

ACI – The Financial Markets Association




ACI FXC REPORT

Update of regulatory development ECB FXCG – 17 October 2014

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ACI:

- 13.000 individual members, 65 countries
- Model code, Education and FX working groups.

ACIFXC MISSION STATEMENT:

- To inclusively represent the entire professional FX Market, on the principle of personal integrity, will individually uphold the values of the Model Code.
- The committee to be focussed on and comprised of FX Experts to promote a common global, orderly and transparent FX market.
- The ACIFXC will fully represent current and future trading styles.

ACI FXC;

- 18 Members from US, EU, ASIA (8 banks, 5 buy sides, 5 brokers/platforms)
- 4 meetings per year (last in New York for the creation of ACI USA)

<http://www.aciforex.org/gb/aci-forex-committee-112.cfm>

FX a global market with local regulation

Participants to a transaction often reside in different jurisdictions: conflicting regulations to the same trade can pose major challenges.

Key important points;

- U.S. and the EU seem to be moving forward on the same timetable.
- Bad experience with Rates IRS and CDS (fragmentation of liquidity)
- Liquidity for the most actively traded NDFs in currencies such as the Chinese RMB, the Indian rupee, and the Korean won is mainly in Asia
- U.S. and European customers account for less than third of the global NDF market
- Need to avoid taking actions that might disrupt U.S. and EU access to liquidity pools in Asia

Clearing & trading mandate timing linked

Key important points for US clearing mandate;

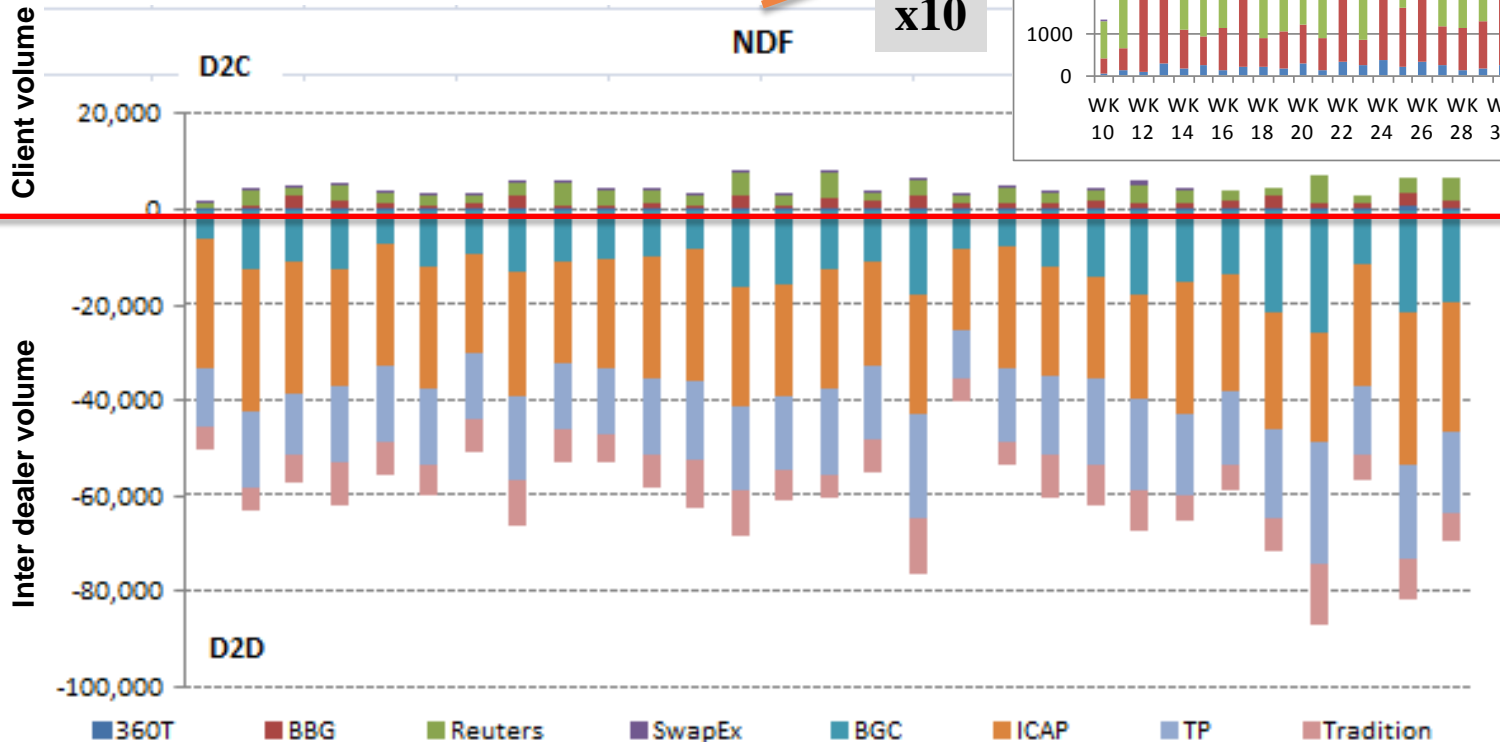
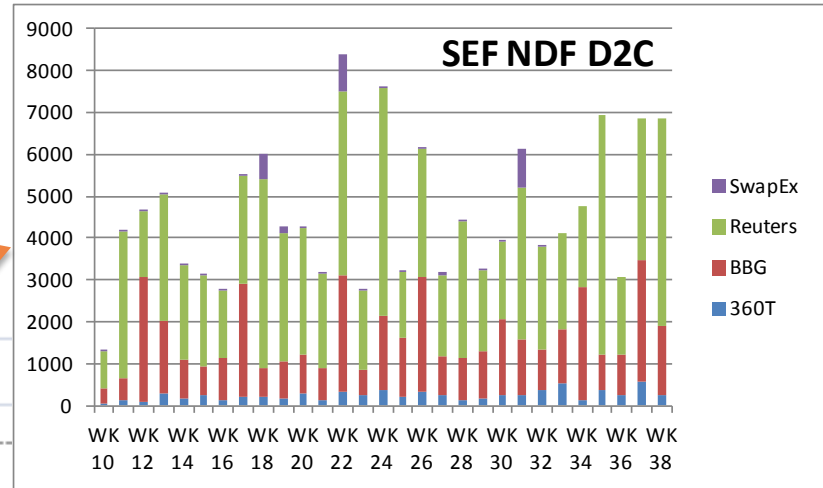
- Trading mandate would come soon after a clearing mandate because of the way that the CFTC's "made available for trading" requirements work.
- Potential issues with package trades or bonds from NDF currencies.
- Few clearing firms (FCM) are ready to clear NDF.
- Need time to learn from clearing IRS and CDS.

