



Global Foreign Exchange Division  
39<sup>th</sup> Floor  
25 Canada Square  
Canary Wharf  
London  
E14 5LQ

Wholesale Markets Review  
Securities and Markets, Financial Services Group  
HM Treasury  
Horse Guards Road  
SW1A 2HQ

Via email: [WholesaleMarkets.Review@hmtreasury.gov.uk](mailto:WholesaleMarkets.Review@hmtreasury.gov.uk)

24 September 2021

**Re: Wholesale Markets Review**

Dear Sir/Madam

The Global Foreign Exchange Division ('GFXD') of the Global Financial Markets Association ('GFMA') welcomes the opportunity to provide comments to HM Treasury (HMT) on its consultation paper on its Wholesale Markets Review, ('the Consultation'), published on 1 July 2021.

The GFXD was formed in co-operation with the Association for Financial Markets in Europe ('AFME'), the Securities Industry and Financial Markets Association ('SIFMA') and the Asia Securities Industry and Financial Markets Association ('ASIFMA'). Its members comprise 23 global FX market participants,<sup>1</sup> collectively representing the majority of the FX inter-dealer market.<sup>2</sup>

The FX market is the world's largest financial market. Effective and efficient exchange of currencies underpins the world's entire financial system. Many of the current legislative and regulatory reforms have had, and will continue to have, a significant impact upon the operation of the global FX market, and the GFXD wishes to emphasise the desire of our members for

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<sup>1</sup> Bank of America, Bank of New York Mellon, Barclays, BNP Paribas, Citi, Credit Agricole, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, Lloyds, Mizuho, Morgan Stanley, MUFG Bank, NatWest Markets, Nomura, Northern Trust, RBC, Standard Chartered Bank, State Street, UBS and Wells Fargo.

<sup>2</sup> According to Euromoney league tables.

globally co-ordinated regulation which we believe will be of benefit to both regulators and market participants alike.

The global FX market presents some unique challenges for trade reporting when compared with other asset classes. FX forms the basis of the global payments system and as such both the number of market participants and the volume of transactions are high. Notional turnover, per the last BIS report, is US\$6.6 trillion/day.<sup>3</sup>

The high number and diversity within the participants of the global FX market presents many practical challenges in ensuring that those that are required to report can do so. As the FX market is global in nature, the reporting of a transaction will often be required to multiple jurisdictions, and any variation in the trade reporting requirements will be required to be adopted by either one, or both, parties to the transaction usually resulting in increased costs and increased operational risks.

The GFXD has consistently promoted and supported efforts to align global trade reporting standards as we believe that consistent trade reporting requirements offer regulators the best opportunity to oversee trading practices and market transparency.

Finally, with respect to this specific consultation, we recognise that there is now opportunity for the UK to strategically assess its regulatory approach. We suggest that any changes need to bring value to all market participants, especially noting the investment taken to date to design, build, operationalise and maintain systems and processes to meet existing obligations. For cross-border markets like FX, we believe that change should be driven with harmonisation in mind, to ensure that supervisory and market responsibilities can be met in a fair, efficient, and safe manner to meet the goals of the original G20 commitments.

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### **Executive Summary**

- **We recommend that HMT maintain a single SI definition for all obligations and that for FX this is based at the product level i.e. FX.**
- **We agree with the proposal to remove the pre-trade obligations and support the HMT proposal to use RFQ.**

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<sup>3</sup> [https://www.bis.org/statistics/rpfx19\\_fx.htm](https://www.bis.org/statistics/rpfx19_fx.htm)

### **Chapter 3: Systematic Internalisers**

#### **20 Do you agree that the definition for SIs should be based on qualitative criteria?**

For FX, we agree that the definition of a SI should be based on qualitative criteria - for each asset class – and not at the entity level. Given that such qualitative criteria have not yet been published we strongly suggest that the industry should be further consulted as proposals evolve before finalisation.

#### **22 If you answered yes to question 20: Do you think that regulatory guidance should be used to support the definition in legislation?**

For FX, we suggest that any further guidance should consider the operational challenges of frequent changes to a firm's SI status and strongly recommend that changes should not occur on a regular/frequent basis.

Frequent changes will incur increased operational risk, unnecessary increased costs due to the oversight and implementation of such changes, and the potential for scaling back in the provision of liquidity if implemented, thus offering no benefit to supervisors or the market alike.

#### **23 Do you currently opt-in to the SI regime?**

For FX, feedback from our members suggests that many opt in to the SI regime at an asset class level, driven by the desire to reduce the regulatory burden for clients.

