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Submitted via online form

15 November 2017

Re: Consultation Document on post-trade in a Capital Market Union: dismantling barriers and strategy for the future

Dear Sir, Madam

The Global Foreign Exchange Division (GFXD) of the Global Financial Markets Association (GFMA) welcomes the opportunity to provide feedback on the European Commission's consultation document on post-trade in a Capital Market Union: dismantling barriers and strategy for the future (the "Consultation"), released on 23 August 2017.

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 25 global foreign exchange (FX) market participants,¹ collectively representing over 80% of the FX inter-dealer market.² Both the GFXD and its members are committed to ensuring a robust, open and fair marketplace and welcome the opportunity for continued dialogue with global regulators.

Introduction

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

¹ Bank of America Merrill Lynch, Bank of New York Mellon, Bank of Tokyo Mitsubishi, Barclays, BNP Paribas, Citi, Credit Agricole, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, Lloyds, Mizuho, Morgan Stanley, Nomura, RBC, RBS, Scotiabank, Société Générale, Standard Chartered Bank, State Street, UBS, Wells Fargo and Westpac.

² According to Euromoney league tables.

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

Question 1a: Which of the trends are relevant for shaping EU post-trade services today? Please indicate in order of importance.

- (i) **increased automation at all levels of the custody chain;**
- (ii) **new technological developments such as DLT;**
- (iii) **more cross-border issuance of securities;**
- (iv) **more trading in equities taking place on regulated trading;**
- (v) **improved shareholder relations;**
- (vi) **a shift of issuances to CSDs participating in T2S.**

The GFXD has no comments in response to this question.

Question 1b: Are there other trends that are not listed above? Please describe and indicate in order of importance.

As several of the trends listed are not applicable to FX, GFXD has not provided comments in relation to Question 1a. However, we would like to note that (ii) ‘new technological developments such as DLT’ are expected to be extremely important to post-trade services in the FX market. Distributed Ledger Technology (DLT), together with developments in robotics and artificial intelligence, have the potential to greatly increase automation, lower costs and provide better transparency and oversight to regulators. The benefits and challenges of these new technologies are discussed more fully in the submission by the Association for Financial Markets in Europe (AFME) to the Commission’s 2017 consultation on Fintech (available here <https://www.afme.eu/globalassets/downloads/consultation-responses/afme-tao--response-to-ec-consultation-on-fintech.pdf>).

Question 1c: For each trend, please indicate if the impact on post-trade markets is:

- (i) **positive - explain why and indicate if EU policies should further encourage the trend**
- (ii) **mixed - explain why and indicate if EU policies should further encourage the trend or address negative implications**
- (iii) **negative - explain why and indicate if EU policies should specifically address negative implications.**

‘New technological developments such as DLT’ have great potential for positive impacts on post-trade services in FX. As noted in AFME’s response to the Commission’s 2017 consultation on Fintech, DLT could bring benefits such as the following:

- a. Efficient information propagation: latest data can be updated and replicated in close to real time;

- b. Full traceability of information: new information can be added to the ledger but not deleted, creating an immutable chain of data where information is fully traceable;
- c. Simplified reconciliation: mutualised information can reduce reconciliation efforts;
- d. Trusted disseminated system: data authenticity can be completed by participants of the network rather than a central body;
- e. High resiliency: the distributed nature of the information can allow data to be recovered directly from any participant in case of local system failures.

EU policies should neither stifle innovation nor prevent sound and safe competition. We believe that the EU should therefore foster an agile, proportionate and effectiveness-oriented regulation of Fintech and financial innovation, working in conjunction with other regulators worldwide to ensure consistency:

- a. Agile regulation: regarding the emergence of new technologies and new business models, regulatory adjustments could be contemplated (including regulatory simplifications) and new status could be introduced, focusing on the main risks raised by the activity (e.g. crowdfunding regulation in France: http://www.amf-france.org/en_US/Acteurs-et-produits/Prestataires-financiers/Financement-participatif---crowdfunding/Cadre-reglementaire). Agile regulation could also be promoted by “test and learn” initiatives. For example, the French law acknowledges blockchain technology for the register on non-listed equities. Based on that first live experiment, blockchain technology could later be acknowledged for an extended scope of services;
- b. Proportionality: regulation and supervision should always be proportionate and driven by considerations of risk scale (consumer protection and money-laundering/countering financing of terrorism mainly, and financial stability if FinTechs eventually gain significant market share). This philosophy allows softening regulatory scope entry.
- c. Oriented towards effectiveness: rather than being too prescriptive or detailed, principle-based regulation is likely to be more effective and more adequate in very innovative environments.

