



# Foreign Exchange Conventions

## Contents

1. Description.....	3
2. Products.....	3
2.1. Spot FX Transactions.....	3
2.2. Forward FX Transactions.....	3
2.3. Swap FX Transaction.....	3
2.4. Non Deliverable Forwards (NDFs).....	3
3. Dealing.....	3
3.1. Methods of Dealing.....	3
3.2. Electronic Dealing.....	4
3.3. Business Days.....	4
3.4. Standard Transaction Size (market parcel).....	5
3.5. Two Way Pricing.....	5
3.6. Quotation/Dealing.....	5
3.6.1. Dealing at Non Current Rates.....	5
3.6.2. After Hours Dealing.....	5
3.6.3. Stop Loss Orders.....	5
3.7. Other Instrument Conventions.....	5
3.8. Basis.....	5
3.9. Maturity Conventions.....	6
3.10. Settlement Rate or Index.....	6
3.11. Premium Payment Date(s).....	6
3.12. Expiry Conventions.....	6
3.13. Broker Conventions.....	6
3.14. Confidentiality.....	6
3.15. Credit.....	6
3.16. Exercise of Options.....	6
3.17. Data Source.....	6
3.18. Pricing formulae.....	6
4. Confirmations.....	7
4.1. Acceptable Forms of Confirmation.....	7
4.1.1. Reuters.....	7
4.1.2. Electronic Broking System (EBS).....	7
4.1.3. CLS.....	7
4.1.4. ASX Austraclear.....	7
4.1.5. Letter.....	8
4.1.6. Phone.....	8
4.1.7. Internet based Portals.....	8
4.1.8. Non Deliverable Forwards.....	8
4.2. When Deals are to be confirmed.....	8
4.3. Standard Procedures for Confirmations.....	8
4.3.1. Reuters.....	9
4.3.2. EBS.....	9

4.3.3. SWIFT .....	9
4.3.4. CLS.....	9
4.3.5. ASX Austraclear.....	9
4.3.6. Internet .....	9
4.3.7. Telephone.....	9
4.3.7.1. When the counterparty is a financial institution.....	9
4.3.7.2. When your counterparty is a corporate .....	10
4.3.8. Fax.....	11
4.4. Late Trading.....	11
4.5. Exercise of FX Options.....	11
5. Settlement .....	11
5.1. Continuous Linked Settlement.....	11
5.2. Payments Netting (non-CLS transactions) .....	13

## **1. Description**

The market whereby spot and forward foreign exchange is transacted in all currencies.

## **2. Products**

### **2.1. Spot FX Transactions**

Purchase or sale of foreign exchange where a rate is agreed between two counterparties today for physical delivery in two business days.

### **2.2. Forward FX Transactions**

Purchase or sale of foreign exchange where a rate is agreed between two counterparties today for a physical delivery at a date that is greater than two business days time.

### **2.3. Swap FX Transaction**

The simultaneous purchase and sale (or sale and purchase) of a spot and forward FX transaction at rates agreed between two counterparties. Usually the amounts involved are the same for one of the currencies on the spot and the forward transaction. For example, a swap transaction to buy AUD 5 million against USD for spot value against selling AUD 5 million against USD for forward value. Swap transactions can also be for O/N (today against tomorrow) or T/N (tomorrow against spot) or any other two dates as agreed between the two counterparties. The difference between the spot and the forward rates is referred to as the 'forward points' or 'forward pips'.

### **2.4. Non Deliverable Forwards (NDFs)**

An NDF is a cash-settled, forward contract on a thinly traded or non-convertible foreign currency. The currencies are not physically delivered; instead the contract is settled by calculating the difference between the agreed upon exchange rate and the spot rate at the time of settlement for an agreed upon notional amount of funds. One party in the agreement will make a payment to the other party on the basis of the profit or loss on the contract. NDFs are normally, but not exclusively, quoted and settled in US dollars.

## **3. Dealing**

### **3.1. Methods of Dealing**

Direct via telephone or via brokers.

## 3.2. Electronic Dealing

Dealers may use the methods indicated below for dealing onshore/onshore.

Type of deal	Reuters <sup>1</sup>	EBS <sup>2</sup>	Broker	Phone	Internet
FX	✓	✓	✓	✓	✓
FX MM	✓		✓	✓	✓
FX Options	✓		✓	✓	✓

1 Reuters Dealing 3000 System is a conversational transaction service on which dealers can hold up to 26 conversations simultaneously. An artificial intelligence system generates electronic tickets for completed trades in the following asset classes:

- spot FX
- FX swaps and outright
- deposits
- FRA
- precious metals
- commodities

Electronic deal tickets can be fed into position keeping, risk management and operations systems. Dealing 3000 spot matching is an anonymous electronic matching application for the spot market, supporting 38 spot currency pairs in all major currencies and several emerging markets currency pairs. Dealing 3000 forward matching supports 30 currency pairs in the overnight to one year forward market. The system also offers matching for FX options.