#### **24 Should SIs be determined at entity level instead of on an instrument by instrument basis, for reporting purposes?**

We note that this question relates to reporting which infers there could be multiple SI definitions. We do not believe that there are benefits to having multiple SI definitions based on individual regulatory obligations.

Our members do not support the concept of SI at an entity level and as recommended in question 20 above suggest that SI is determined at the asset class level.

#### **25 What would be the risks and benefits of adopting such an approach?**

For FX, feedback from our members suggests that a definition based on the entity level could be too broad, noting the variance in activity across the asset-classes. Determining that a firm

should be an SI for all asset classes could result in firms with lower levels of activity deciding to exit markets due to the increased costs, oversight and management of associated risks of being an SI.

**27 Do you think any other changes are needed to increase the effectiveness of the SI regime?**

Yes. In order to improve efficiencies, we recommend that the UK considers a central reference point (i.e. a golden source) for both a list of SIs and ISINs.

We believe that this will provide much needed transparency and enable more automation.

**Chapter 5: Fixed Income and Derivatives Markets**

**41 Do you agree that the scope of the derivative trading obligation (DTO) should be revised to bring it in line with the scope of the clearing obligation following the changes introduced by the European Market Infrastructure Regulation (EMIR) REFIT? What risks/ benefits do you see with this approach?**

FX does not currently have a DTO, and it is therefore difficult to comment.

**45 Do you think that the current transparency requirements support price formation and open, competitive and fair markets? Please separate your answers by fixed income (please treat sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (please distinguish between OTC and exchange-traded derivatives (ETDs) where relevant).**

For FX, this is difficult to answer due to the current illiquid nature of the FX markets. Feedback from our members suggests that their clients are not asking for information on a pre-trade basis, and we therefore question the value-add of the pre-trade transparency obligations.

**46 Do you think that using traded on a trading venue (ToTV) is a useful criterion for determining the scope of transparency requirements for non-equity instruments, and in particular OTC derivatives? Please separate your answers by fixed income (please treat sovereign bonds, high-yield bonds and investment grade bonds separately) and derivatives (please distinguish between exchange traded and OTC derivatives).**

For FX, we support the submission made by the International Swaps and Derivatives Association (ISDA).

We support that the transparency requirements should be phased in and assessed before considering wider coverage and note that feedback from our members suggests limited use of the data obtained from post trade transparency obligations.

We welcome the opportunity to engage further as the scope for transparency requirements develops.

**47 If you answered no to question 46: Do you think the concept of ToTV should be removed for OTC derivatives, and the scope of the transparency regime determined on the basis of whether the instrument is cleared? If so, what definition of ‘cleared’ should be used?**

We support the submission made by ISDA.

**49 What instruments do you think should be in scope of the fixed income and derivatives transparency regime? Please consider fixed income (please treat sovereign bonds, high-yield bonds and investment-grade bonds separately) ETCs, ETNs, structured finance products, emission allowances and derivatives (please distinguish between exchange traded and OTC derivatives).**

We support the submission made by ISDA.

**50 What changes do you think are needed to enable liquidity calculations to work effectively? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds) and derivatives (ETDs and OTC derivatives).**

Given FX is currently illiquid, it is difficult to state what changes to the current process could mean for the FX markets. We welcome the opportunity to discuss any proposals as and when the liquidity determination is being assessed for FX.

**51 Do you think it would be preferable to move away from regular liquidity calculations towards a mix of qualitative and quantitative criteria? For example, on a sectoral basis? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).**

FX does not currently have a trading or clearing obligation and as such it is difficult to comment on the implications should a trading or trading like test be applied as noted in paragraph 5.25 and request further clarity on what a ‘similar way’ could mean in practice.

It is therefore unclear at this time whether the current proposals for determining liquidity are suitable for the FX markets, but we do note the challenges raised by the other asset classes. We welcome the opportunity to continue to discuss such considerations, including any new approaches to determining for liquidity for FX as and when appropriate.

**52 How do you currently use pre-trade transparency? Is pre-trade information on bonds and derivatives valuable? Please differentiate between fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives), and each trading method (for example RFQ, and order book).**

For FX, feedback from our members suggests that they are not asked to provide pre-trade data to their clients. As such we do not believe that the current pre-trade obligations add value to market participants.

