc. in September
- MiFID Addendum (March 2015)
 - Consultation focussed on transparency, specifically defining what is liquid/illiquid
 - Will directly impact trading obligations and pre/post trade transparency obligations
- Impact of the Addendum – as is:
 - We expect pre/post trade obligations to exist on some FX instruments that are normally deemed illiquid by the market e.g. scandy crosses
 - Incorrect classification of FX swaps, some spot and FX options business as being ‘spread-betting’ which may have further ramifications
 - Likely to see divergence between US and Europe in ‘block’ sizing due to incorrect data being used. This will impact ability to meet regulatory obligations when trading across border
- GFXD has recommended that:
 - ESMA should use the more representative data e.g. semi-annual BoE, in their assessment
 - We have demonstrated which FX instruments are normally considered to be liquid, which equates to 80% of the European FX Fwd/Swap/Vanilla Option/NDO market as being liquid
 - We deemed NDF, simple and complex options to be illiquid
- NCA community now recognises potential need to amend the current approach to defining liquidity in the FX markets.

Execution / Transparency – SEF

- Reminder that the legal certainty issue with SEF trading requires the SEF to obtain all relationship documentation to effect the legal confirmation of the trade (CFTC SEF rule footnote 195); will require a significant cross-asset industry build to implement
 - GFXD advocacy position is to address the 'root-cause' i.e. CFTC staff interpretation of the SEF rules of what constitutes confirmation data reporting v legal confirmation
- GFXD has discussed with CFTC staff and provided our views on legal confirmation v confirmation data reporting
 - Positive response from CFTC on our proposals
 - CFTC keen to understand how they can encourage more on-SEF trading i.e. addressing the legal certainty issue
- Current Status
 - In April the CFTC issued a 6 month extension to fn195, from September 2015 to March 2016
 - GFXD continuing discussions with DMO in-order to create a more permanent result
 - Identify what data fields are required to be reported to truly meet CFTC needs
 - Understand what the CFTC needs from the industry to issue permanent fn195 relief
- Potential Outcomes
 - By addressing the true needs of the CFTC re trade reporting - may make fn195 redundant
 - If the NAR is not made permanent, industry can build out required cross-asset infrastructure by March 2016

FEMR Update and Standards PoC

- Final recommendations on FEMR published in June. 21 key recommendations incl. building on 3 areas
 - **Conduct Proof of Concept (PoC)** - Ability for industry and regulators to focus on and agree conduct guidelines in specific areas
 - **FICC Market Standards Body** –an entity to deliver guidelines across FICC “FMSB”
 - **Certification** – tackling the “rolling bad apple” issue. Register, better referencing?
- PoC work - focused on the FX Stop Loss topic. Proof of concept of both content and process
 - Working group of 15+ cross industry volunteers
 - Creation of principles, guidelines and detailed parameters
 - Engagement with industry, regulators and supervisors
 - Now finalised
- Outstanding questions on POC
 - How does PoC get taken forward? Any new areas?
 - How does it now fit with BIS codes of conduct, FCA remediation work etc?
 - How does it fit internationally?
- FMSB – next stages, September launch

Single Code of Conduct Work

- Currently 7+ codes covering FX
- New BIS programme to align codes under Guy Debelle's leadership
- Kickoff September 2015
 - May 2016 GFXC NY
 - May 2017 GFXC London

GFXD Operations Committee/MAG Update

- **GFXD Operations Committee**
 - Heightened focus on technological and procedural changes. Intention is to equip the group with information to enable well-informed decisions on cost and risk reduction opportunities
 - FpML templating project of 27 FX products is now complete
 - GFXD OpsCom has rolled out 10 SWIFT updates to increase automation
 - Q3 2015 GFXD Operations Committee workshop to pinpoint procedural changes to address specific risk issues and cost inefficiencies.
- **MAG**
 - Now focussing on the MiFID implementation challenges (3 January 2017 go-live date)
 - Clear there is still a significant lack of detail on 'basic' implementation questions that could impact technology solutions; note these may be provided in the forthcoming ESMA MiFID technical standards and most to be cross-asset in application
 - e.g. How do you define a 'quote' - is this an all-in price?
 - e.g. How will a platform construct an indicative price?
 - Given the timeframe/nature/impact of MiFID, key for all market participants to retain awareness of the MiFID dossier