Question 1d: Please specify the four main trends that will be the most important for EU post-trade

- (i) **in the next five (5) years**
- (ii) **in the next ten (10) years**

The GFXD has no comments in response to this question.

Question 2a: Do you agree that the possible benefits of DLT for post-trade include the following elements? Please indicate in order of importance and add your comments if needed.

- (i) **real-time execution of post-trade functions;**
- (ii) **certainty on 'who owns what' where no intermediaries are involved;**
- (iii) **redefining of the role of financial markets infrastructures;**
- (iv) **changes to financial markets structure and competition between intermediaries and financial markets infrastructures;**
- (v) **lowered costs;**
- (vi) **others (explain).**

Others: The GFXD agrees that all of the above are important, and additionally supports the submission by the AFME to the Commission's 2017 consultation on Fintech.

In the response AFME summarised the possible long-term benefits of DLT as the following:

- i) More efficient post-trade processes;
- ii) Enhanced reporting and supervisory functions;
- iii) Greater availability and security;
- iv) Reduced counterparty risk and enhanced collateral management.

The range of benefits is then discussed in greater detail. The response can be accessed here: <https://www.afme.eu/globalassets/downloads/consultation-responses/afme-cao--response-to-ec-consultation-on-fintech.pdf>.

In particular, we would highlight:

- The adoption of DLT for post trade processing would potentially allow regulators to be a 'member' of each ledger, giving them real-time access to trade data and counterparty positions. This would move the regulatory relationship from a 'push-based' system, where participants are required to report as a separate process, to a 'pull-based' one, where regulators can have an instant view of what they need.
- The technology also has the potential to reduce collateral requirements and balance sheet consumption, freeing up capital for clients. This could be achieved through DLT enabling real-time cash flows, with settlement finality through immutable contracts.

Question 2b: Do you agree that the list below covers the possible risks that DLT may bring about for post-trade markets? Please indicate in order of importance and add your comments if needed.

- (i) **higher operational risks**
- (ii) **higher legal risks related to unregulated ways in which services would be provided;**
- (iii) **changes to financial markets structure and competition between intermediaries and financial markets infrastructures;**
- (iv) **others – please specify.**

Others: Overall, GFXD believes that the adoption of DLT technology will lower, rather than increase, risks in the post-trade markets, through the benefits we have outlined in our response to Question 1c:

- a. Efficient information propagation: latest data can be updated and replicated in close to real time;
- b. Full traceability of information: new information can be added to the ledger but not deleted, creating an immutable chain of data where information is fully traceable;
- c. Simplified reconciliation: mutualised information can reduce reconciliation efforts;
- d. Trusted disseminated system: data authenticity can be completed by participants of the network rather than a central body;
- e. High resiliency: the distributed nature of the information can allow data to be recovered directly from any participant in case of local system failures.

Question 2c: Does the existing legal environment facilitate or inhibit current and expected future technological developments, such as the use of DLT?

- (i) **It facilitates – explain how and provide concrete examples;**
- (ii) **It inhibits – explain how and provide concrete examples;**
- (iii) **It is technology neutral – explain why and provide concrete examples.**

It inhibits: the use of new technologies is in an early stage and significant work will be required to bring existing legal frameworks up to date, to prevent the technology from developing outside the regulatory environment. For instance, there is no globally agreed legal definition of a cryptocurrency, therefore it is unclear whether they should be treated as FX, securities or commodities. As other examples, it is also unclear how legal settlement finality could be achieved across major jurisdictions using a distributed ledger, or whether the technology could be used meet current regulatory obligations in a more efficient manner.

Question 2d: Do you have specific proposals as to how the existing post-trade legislation could be more technology neutral?

While the technology is under development, we encourage regulators to make use of tools such as regulatory sandboxes and innovation academies, as outlined in the Commission's FinTech consultation. A harmonised effort amongst EU member states and with third country jurisdictions will allow the technologies to develop in a safe, coordinated environment and can help identify the appropriate parties to be involved at these early stages. Full engagement by regulators can then be harnessed to address areas where current legal frameworks require amendments in order to permit the benefits of these technologies to be realised on a larger scale. The FX market is the basis of the global payments system, and the BIS 2016 FX survey (<http://www.bis.org/publ/rpfx16fx.pdf>) showed that 65% of the market is cross-border. It is therefore key that this is driven at a global level to prevent instances of legal or regulatory fragmentation, which could prevent market-wide technology solutions.

Question 3a: Please list and describe the post-trade areas that are most prone to systemic risk.

The GFXD has no comments in response to this question.

Question 3b: Describe the significance and drivers of the systemic risk concern in each of the areas identified.

The GFXD has no comments in response to this question.

Question 3c: Describe solutions to address the systemic risk concerns identified or the obstacles to addressing them.