**53 Is there a case for removing MiFID II pre-trade transparency requirements for any asset class? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).**

For FX we would support the removal of the pre-trade transparency requirements. Due to the high levels of electronic trading (The Bank of International Settlements in 2019 reported that 58% of the global FX market was executed electronically<sup>4</sup>), the streaming of prices and provision of best execution, our members believe that there is already a high level of transparency within the markets, as evidenced by the lack of client requests for pre-trade information.

**54 If you answered yes to question 53: Do you think that RFQ, bilateral negotiations and indications of interest provide sufficient information for markets to function effectively? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).**

For FX, we agree with the statement that RFQ, bilateral negotiations and indications of interest provide sufficient information.

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<sup>4</sup> [https://www.bis.org/publ/qtrpdf/r\\_qt1912g.htm](https://www.bis.org/publ/qtrpdf/r_qt1912g.htm)

**56 For SIs, what impact do you think removing pre-trade transparency requirements would have on your business? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).**

For FX, member feedback suggests that such a change would provide regulatory certainty, especially for non-automated flows such as voice trading.

**58 How do you currently use deferrals? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).**

For FX, due to the illiquid nature of FX our members send data to their APA who then applies any deferrals on their behalf.

**59 Which asset classes should deferrals apply to? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).**

We support the use of deferrals for FX and suggest that they are aligned with other jurisdictions. FX is by definition cross-border, as 56% of FX transactions occur on a cross-border basis (rising to 68% for inter-dealer trading<sup>5</sup>), and we strongly support regulations being harmonised across jurisdictions. Given the important role deferrals play in the management of risk, challenges arise when a trade is deferred in one jurisdiction but not another and the scale of this challenge could impact the ability of market makers to provide liquidity.

**60 Do you agree that the deferral regime would benefit from being simplified?**

In addition to harmonising deferrals across jurisdictions, for FX we support the idea of having suitable deferrals which enable liquidity providers to safely hedge and manage any risks. We agree that illiquid trades generally require more time to risk manage and welcome further dialogue with the FCA in determining suitable deferrals.

**61 What do you think the optimum deferral length is? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).**

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<sup>5</sup> [https://www.bis.org/statistics/rpfx19\\_fx.htm](https://www.bis.org/statistics/rpfx19_fx.htm)

Given FX is currently illiquid, it is difficult to state what changes to the current process could mean for the FX markets. We welcome the opportunity to discuss any proposals as and when the liquidity determination is being assessed for FX noting the preference for harmonisation with other jurisdictions due to the cross-border nature of FX.

**62 What are your views on the government’s proposal to delete the size specific to the instrument (SSTI), package order, and EFP deferrals? Do you think it would lead to more meaningful transparency? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).**

Given FX is currently illiquid, it is difficult to state what changes to the current process could mean for the FX markets. We welcome the opportunity to discuss any proposals as and when the liquidity determination is being assessed for FX.

**63 Do you think volume masking and/or aggregation helps to encourage real time publication? Please separate your answers by fixed income (sovereign bonds, high-yield bonds and investment-grade bonds separately) and derivatives (ETDs and OTC derivatives).**

For FX, we are not aware of any volume masking being applied by the APAs used by our members. Should either be used we strongly recommend that they are suitably calibrated to ensure anonymity.

## **Chapter 8: Reporting**

**93 Where do the current regulatory reporting regimes for wholesale markets contain duplicative reporting requirements?**

For FX, there is considerable duplication across the multiple reporting regimes that our members are required to comply with and we believe that reporting should be single sided, and that data should be reported once and used for multiple purposes.

Additionally, there is both inconsistency in terminology (i.e. the same attributes are called different things across the reporting obligations) and inconsistency in how the same attributes are required to be reported. To demonstrate this, we have attached in Appendix 1 a summary of the different reporting obligations a firm faces when trading between the US and the UK.

We strongly recommend however, that HMT/FCA assess what data they need and for what purposes before making any recommendations to change existing reporting. We also suggest

that consideration is made to the changing nature of technology as it could be (similar to that seen in the recent BoE exercise on data transformation) that new alternatives are being developed which could improve the quality of data significantly.

Once these points have been clarified, we suggest adopting the following principles:

- If there are reporting obligations, any reportable data element should be reported once (e.g. by using UPI)
- Global harmonisation should be key in defining the reporting obligations (e.g. by harmonising UTI, UPI, CDE)

Finally, we understand that there still remain issues with the management of personal data which is also required for certain obligations, which could ultimately result in trades being rejected by venues. We recommend that this topic is highlighted for assessment and look forward to discussing further.

**99 Have you experienced any issues with the utilisation of International Securities Identification Number (ISINs) as identifiers?**

Yes, for FX our members have experienced issues with ISINs.