Dealing 3000 operates from 5:00am Sydney time Monday morning through to 6:00pm New York time Friday afternoon.

2 Electronic Broking Spot Dealing System (EBS) is the world's leading electronic foreign exchange spot broker. It is a screen based anonymous dealing system, delivered over a proprietary network, for spot trading in all major currencies and precious metals.

EBS combines the features of conventional voice broking services with advanced electronic trading technology. Currency prices are displayed on a screen and as many as six currency pairs can be traded simultaneously. Transactions can be completed by keystroke or automatic matching within the system. An important feature of EBS is its pre-screened credit facility: dealers can see only prices that they can hit, thereby eliminating the potential for failed transactions because of counterparty credit issues.

An automated systems interface (ASI) can be used to link EBS and a bank's internal banking system applications, providing straight through transaction processing and eliminating duplicate trade entry activity.

## 3.3. Business Days

A business day is defined as a day that is a good business day in each of the centres applicable to the currencies being transacted, i.e. for an AUD-USD trade, a business day is only good if the payment systems are open in Sydney and New York.

A Sydney business day may be defined as a day on which banks in the state of New South Wales (NSW) are generally open for business, or a day other than one on which banks in NSW are obliged or permitted to close, excluding Saturday and Sunday.

Essentially, Sydney business days are weekdays (Monday to Friday) other than NSW public holidays.

### **3.4. Standard Transaction Size (market parcel)**

If a dealing amount is not specified up front it is normally assumed that AUD 5 million (USD, if AUD is not involved) will be an acceptable dealing amount to the quoting counterparty.

### **3.5. Two Way Pricing**

Two way pricing is predominantly on an interbank reciprocal basis; generally counterparties will indicate their side.

### **3.6. Quotation/Dealing**

#### **3.6.1. Dealing at Non Current Rates**

Deals at non market rates should generally be avoided as such practices may result in concealment of a profit or loss in the perpetration of a fraud or the giving of an unauthorised extension of credit. Where however the use of non current market rates may be necessary (as in swaps market or in certain transactions with corporate clients) they should be entered into with the prior express permission of senior management, who should ensure that proper controls are in place for the monitoring and reporting of such transactions to avoid the above mentioned problems. Cash flow implications should be taken into account in the pricing.

#### **3.6.2. After Hours Dealing**

Dealing after normal local hours, particularly from premises other than banks' dealing rooms, should only be undertaken with the prior permission of management, who should issue guidelines to their staff on the extent of such dealing (including names of persons authorised to deal) and arrangements for the prompt recording and confirmation of such deals.

#### **3.6.3. Stop Loss Orders**

The terms under which such orders are accepted should be explicitly identified and agreed between the parties concerned and be within any management criteria on such orders. Any dealer handling such an order must have adequate lines of communication with the counterparty for use in the event of an extreme price/rate movement or other unusual situation.

### **3.7. Other Instrument Conventions**

Not applicable.

### **3.8. Basis**

Not applicable.

### **3.9. Maturity Conventions**

Not applicable.

### **3.10. Settlement Rate or Index**

Not applicable.

### **3.11. Premium Payment Date(s)**

Not applicable.

### **3.12. Expiry Conventions**

Not applicable.

### **3.13. Broker Conventions**

Not applicable.

### **3.14. Confidentiality**

Not applicable.

### **3.15. Credit**

The ability to deal is subject to credit limits. Dealers should advise a counterparty if they unable to deal because of credit limits. The quoting of a price to a counterparty indicates to that counterparty that credit lines are in place up to the dealing amount that was requested or a reasonable sized dealing parcel if no dealing amount has been stated.

### **3.16. Exercise of Options**

Refer to the [Foreign Currency Option Conventions](#).

### **3.17. Data Source**

Not applicable.

### **3.18. Pricing formulae**

Not applicable.

## 4. Confirmations

### 4.1. Acceptable Forms of Confirmation

Individual deal types can be confirmed by the methods indicated in the table below, but it should be noted that letter, fax, telex and phone are the least preferred and it is intended that they should be replaced by an electronic medium.

Type of deal	Method								
	Reuters	EBS	SWIFT <sup>2</sup>	CLS	Austraclear	Fax <sup>1</sup>	Letter	Phone <sup>3</sup>	Internet (email/portal) <sup>1</sup>
FX	P	P	S	S	S	S	S	P/S	S
FX MM	P	P	S			S	S	P/S	S
FX Options	P	P	S			S	S	P/S	S

P = Primary Confirmation

S = Secondary Confirmation

1 Parties can confirm by fax, telex or the internet only if they have previously agreed expressly on this method and preferably hold a letter of indemnity or (in the case of internet portals) have entered into a bilateral user agreement.