The GFXD has no comments in response to this question.

Question 4a: What are the main trends shaping post-trade services internationally? Please list in order of importance and provide comments if needed.

- (i) **internationally agreed principles for financial markets infrastructures to the extent that they harmonise the conduct and provision of post-trade services;**
- (ii) **lack of full harmonisation of internationally agreed principles for financial markets infrastructures;**
- (iii) **the growing importance of collateral in international financial markets;**
- (iv) **others – please specify.**

Others: We would like to suggest that the lack of harmonisation of trade reporting data elements is having a significant impact on that aspect of post trade services internationally. As outlined in our response to 4b below, the proliferation of reporting obligations each requiring different data sets in different formats is extremely challenging both for market participants reporting trades and regulators attempting to aggregate and use reporting data to gain an accurate picture of the risks and trends in the market.

Question 4b: Which fields of EU post-trade legislation would benefit from more international coherence? Please explain why.

- (i) **clearing;**
- (ii) **settlement;**
- (iii) **reporting;**
- (iv) **risk mitigation tools and techniques;**
- (v) **others – please specify.**

(iii) Reporting: The Global Context and Harmonisation of Data

FX by nature is a cross-border market; as reported by the BIS in their 2016 Triennial Central Bank survey (<http://www.bis.org/publ/rpfx16.htm>), 65% of transactions are executed on a cross border basis.

The GFXD has performed an analysis (see Annex I) which demonstrates the multiple reporting obligations faced by the industry in complying with US and EU reporting regulations. We identify that an eligible trade could be required to be reported more than 10 separate times (noting that this could increase if that trade has an Asia nexus too). We have also identified the reportable ‘risk’ fields for FX trades; again it is clear that these too are duplicated across each of those reporting obligations and not standardised in exact format and content. Finally, we note that, even for just the EMIR trade reporting, MiFIR post-trade transparency (RTS 2) and transaction reporting (RTS 22), more than 120 separate fields are required. Given this multiplicity of reporting obligations, it is important that any eventual revisions to the EU reporting framework are considered in the context of an international market.

We believe that there are significant benefits to be gained for regulators and market participants globally in streamlining the relevant requirements. For instance, the complex and often overlapping regulations are

extremely costly to build for and maintain, both for market participants and for regulators. In 2015, Sapiant estimated that complying with the Commission Regulations in the US and EMIR in the EU reporting regulations cost firms \$25 million on average, part of the cost being attributed to the difficulty of implementing a single business-wide solution to account for both regulations (study available here: http://www.sapiant.com/content/dam/sapiant/sapiantglobalmarkets/pdf/thought-leadership/Crossings_Spring2015_TradeReport.pdf). With numerous other reporting regulations now in force globally, the costs for market participants continue to increase.

We note that the adoption of new technologies, as outlined under our responses to Questions 2 and 5, has the potential to transform the regulatory reporting landscape. For instance, the creation of one or more distributed ledgers for post-trade processing could allow regulators real-time access to trade data without reporting via trade repositories. However, until such time as those technologies are sufficiently developed, we strongly support the following global changes to regulatory reporting:

1. Firstly, we would like to reiterate our support for an Entity-Based Framework – one in which sole responsibility for the accuracy of the reported data is assigned to one counterparty via an automated hierarchy system. This was outlined in our February 2017 joint association letter to the Commission (available at <http://www.gfma.org/correspondence/item.aspx?id=887>), following an earlier joint association letter in April 2016 (available at: <http://www.gfma.org/correspondence/item.aspx?id=802>). We believe that an Entity-Based Reporting framework is the optimal solution for reducing the burden on end-users and improving data quality.

Data quality issues are often attributed to different interpretations of how the information should be represented. However, this is not due to inconsistencies between counterparties as to the material economic terms of trades. For mitigating the risk of such inconsistencies, there are already many well established and regulatory supported industry processes, such as trade confirmation and portfolio reconciliation. These processes show significantly lower levels of discrepancies than dual-sided reporting. They are also already regulatory requirements under EMIR (Commission Delegated Regulation No. 149/2013). Industry best practices drive trade confirmation processes to take place as soon as possible after execution, whilst regulatory obligations require that trade confirmations must occur before the end of the business day following the date of execution of the derivative contract, and portfolio reconciliation is to occur up to each business day, depending on the number of contracts outstanding between the counterparties.

Trade confirmation is a highly automated process and anecdotal feedback suggests that the vast majority of FX contracts are confirmed as soon as technologically practicable; the material terms are therefore agreed at this stage. This means that discrepancies between the counterparties' reports in a dual-sided system must be attributable to something other than disagreement over material economic terms, and we suggest that this is the lack of common, explicitly defined data fields as outlined below. An Entity-Based Reporting System should not, therefore, be held back by concerns of this kind relating to data quality.

