GFXD Focus

1. Basis Risk can arise between Bilateral vs Cleared as well as Cleared vs Cleared trades due to differences in the methodology employed by Calc Agents in the event of price source disruption -
   • Comparison of the Clearing House rule books highlights these differences:
     – CME Methodology
       ➢ Final settlement price may be established by the CEO, President or COO or delegate,
       ➢ No constraint on the price source used for settlement price and apply discretion where necessary,
       ➢ Preference to consult clearing members but would consider a number of factors.
     – LCH Methodology
       ➢ Clearing members are contractually required to submit prices every five minutes,
       ➢ Methodology proposed and approved by clearing members uses the last price provided by clearing members which are ‘cleansed’ before mean is used as the settlement price for the current day.
   • Guidance in the 2006 ISDA definitions for counterparties to bilateral trades to act in good faith and in a commercially reasonable manner when required to exercise judgement.

2. There is an increased reliance on the Calc Agent fallback which has come about in part due to the legal risks associated with contributing to surveys and the requirement to comply with the EU BMR which has restricted the development of alternatives.
## Summary of EMTA Terms by Currency

<table>
<thead>
<tr>
<th>Region</th>
<th>Currencies</th>
<th>Cleared at:</th>
<th>Additional Disruption Event: Exchange Rate Divergence</th>
<th>Valuation Postponement Max. no.of days</th>
<th>Fallback Reference Price</th>
<th>Fallback Survey Valuation Postponement</th>
<th>Calculation Agent Determination</th>
<th>Joint Calculation Agent²</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASIA</td>
<td>USD/CNY, IDR, INR, KRW, MYR, PHP, TWD</td>
<td>LCH: CNY, IDR, INR, KRW, MYR, PHP, TWD</td>
<td>CME: CNY, IDR, INR, KRW, MYR, PHP, TWD</td>
<td>14 calendar days</td>
<td>SFEMC Indicative Survey</td>
<td>3 business days</td>
<td></td>
<td></td>
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<tr>
<td>AFRICA</td>
<td>USD/AOA, EGP, GHS, KES, NGN, UGX, ZMW</td>
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<tr>
<td></td>
<td>USD/ARS³, UYU</td>
<td></td>
<td></td>
<td>14 calendar days</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>SOUTH AMERICA</td>
<td>USD/CLP, COP, PEN</td>
<td>LCH: CLP, COP, PEN</td>
<td>CME: CLP, COP, PEN</td>
<td>30 calendar days</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EUROPE</td>
<td>USD/KZT, RUB, UAH</td>
<td></td>
<td></td>
<td>14 calendar days</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

1. Whenever the Calculation Agent is required to act or to exercise judgment, it will do so in good faith and in a commercially reasonable manner (2006 ISDA Definitions)

2. Applicable for inter-dealer trades where both parties agree to be Joint Calculation Agents:

3. Under the previous EMTA ARS Template Terms dated January 1, 2018, Exchange Rate Divergence exists where in the reasonable opinion of ≥5 unaffiliated EMTA Members ARS MAE (ARS05) have failed, for a period of not less than 3 consecutive Business Days to reflect the current prevailing ARS bid and offer rates for a standard size USD/ARS financial transaction for same-day settlement in the Buenos Aires marketplace on the Valuation Date. Maximum Days of Postponement was 30 calendar days.

In 2019 ERD notifications were published by EMTA on Sept 23, 24, 25, 26, 27, 30, Oct 1, 2, 3, 4, 7, 8, 9, 10, 11, 14, 15, 16, 17, 18, 21, 22, 23, 24, 25, 28, 29, 30, 31, Nov 1, 4. Insufficient notices were received on Nov 5, 7, 8 bringing to an end the ERD. EMTA ARS Template revised on October 7 2019

4. EMTA BRL Exchange Rate Divergence Procedures (January 2018) https://www.emta.org/media/5iilddng/e0257f02-1458-4cfc-a6dc-16fe3f326cc2.pdf
EMTA Template and Guidance

- EMTA’s Template and Oct 2019 Guidance (‘the Guidance’) state that Valuation Postponement for Price Source Disruption (‘PSD’) ends either:
  
  i. When the PSD ceases to exist, or
  
  ii. Upon reaching the Maximum Days of Postponement.

- EMTA Template¹ determination of the Spot Rate for settlement -
  
  i. When the PSD ceases to exist, the rate should be determined based on the rate prevailing on the next Business Day; and
  
  ii. After reaching the Maximum days of Postponement the rate will be determined on the next Business Day.

- The Guidance states that:
  
  i. The rate prevailing on the original Scheduled Valuation Date in the Confirmation should not be used, and
  
  ii. Each outstanding contract must be individually evaluated.

Price Source Disruption example

- Based on 14-day Maximum Days of Postponement with the next applicable fallback being Calc Agent.