Impact for Europe / ASIA

- Risk of NDF liquidity moving away from clearing requirements.

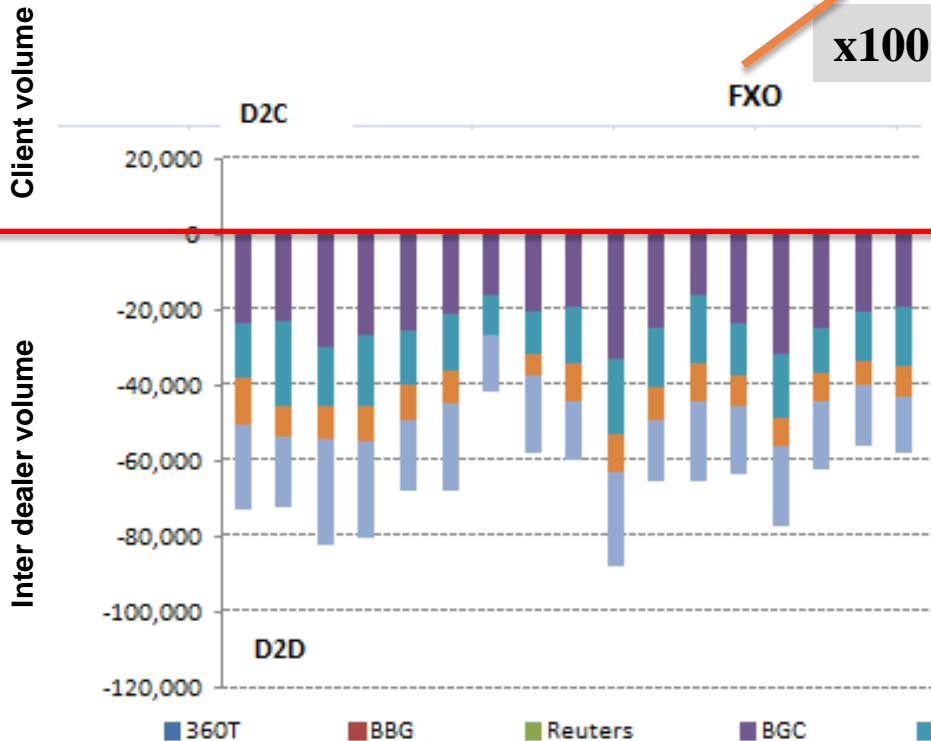
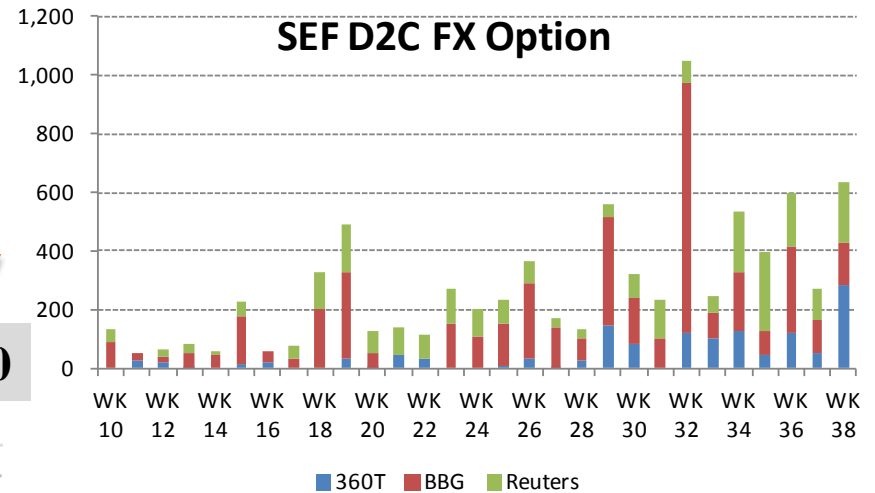
USA – NDF SEF weekly volumes

- 8 SEF live since Oct 2013
- Most volume on 4 D2D brokers
- No clear move from voice to “e”



USA – FX Option SEF weekly volumes

- 7 SEF live since Oct 2013
- Most volume on 4 D2D brokers
- No clear move from voice to “e”



USA – CFTC – NDF Determination

The CFTC hold a meeting of its **Global Markets Advisory Committee on October 9**

Key important points;

- a clearing mandate would lead very quickly to a trading mandate
- considering a proposal for mandating clearing for 12 currency pairs
- with tenors of three days to two years
- a three to nine month time frame for clearing
- a very small number of market participants are clearing NDFs
- 99% of NDF trades are not cleared

Implementation;

- Swap dealers, major swap participants and "active funds" would have to comply within 90 days.
- Banks and other funds would have to comply within 180 days
- All other market participants, including pension plans, would have to comply within 270 days.

EUROPE – EMIR & MIFID timing

ESMA start thinking about it.

EMIR (Clearing) Key important points;

- Proposed NDF clearing mandate issued by ESMA on Oct. 1
- Covers the same CCY, with the exception of NDFs in the Peruvian currency.
- Clearing mandate would be fully phased in by early 2017
- Considering a proposal for mandating clearing for 12 currency pairs
- A three to nine month time frame for clearing

MIFID2 (Trading) key important points;

- A trading mandate linked to MIFID2 not before Jan 2017
- FX Liquidity definition will be complicated
- Trading obligation (MTF, OTF, SI)
- Pre – and post-trade transparency
- Systemic Internaliser v Trading Venue

ASIA– NDF Determination ?

Regulators in ASIA are also thinking about it.

Key important points;

- Singapore and Hong Kong can clear a more limited range of NDFs
- Impact for dealers and markets participant in ASIA if they trade with US persons or European entities.
- What impact if local banks in ASIA don't want to clear with US/EU ?

Conclusion - key points to remember

Short term and long term FX impact of global regulation

1. DFA / EMIR / MIFID2 a timing issue (Jan 2107 ?)
2. Global regulation consistency is a must
3. FX Liquidity definition will be complicated
4. Temporary suspension regime needed
5. Trading obligation in Europe (MTF, OTF, SI) / SEF in US
6. Pre and post-trade transparency
7. Clearing will take time (FCM & Client demand)
8. Systemic Internaliser v Trading Venue