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## Press Release

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### US Treasury ‘final determination’ to exempt FX from central clearing under Dodd-Frank brings clarity, says GFMA’s Global FX Division

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The US Treasury decision to exempt foreign exchange forwards and swaps transactions from the clearing and exchange trading requirements of the Dodd-Frank Act is a critical step in ensuring the safe functioning of a well performing market and in promoting clarity in the international regulatory regime, according to the Global FX Division<sup>1</sup> of the Global Financial Markets Association<sup>2</sup>.

Subjecting FX transactions to mandatory clearing would have introduced new risks into a stable market that performed well during the crisis with serious negative consequences for corporate and asset manager end-users, who use foreign exchange for international trade and investing and as a key element of their risk management programmes.

Research<sup>3</sup> shows that the key risk in foreign exchange is *settlement risk*, comprising 94% of the estimated maximum loss exposure in a trade for FX instruments with a maturity of six months and 89% for instruments with a maturity of two years. Recent consultations from several jurisdictions have consistently focused on settlement risk reduction as being the most appropriate mitigation technique for the FX markets.

This settlement risk is already managed effectively through the existing CLS settlement system, which covers 17 currencies and is regulated by the Federal Reserve Bank of New York - who also Chair the joint oversight committee with 21 other Central Banks.

The US Treasury decision also recognises the FX industry’s efforts along with DTCC to develop a global trade repository to store FX trade information, thereby providing additional oversight for regulators and transparency for users. The global build out of this repository, already in testing, will increase its effectiveness for regulators and efficiency for participants.

James Kemp, managing director of GFMA’s Global FX Division, commented:

“We very much welcome the US Treasury ‘final determination’. Moving FX swaps and forwards to centralised clearing would not only have created additional costs for businesses and investors, but also increased systemic risk. After such a detailed consultation period, this final decision from the US Treasury provides the clarity the industry needs to now further develop the infrastructure of the future.

“The US Treasury has identified that the key risk in FX is settlement risk and that it is already effectively managed. We urge regulators in other jurisdictions to acknowledge the US Treasury’s key points and follow suit in exempting FX from mandatory clearing and execution requirements. This will ensure that the global FX market is not fragmented into different regimes and remains cost effective for end users”.

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**Notes:**

1. The Global Foreign Exchange (FX) Division was formed as part of the Global Financial Markets Association (GFMA) and its members comprise 22 global FX market participants, collectively representing more than 90% of the FX market (Euromoney 2012).
2. The Global Financial Markets Association (GFMA) brings together three of the world's leading financial trade associations to address the increasingly important global regulatory agenda and to promote coordinated advocacy efforts. The Association for Financial Markets in Europe (AFME) in London and Brussels, the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian and North American members of GFMA. For more information, visit <http://www.gfma.org>.
3. Research carried out by Oliver Wyman in October 2010.