

20110511 ACI welcomes US Treasury "proposed determination" to exempt FX from CCP

ACIFXC, the Foreign Exchange Committee of ACI The Financial Markets Association, welcomes US Treasury 'proposed determination' to exempt FX from central clearing under Dodd-Frank

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The announced 'proposed determination' by the US Treasury to exempt foreign exchange forwards and swaps transactions from forced clearing under the Dodd-Frank Act is welcomed by the ACIFXC. The association's international FX Committee regards this proposal as fundamental for the sustainability and effective functionality of stable, liquid (cash) currency markets. There has been concern that the associated costs of mandated or enforced 'clearing' of non-derivative currency contracts may cause severe and detrimental impact, particularly on 'buy-side' market participants ability to source robust, economic pricing for currency risk management. Additionally, the incremental risks that would be brought on the market through concentration of exposure and settlement would far outweigh any benefits to all participants.

THE ACIFXC agrees with the logic underpinning the decision by the US Treasury in recognising the unique factors in Foreign Exchange markets and difference between FX forwards and other derivatives. The fixed terms of physical settlement, short-term nature and well functioning settlement process have ensured that the FX industry has continued to function continuously throughout the market turmoil of the past decade. The ACIFXC recognises and supports the substantial and very effective progress in the elimination of settlement risk, which has been achieved since the introduction of/through the operation of the CLS Bank and other payment versus payment (PVP) settlement systems.

Stephane Malrait, Chair of the ACI FX Committee comments:

"Given the global nature of the FX markets and the challenges (operational, potential for arbitrage and otherwise) that could arise from geographical and cross-border regulatory inconsistencies, the ACIFXC hopes that the European regulators, in the first instance, will align themselves to this announced 'proposed determination' and recommend an exemption of foreign exchange forwards and swaps transactions from mandatory clearing".

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