A key issue for FX is that ISINs are constructed using Settlement Date rather than instrument tenor and this results in a significant number of ISINs being generated for what is essentially the same instrument. This makes it very difficult to compare products across a time range and ultimately increases complexity and reduces transparency.

We also note that there is duplication between ISINs and unique product identifiers (UPIs) and recommend the use of UPI to promote global consistency across jurisdictions.

**100 Do you have any suggestions on how the use of identifiers could be improved?**

For FX, and as stated under question 99, adopting a UPI as product identifier would be beneficial. Given the nature of the UPI, which is defined by the instrument tenor rather than the Settlement Date, it would provide more transparency to FX markets and would avoid duplication.

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We appreciate you giving us the opportunity to share our views. Please do not hesitate to contact Andrew Harvey on +44 203 828 2694, email [aharvey@eu.gfma.org](mailto:aharvey@eu.gfma.org), or Sara Scognamiglio on +44 203 828 2711, email [sscognamiglio@eu.gfma.org](mailto:sscognamiglio@eu.gfma.org) should you wish to discuss the above.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'James Kemp', with a stylized flourish at the end.

James Kemp  
Managing Director  
Global Foreign Exchange Division, GFMA

## Appendix 1. Comparison between the US and the UK



UK/US Transparency and Reporting Obligations: Bilateral/SI

Timing	Continuous	Pre-Trade (Continuous)			ASATP	< 5min	ASATP <	30min	<21.00 CET	< T+1	T+2 / 4wk			
Data Capture	Costs and Charges	Indicative Quote	Firm Quote	Pre-Trade Mid	All Trade Details (US)	Price, Time and Volume (UK)			Instrument Data	All Trade Details (UK)				
REPORT														
Dossier L2 (MiFID/R)	MiFID 2 Art 24 DA April 6 Art 50	MiFIR Art 18 RTS 2			DFA Part 23	DFA Part 43	MiFIR Art 21 RTS 2	DFA Part 45	DFA Part 43	MiFID Art 27 RTS 23	MiFIR Art 26 RTS 22	EMIR Art 9	MiFID 2 Art 25 DA April 6 Art 50	MiFIR Art 21 RTS 2
Name/Scope	Investor Protection (1)	Pre-Trade	Pre-Trade	Pre-Trade	Disclosures of Material Information	Real-Time Public Reporting	Post Trade	Swap Data Reporting	Real-Time Public Reporting	Reference Data	Transaction Report	Trade Report	Investor Protection (2)	Post Trade
Scope/Notes		Liquid < SSTI	Liquid < SSTI Art 18(5)	Illiquid < SSTI Art 18(2)	* All NDFs, NDOs and exotic options * Fwds and swaps: if opty agrees, and real time pricing is available, it only applies to fwds and swaps in BIS top 31 cogs > 1yr * Vanilla options: if opty agrees, and real time pricing is available, it only applies to vanilla options in BIS top 31 cogs > 6months	NDF and options < block size	If no deferral granted		NDF and options > block size					If granted deferral
Recipient	Client	Public via RM/APA/proprietary means	Other clients	Clients (on request)	Counterparty (only when opty is not SD, MSP, SBSD or MSBSP)	Public via TR	Public via APA	TR	Public via TR	NCA	NCA	TR	Client	Public via APA
Content	Costs and Charges (incl information on investment and ancillary services, the cost of advice, the cost of the financial instrument and how the client may pay for it, and any third party)	Firm Quote (Fields TBD)	Firm Quote (Fields TBD)	Firm Quote (Fields TBD)	Pre-Trade Mid	Transaction and Pricing Data	Price, Time and Volume	Confirmation Data and PET	Transaction and Pricing Data	Instruments Traded that are uTOTV (incl. Quotes and Orders)	Trade Details (85 Fields)	Trade Details (85 Fields)	Details concerning the order	Price and Time OR Aggregated Data
Price/Quote	N/A	Yes (All in)	Yes (All in)	Yes (All in)	Mid Mark (Trader)	Yes (All in)	Yes (All in)	Yes (All in)	Yes (All in)		Yes (All in)	Yes (All in)	Yes	Yes (All in)
Currency						Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes/Yes
Notional						Yes, rounded	Yes	Yes	Yes, capped	Yes	Yes	Yes	Yes	Not Aggregated
Reporter ID							Yes	Yes			Yes	Yes	Yes	Yes
Cpty ID								Yes			Yes	Yes	Yes	Yes
Product ID						Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes/Yes
Buy/Sell						Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes/No
Timestamp														