The move to an Entity-Based Reporting system would also have a positive impact on the ability of regulators to interpret data on a global level. If all trades were reported only once, there would

be no discrepancies between different representations of a single trade. Combined with greater harmonisation of data standards on a global level (as outlined below), this would increase the ability of regulators to combine data sets and create a more accurate picture of global liabilities and trends.

2. Secondly, we support global efforts to agree explicit definitions, formats and allowable values for all the data fields. A key challenge for global market participants and regulators is that the reporting obligations across regulations and jurisdictions are not consistent or explicitly defined, making it extremely difficult for regulators to aggregate and interpret, hampering efforts oversee trading practices and counterparty exposures.

This ranges from the fundamental (e.g. differences between regulations as to what constitutes a reportable event) to the detailed (e.g. the precise format of each data field). The latter is particularly challenging for market participants, who must interpret each set of requirements, resulting in data sets that are inconsistent, sometimes even down to how the same trade is represented by each counterparty. In some jurisdictions, efforts have been made to standardise data sets at the trade repository level. This is not a satisfactory solution as it adds cost and process when the problem could be solved at a regulatory level with explicit, globally harmonised requirements.

Therefore, we strongly support the suggestion in this consultation paper that greater international coherence should be considered, notably in conjunction with the current work being undertaken by the Committee on Payments and Market Infrastructures (CPMI) and the International Organisation of Securities Commission (IOSCO) to define the meaning, format and allowable values of reporting data fields. The work is focusing on the Unique Product Identifier (UPI), Unique Transaction Identifier (UTI) and over 100 other key data elements for derivatives. This will involve a commitment from regulators, including ESMA, that they will adhere to the CPMI-IOSCO Guidance that is due to be published in early 2018 whenever they require any of these data elements in their reporting rules

3. Thirdly, we encourage regulatory to work together to create a ‘common data set’ to form the basis of all reporting obligations. In order to produce a comprehensive set of guidelines, CPMI-IOSCO have consulted on the definition and format of well over 100 individual data fields. This far exceeds the needs of most regulators in their aims of risk oversight and detection of market abuse, and includes many fields that are only applicable in certain situations or to certain transactions. If regulators can agree a subset of these fields to be used across jurisdictions as a single ‘common data set’ for each reporting requirement, it will allow market participants to streamline their reporting and provide a data set that can easily be aggregated cross-border for effective market oversight.

We note that this will require careful consideration of which fields are applicable to different asset classes, according to the characteristics of individual instruments and how they are traded in the market. For example, the latest CPMI-IOSCO consultation (available at: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD565.pdf>) contains many different fields relating to the ‘price’ of a transaction and attempts to distinguish which will be applicable to different asset classes. It is more useful to mandate the ‘exchange rate’ field for a FX forward or the ‘premium’ field for FX option, than to have a single ‘price’ field with many allowable formats

and values, as this may lead to different interpretations by market participants or inaccurate data due to a lack of stringent validation rules.

4. Fourthly, where individual jurisdictions do require additional data beyond the global common data set, we suggest that these fields are carefully considered and in line with CPMI-IOSCO where possible. We understand that there will be instances where a regulator specifies additional fields for reporting that are not in line with other regulators. Where these have been standardised by CPMI-IOSCO, that Guidance, should be used. Where these fields are region-specific, we request that they are carefully chosen to add value without creating additional burden on market participants, and are only those necessary for meeting the regulator's statutory aims. This would also be an important area for market consultation.
5. Finally, we encourage the Commission to consider where there are opportunities to leverage other existing processes or data sets to improve global reporting. For instance, we suggest that the global Legal Entity Identifier (LEI) framework should be developed as a central repository to improve overall data quality. Each reporting party has to gather and report a certain amount of data regarding each of its trading counterparties to meet various reporting obligations, for example their country of origin and status in relation to individual legislation, e.g., swap dealer. As a global database of entities, the LEI framework has the potential to be developed to store a common data set of basic counterparty information, incorporating these elements. Increasing the data elements linked to the LEI would allow the number of reportable fields to be reduced without impacting regulatory oversight, and would also reduce discrepancies between reports, with each entity responsible for maintaining their own data.

(iv) Risk Mitigation Tools and Techniques

As already relayed to the Commission via separate advocacy, we urge the Commission to consider a revision of the approach taken to variation margins for physically-settled foreign exchange forwards and physically-settled foreign exchange swaps under the EU margin requirements to allow for counterparties to provide in their risk management procedures that variation margins are not collected with respect to such FX products unless and until both counterparties fall within the first three phases of initial margin phase-in.

