Global Foreign Exchange Committee

8 December 2020

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

Region	Currencies	Cleared at:		Additional Disruption Event: Exchange Rate Divergence	Valuation Postponement Max. no.of days	Fallback Reference Price	Fallback Survey Valuation Postponement	Calculation Agent Determination[1]	Joint Calculation Agent[2]
		LCH	CME						
ASIA	USD/CNY, IDR, INR, KRW, MYR, PHP, TWD	CNY, IDR, INR, KRW, MYR, PHP, TWD	CNY, IDR, INR, KRW, PHP, TWD		14 calendar days	SFEMC Indicative Survey	3 business days	✓	If the parties are unable to agree on a determination within one Business Day, each party agrees to be bound by the determination of an independent leading dealer in Reference Currency/ Settlement Currency Transactions not located in the Reference Currency jurisdiction mutually selected by the parties. If the parties are unable to agree on an independent leading , each party shall select an independent leading dealer and such independent dealers shall agree on an independent third party who shall be deemed to be the substitute Calculation Agent.
AFRICA	USD/AOA, EGP, GHS, KES, NGN, UGX, ZMW				14 calendar days			✓	
SOUTH AMERICA	USD/ARS[3], UYU				14 calendar days			✓	
	USD/CLP, COP, PEN	CLP, COP, PEN	CLP, COP, PEN		30 calendar days			✓	
	USD/BRL	BRL	BRL	In the reasonable and independent judgement of ≥ 7 unaffiliated EMTA members that are active market makers active in USD/BRL, ≥ 4 of which are active in the onshore BRL/USD spot market, the BRL PTAX (BRL09) rate no longer reflects the then-prevailing USD/BRL spot rate for standard-size wholesale financial transactions involving the exchange of BRL for USD delivered outside of Brazil.[4]	30 calendar days			✓	
EUROPE	USD/KZT, RUB, UAH	RUB	RUB		14 calendar days			✓	

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 Template[1] 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.

[1] https://www.emta.org/documentation/emta-standard-documentation/fx-and-currency-derivatives-current-templates/

Price Source Disruption example

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