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Foreign Exchange  
Professionals Association

# REGULATED FX DERIVATIVES TRADING VENUES: PROMOTING FAIR AND ORDERLY MARKETS

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The white paper and the recommendations made therein (and as discussed in this presentation) do not represent the specific individual opinion of any one particular member.

*Note: The white paper does not address (i) single-dealer (or “one-to-many”) systems or platforms, on which the sponsoring entity is the counterparty to all swap contracts executed through the system or platform, and which it does not consider for purposes of this discussion to be “unregulated venues”, or (ii) spot FX trading or spot FX trading platforms.*

For more information about the FXPA, visit [www.fxpa.org](http://www.fxpa.org) or contact:

Julie Ros  
Senior Advisor to FXPA  
jros@fxpa.org  
Tel: +1-646-468-6550

Matthew Kulkin  
WilmerHale  
matthew.kulkin@wilmerhale.com  
Tel: +1-202 230 8059

# AGENDA

- Introduction to FX Derivatives Trading Venues
- Structure of FX Derivatives Trading Venues
- Benefits of Regulated Trading Venues
- Fairness and Market Integrity
- Implications of Regulatory Gaps
- Key Considerations

# INTRODUCTION TO FX DERIVATIVES TRADING VENUES

- **Regulated FX derivatives trading venues** are subject to comprehensive regulatory oversight (e.g., designated contract market, swap execution facility, multilateral trading facility, organized trading facility)
- **Unregulated FX derivatives trading venues** may engage in activity that requires registration or regulatory oversight, but do not currently operate under the auspices of a regulatory body of any jurisdiction.

# STRUCTURE OF FX DERIVATIVES TRADING VENUES

- **Regulated FX derivatives trading venues:**

- Operate under strict rules and standards designed to promote market integrity, transparency and investor protection.
- Adhere to governance requirements and transparency standards, including a formal framework for risk management.
- Require participants (brokers and traders) to meet specific registration and compliance standards.

- **Unregulated FX derivatives trading venues:**

- May lack the structured rules and standards mandated for regulated FX derivatives trading venues.
- Generally have fewer onboarding requirements for participants and fewer, if any, reporting structures.

# BENEFITS OF REGULATED TRADING VENUES

- **Market Integrity:** Promoting market integrity through transparency and fairness in trading practices.
- **Risk Management:** Stringent processes to protect against systemic risks and financial crises.
- **Customer Protection:** Safeguard retail and institutional investors.
- **Stability:** Comprehensive audit trails for effective oversight to reduce volatility.

# FAIRNESS AND MARKET INTEGRITY

- **Transparency**
  - Unregulated FX derivatives trading venues may purport to operate as a technology intermediary, and may not clearly disclose that they are not regulated.
- **Operational Costs**
  - Regulated FX derivatives trading venues face higher costs due to compliance requirements, with estimated costs ranging from 1.3 million to \$1.5 million per year to operate a regulated FX derivatives trading venue.
- **Impartial Access**
  - Regulated FX derivatives trading venues must implement rules that aim to prevent discriminatory practices, thereby allowing market participants to trade on equal terms.

## IMPLICATIONS OF REGULATORY GAPS

- Regulated FX derivatives venues endure the initial costs and time to register as a regulated venue with relevant authorities, and ongoing costs of compliance, while unregulated FX derivatives trading venues are incentivized by the large cost savings associated with not complying with transparency and reporting obligations.
- The shift in volume from regulated to unregulated FX derivatives trading venues impacts market liquidity and reduces price discovery and price fairness.
- A regulatory framework that treats functionally similar market participants differently does not promote a fair and orderly market.



## KEY CONSIDERATIONS

- Support regulated venues as a “first line of defense” against entities that may not promote market fairness.
- Evaluate the impact of unregulated venues providing services typically subject to oversight.
- Recognize the benefits of regulated FX derivatives trading venues and consider consistent treatment of similar trading platforms regardless of how they present themselves.
- Balance regulatory oversight with market efficiency and innovation.
- Consider decreasing regulatory cost burdens through:
  - Normalizing regulatory norms across jurisdictions; and
  - Allowing greater equivalence or substituted compliance for multi-jurisdictional entities.

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