Question 4c: What would make EU financial market infrastructures more attractive internationally?

In each case, please provide concrete example(s).

- (i) **removal of legal barriers;**
- (ii) **removal of market barriers;**
- (iii) **removal of operational barriers;**
- (iv) **others – please specify.**

The GFXD has no comment in response to this question.

Question 4d: Would EU post-trade services benefit from:

- (i) **more competition – please explain in which area (clearing, settlement, trade reporting), and how this could be achieved**
- (ii) **more consolidation – please explain in which area (clearing, settlement, trade reporting), and how this could be achieved.**

The GFXD has no comment in response to this question.

Question 5a: What should the EU post-trade markets look like:

- (i) **5 years from now;**
- (ii) **10 years from now.**

5 years

Following our comments in relation to reporting in question 4 above, we suggest that:

1. The global trade reporting framework should be revised to improve data quality and reduce duplication. We propose a globally harmonised Entity-Based Reporting system, centred on a common, explicitly defined data set. This would allow regulators to share and aggregate data at a global level, confident that it gives an accurate picture of the market.
2. There should be a globally harmonised margin framework, particularly in relation to the application of variation margin via the BCBS FX Guidance across jurisdictions.

10 years

From a longer-term perspective, we would like to see the industry and regulators harness developments in technology to bring about improvements in cost, efficiency and client service. By way of example, we note that incremental adoption of DLT is most likely to manifest itself in the Post-Trade segments of the trade lifecycle, with the following benefits:

Short-Term (0 to 5 years):

- Limited adoption of DLT around allocation and confirmation processing could drive efficiency improvement by consolidating information held in trade and settlement instruction records;
- By sharing the records used by the existing actors in the post-trade lifecycle, the reconciliation of each other's records amongst themselves can be avoided;
- Shared ledgers supported by DLT could allow more efficient centralised accounting activities (e.g. valuations, market data, capital calculations);
- Participants' internal processes may migrate to DLT technology; and
- Automation and the elimination of separate record keeping and reconciliation activities within the industry will see additional operational risk reduction with fewer manual errors: this will have the biggest impact if DLT is embedded widely across the trade life-cycle and smart contracts are adopted.

Long Term (5 to 10 years)

- The potential exists to reduce intra-day liquidity requirements and shorten settlement timelines. However, this is likely dependent on interoperability with and adoption of DLT for FX products, e.g. by central banks.

- The role of Central Banks themselves has the potential to change significantly. For example, initiatives are underway to explore opening up Central Bank payments infrastructure to smaller firms, to create token-based digital currencies for faster settlement or to link securities and equities to payments using delivery versus payment (DvP) systems. All of these, if implemented, would result in more immediate and cross-border liquidity for Central Banks to utilise and have oversight of.

Question 5b: Please list main challenges to deliver on the vision you described above and rank, in the order of priority, which of those challenges should be addressed first:

- (i) **fragmentation of EU markets – please define in which market segments;**
- (ii) **need for greater EU harmonisation of legal and operational frameworks – please define where;**
- (iii) **need for more competition within the EU – as defined in your answers above;**
- (iv) **need for greater consolidation – as defined in your answers above;**
- (v) **lack of international competitiveness;**
- (vi) **need for more regulatory coherence internationally;**
- (vii) **financial stability issues;**
- (viii) **others – please specify.**

GFXD suggests the following priorities:

1. need for more regulatory coherence internationally
2. need for greater EU harmonisation of legal and operational frameworks;
3. others: suggest:
 - Cyber security
 - Need for active engagement of whole market ‘ecosystem’

Question 5c: Please explain your views on each of the issues you listed above.

Need for more regulatory coherence internationally

As outlined in our response to Question 4 above, the current reporting framework is duplicative and lacking in harmonisation, both within the EU and globally. We encourage EU policymakers and regulators to work with colleagues in other jurisdictions to harmonise reporting frameworks and data requirements. This can then inform an EU review of the various reporting obligations, e.g. MiFIR and EMIR, to further reduce duplication.

In relation to the future technological developments which could transform the market, such as the incremental adoption of DLT as outlined under Question 5a, we encourage regulators to work together, both inside and outside the EU, to maximise the potential benefits. For instance, we support the creation of regulatory ‘sandboxes’ in which new developments can be safely tested; however, if each sandbox exists in a silo, then solutions cannot be developed to cross borders and market segments. Regulators should consider whether such initiatives could be ‘transferrable’, where approval from one regulator is sufficient for another.

Need for greater EU harmonisation of legal and operational frameworks

Please see our answer in relation to ‘need for more regulatory coherence internationally’ above.

Others: Cyber security

There is a huge opportunity for technological development in the markets over the next ten years, we urge regulators and policymakers to consider the challenges posed by increasing cyber risks. For instance, as noted in AFME’s response to ESMA on DLT, Distributed Ledger Technology remains largely untested against cyber threats faced by the securities industry compared to mainstream technologies that are prevalent. Were new technologies such as DLT to be breached by cyber threats during the early stages of development, there is a risk that trust is undermined, both between parties and in the technology itself, which will significantly hamper development and adoption. GFXD was very supportive of the recent SIFMA cybersecurity exercise ‘Quantum Dawn IV’, which was conducted with over 900 participants from over 50 financial institutions, government agencies and regulators. Findings are yet to be published, however they noted *“the increasing frequency and sophistication of cyberattacks, and the critical need for an effective allocation of cybersecurity resources at financial institutions. The financial services industry is a top target, facing tens of thousands of cyberattacks each day. Enhanced harmonization of regulatory standards and supervision, to reduce the amount of duplicative or redundant rules, would help enable firms to devote more resources to security and better protect investors”* (<https://www.sifma.org/resources/news/sifma-statement-on-completion-of-quantum-dawn-iv-cybersecurity-exercise/>).

Others: Need for active engagement of whole market ‘ecosystem’

As outlined in our response to Question 5a, there is potential for new technologies such as DLT and process automation to significantly change post-trade services. However, just as the development of these technologies cannot take place in geographical silos, so it must also involve all areas of the market in order for the full benefits to be realised, and to prevent bifurcation of technology.

Question 6a: Do you agree that there are fewer barriers for cross-border provision of clearing and settlement services and processes than 15 years ago? Please explain.

The GFXD has no comments in response to this question.

Question 6b: If you agree that certain barriers have been removed, for each of those please explain what were the main drivers removing those barriers?

The GFXD has no comments in response to this question.

Question 7a: Which of the below issues listed by the EPTF as remaining barriers constitute a barrier to post-trade? Please select from the list.

- (i) **Fragmented corporate actions and general meeting processes;**
- (ii) **Lack of convergence and harmonisation in information messaging standards;**
- (iii) **Lack of harmonisation and standardisation of Exchange Traded Funds (ETF) processes;**
- (iv) **Inconsistent application of asset segregation rules for securities accounts;**

- (v) Lack of harmonisation of registration and investor identification rules and processes;
- (vi) Complexity of post-trade reporting structure;
- (vii) Unresolved issues regarding reference data and standardised identifiers;
- (viii) Uncertainty as to the legal soundness of risk mitigation techniques used by intermediaries and of CCP's default management procedures;
- (ix) Deficiencies in the protection of client assets as a result of the fragmented EU legal framework for book-entry securities;
- (x) Shortcomings of EU rules on finality;
- (xi) Legal uncertainty as to ownership rights in book-entry securities and third party effects of assignment of claims;
- (xii) Inefficient withholding tax collection procedures.

(ii) lack of convergence and harmonisation in international messaging standards.

(vi) the complexity of post-trade reporting structure.

(vii) unresolved issues regarding reference data and standardised identifiers.

Question 7b: Are there other barriers to EU post-trade not mentioned in the above list?

The GFXD has no comments in response to this question.

Question 7c: If there are issues that you think are not barriers, please explain why.

The GFXD has no comments in response to this question.

Question 7: Please list what you consider to be the 5 most significant barriers.

(ii) lack of convergence and harmonisation in international messaging standards.

(vi) the complexity of post-trade reporting structure.

(vii) unresolved issues regarding reference data and standardised identifiers.

Question 8a: Do you agree with the definition and the scope of the barrier? If not, please explain how it should be better described or what, according to you, its scope is.

(ii) lack of convergence and harmonisation in international messaging standards: we would broaden the description of the issue to include the risk of divergence between the language generally used by the industry for trading derivatives, Financial Products Markup Language (FpML), and ISO 20022, which is generally used for reporting. The mapping between the two languages is extremely complex and care must be taken that the two languages do not develop in silos. For example, the functionality for exotic products in FpML remains under development, and any changes to the reporting requirements for these products should take that into account.

(vi) the complexity of post-trade reporting structure: the chart we have included as an Annex shows the multiplicity of reporting obligations on participants across just two jurisdictions, Europe and the US. The lack of a common, explicitly defined data set across these obligations, and even between MiFIR and EMIR, is a significant barrier to high-quality data that can be easily aggregated across jurisdictions by regulators to gain an accurate picture of the market. We also note that, even with the EU, market participants are required to make their reports to various different recipients, e.g. Approved Publication Arrangements (APAs), Approved Reporting Mechanisms (ARMs), Trade Repositories and National Competent Authorities. This adds an additional layer of complexity for all participants and means that the data is more likely to become fragmented.

(vii) unresolved issues regarding reference data and standardised identifiers: as noted above, we are extremely supportive of the CPMI-IOSCO efforts to standardise reporting data, including the development of global transaction and product identifiers. The current reporting landscape is extremely fragmented in this regard, and is currently being further complicated by the introduction of ISINs for FX under MiFID.

We would add to the description given, the fragmented use of transaction and product identifiers.

Transaction identifiers

In the US, only a Unique Swap Identifier (USI) construct can be used, as outlined in Part 45.5. A USI can only be generated by an entity registered with the CFTC, as its structure requires the use of an alphanumeric code (namespace) provided by the CFTC to registered entities. In Europe, for EMIR reporting, a Trade ID must be used, which can be either a USI or an identifier generated in accordance with EU rules. Some jurisdictions in AsiaPac are now looking to implement a regional identifier, using the Unique Transaction Identifier (UTI) construct suggested by CPMI-IOSCO. We are strongly supportive of the work done by CPMI-IOSCO in this regard, and urge regulators to work together on an internationally agreed roadmap for harmonisation of this data element in accordance with the CPMI-IOSCO Guidance.

Product identifiers

The use of product identifiers is similarly lacking in harmonisation across jurisdictions. The global FX industry currently uses the ISDA FX Taxonomy (ISDA Taxonomy 2.0, available at: <http://www2.isda.org/functional-areas/technology-infrastructure/data-and-reporting/identifiers/upi-and-taxonomies/>), which defines FX products as: Spot, Forward, NDF, NDO, Vanilla Option, Simple Exotic, Exotic and Continuous FX. We are supportive of the CPMI-IOSCO work to create a global Unique Product Identifier (UPI), although we note that the recently published Technical Guidance still presents a number of issues for the FX industry. For instance, it lists FX swaps as a single instrument, rather than as a package of two forwards, as is the market norm. There is also no standardised ordering of currency pairs, and the requirement to define FX vanilla options as either a 'put' or a call' is problematic, as a FX vanilla option is, by definition, both a put *and* a call.

The use of the International Securities Identification Number (ISIN) construct under MiFIR has been similarly problematic for FX, given that it is based on the CFI code. The global FX industry has historically used the FX ISDA Taxonomy due to its more granular and appropriate product classification and grouping of homogenous products with similar functionalities. The CFI code is currently not used as it does not provide sufficient granularity for FX products. Complex mapping is therefore required to facilitate use of the ISIN for FX, an identifier that is only used in Europe, and even then only for post-trade obligations.

Question 8b: Do you have any evidence proving the existence of this barrier and its implications in terms of costs or other detrimental effects?

Complexity of post-trade reporting structure: As noted above, in 2015, Sapient estimated that complying with the Commission Regulations in the US and EMIR in the EU reporting regulations cost firms \$25 million on average, part of the cost being attributed to the difficulty of implementing a single business-wide solution to account for both regulations. Since 2015, there have been revisions to the EMIR reporting fields, the introduction of MiFIR reporting and numerous other reporting obligations brought into force outside the EU. Each obligation has its own data fields and formats, meaning that the original estimate in the Sapient study will have increased significantly as the complexity of the post-trade reporting landscape has also increased.

Question 8c: Will the solution proposed by EPTF address the issue? Is there any need for further or different action to remove the barrier?

Complexity of post-trade reporting structure: As outlined in our response to Question 8a, we would strongly encourage regulators to support the harmonisation work led by CPMI-IOSCO, and to commit to a globally agreed roadmap for moving towards a single standard for transaction and product identifiers, as well as for the other data elements covered by the CPMI-IOSCO work.

Question 9a: Do you agree with the definition and the scope of the barrier? If not, please explain how this barrier should be better described or what, according to you, its scope is.

The GFXD has no comments in response to this question.

Question9b: Do you have any evidence proving the existence of this barrier and its implications in terms of costs or other detrimental effects?

- (i) **Please provide examples where lack of harmonised shareholder identification or registration rules resulted in an undesirable outcome (e.g. unreliable data, deprivation of service to shareholders or issuers, high costs or other burden).**
- (ii) **Provide examples where the barrier actually prevented shareholder identification or registration in an appropriate manner, cost and timeline.**
- (iii) **Provide examples where lack of harmonised registration rules resulted in issuer's decision not to choose certain CSD for issuing securities cross-border.**
Where necessary, please indicate if the evidence in your reply is confidential.

The GFXD has no comments in response to this question.

Question 9c: Will the solution proposed by EPTF address the issue? Is there any need for further or different action to remove the barrier?

The GFXD has no comments in response to this question.

Question 10: The code of conduct focuses on addressing withholding tax barriers to investment through improvements to the efficiency of relief procedures. Which other issues or approaches could be explored?

The GFXD has no comments in response to this question.

Question 11: Please describe the barrier(s) not mentioned by the EPTF that exist today by:

- a) **Describing the barrier, its scope and the actors affected by such barrier. Are there any specific barriers that apply to specific products such as EU ETS allowances?**
- b) **Providing evidence that proves the existence of the barrier.**
- c) **Describing what solutions would dismantle the barrier and if there are any obstacles to achieving that solution.**

The GFXD has no comments in response to this question.

Question 12: Do you agree that the issues listed below need to be followed closely in the future?

- a) **National restrictions on the activity of primary dealers and market makers;**
- b) **Obstacles to DVP settlement in foreign currencies at CSDs;**
- c) **Issues regarding intraday credit to support settlement;**
- d) **Insufficient collateral mobility;**
- e) **Non-harmonised procedures to collect transaction taxes.**

If not, please explain why:

- a) **any issue should be added to the watchlist;**
- b) **any issue should be removed from the watchlist.**

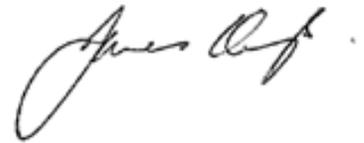
The GFXD has no comments in response to this question.

Question 13: Please make additional comments here if areas have not been covered above. Please, where possible, include examples and evidence.

The GFXD has no comments in response to this question.

We appreciate the opportunity to share our views on this subject and look forward to participating in the subsequent consultative phases of this review. Please do not hesitate to contact Andrew Harvey on +44 (0) 203 828 2694, email aharvey@gfma.org, or Fiona Willis on +44 (0) 203 828 2739, email fwillis@gfma.org, should you wish to discuss any of the above.

Yours faithfully

A handwritten signature in black ink, appearing to read "James Kemp". The signature is fluid and cursive, with a large initial "J" and a long, sweeping underline.

James Kemp
Managing Director
Global Foreign Exchange Division, GFMA

Timing	Continuous	Pre-Trade (Continuous)			ASATP	< 15min	ASATP < 30min	30min	<21.00 CET	< T+1	T+2 / 4wk	Quarterly	Annual			
Data Capture	Costs and Charges	Indicative Quote	Firm Quote	Pre-Trade Mid	All Trade Details (US)	Price, Time and Volume (EU)			Instrument Data	All Trade Details (EU)						
REPORT																
Dossier	MiFID 2 Art 24	MiFIR Art 18			DFA Part 23	DFA Part 43	MiFIR Art 21	DFA Part 45	DFA Part 43	MiFID Art 27	MiFIR Art 26	EMIR Art 9	MiFID 2 Art 25	MiFIR Art 21	MiFID 2 Art 27	MiFID 2 Art 27
L2 (MiFID/R)	DA Apr16 Art 50	RTS 2					RTS 2			RTS 23	RTS 22		DA Apr16 Art 59	RTS 2	RTS 27	RTS 28
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	Best Ex	Best Ex
Scope/Notes		Liquid <SSTI	Liquid <SSTI Art 18(5)	Illiquid < SSTI Art 18(2)	* All NDFs, NDOs and exotic options * Fwds and swaps: if cpty agrees, and real time pricing is available, it only applies to fwds and swaps in BIS top 31 ccys >1yr * Vanilla options: if cpty agrees, and real time pricing is available, it only applies to vanilla options in BIS top 31 ccys >6mths	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 cpty is not SD, MSP, SBSB or MSBSP)	Public via TR	Public via APA	TR	Public via TR	NCA	NCA	TR	Client	Public via APA	Public via website	Public via website
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 payments)	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 (65 Fields)	Trade Details (85 Fields)	Details concerning the order	Price and Time OR Aggregated Data	Best Ex Venues, Instruments, Price, Cost, Likelihood of Execution, Extra RFQ Information	Top 5 Venues
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)	Yes (All in)	N/A
Currency		?	?	?		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes/Yes	Yes	
Notional		?	?	?		Yes, rounded	Yes	Yes	Yes, capped	Yes	Yes	Yes	Yes	No/Aggregated	Yes	Yes - % of Total
Reporter ID							Yes	Yes		Yes	Yes	Yes	Yes	Yes	Yes	Yes
Cpty ID							Yes	Yes		Yes	Yes	Yes	Yes	Yes	Yes	Yes
Product ID		?	?	?		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes/Yes	Yes	Yes
Buy/Sell							Yes	Yes		Yes	Yes	Yes	Yes	Yes	Yes	Yes
Timestamp						Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes/No	Yes	Yes

EMIR: Regulation (EU) No 648/2012
MiFIR: Regulation (EU) No 600/2014