2 Appropriate SWIFT message type (MT 300 Series) must be used.

3 If a confirmation has been received directly from a counterparty/client within one hour of trade, a secondary telephone confirmation is not required.

#### 4.1.1. Reuters

Automatic printout of the deal is provided, representing a primary confirmation of the transaction.

#### 4.1.2. Electronic Broking System (EBS)

Automatic printout of the deal is provided, representing primary confirmation of a transaction.

#### 4.1.3. CLS

CLS endorsed best practice is for member banks not to require a SWIFT MT 300 for deals which are being settled through CLS. In effect, the entry of settlement details into the CLS system doubles as a secondary confirmation. Whilst this is considered best practice, an MT 300 should be provided if the counterparty requests it.

#### 4.1.4. ASX Austraclear

FXConfirm allows banks and their customers to receive and despatch electronic foreign exchange confirmations for spot and forward transactions.

Under the acknowledged confirmation method, the bank's SWIFT confirmation is delivered on line to the corporate counterparty, which agrees/rejects the confirmation via the ASX Austraclear system FINTRACS. An appropriate SWIFT message is delivered back via FINTRACS to the bank for processing via its internal matching system.

Under the matched confirmations method, both the bank and the corporate deliver a confirmation to the ASX Austraclear system via the means of their choice (SWIFT/Electronic file upload/manual input). The ASX Austraclear system attempts to match the confirmation pair and generates the resulting message to both parties.

#### **4.1.5. Letter**

Letters can be used as a secondary form of confirmation of transactions.

#### **4.1.6. Phone**

Recorded conversations preserve the step-by-step details of a deal. They are used primarily for primary confirmation of onshore/onshore transactions.

#### **4.1.7. Internet based Portals**

This form of confirmation should be covered by a bilateral indemnity or user agreement. Internet portal confirmations are generally governed by specific software requirements and policies/procedures of the financial institution providing the service.

#### **4.1.8. Non Deliverable Forwards**

In December 2006 the [NY] Foreign Exchange Committee (FXC), EMTA, Inc. (EMTA) and the Foreign Exchange Joint Standing Committee (FX JSC) released the *Master Confirmation Agreement for Non-Deliverable Forward FX Transactions*. The [FXC announcement](#) contains links to the Agreement, Practice Notes and Addendum. The Agreement is designed to be incorporated into an ISDA Master Agreement.

The cosponsors expect the Master Confirmation will offer market participants adopting it a legal framework for highly efficient confirmation processes for NDF Transactions.

## **4.2. When Deals are to be confirmed**

FX, FX MM and FX options deals must be confirmed within two hours of the transaction. This conforms to minimum CLS and AFMA standards. However, for transactions between two counterparties domiciled in Australia, best practice is for counterparties to send confirmations to each other within one hour of the transaction being executed and for these confirmations to be matched within two hours.

## **4.3. Standard Procedures for Confirmations**

#### **4.3.1. Reuters**

The hard copy printout of the Reuters screen (or electronic receipt into a matching system) is accepted as firm evidence of details of the deal.

#### **4.3.2. EBS**

The hard copy printout of the EBS deal (or electronic receipt into a matching system) is accepted as firm evidence of details of the deal.

#### **4.3.3. SWIFT**

Hard copy printout of the SWIFT message (or receipt into a matching system) is accepted as firm evidence of the details of the deal.

#### **4.3.4. CLS**

Appearance of the transaction in settlements due listing for relevant day is accepted as firm evidence of the details of the deal.

#### **4.3.5. ASX Austraclear**

Hard copy printout of the FINTRACS message (or listing in online report) is accepted as firm evidence of the details of the deal. FINTRACS provides hourly status reports of confirmed/unconfirmed deals via the TRANSENQ screen

#### **4.3.6. Internet**

Because this will normally be a proprietary system, the form of confirmation will be determined by the policy, procedures and requirements of the financial institution providing the system and possibly by limitations of the software in use.

#### **4.3.7. Telephone**

##### **4.3.7.1. When the counterparty is a financial institution**

Operations personnel of either party to a deal may initiate a telephone confirmation if no confirmation has been received one hour after the transaction. Both operations offices must have the dealing ticket at the time. If the office receiving the call does not have the dealing ticket, it must obtain it and inform the other office of the status of the deal within 30 minutes of the original call.

With the introduction of continuous linked settlement (CLS), care needs to be taken with settlement instructions.

Format to be used over telephone by the caller (organisation A):

- Organisation name (it is imperative that the full legal name of each organisation be used, e.g. "Westpac Banking Corporation Limited, Sydney Office" — not just "Westpac")
- Broker's name (if deal is executed through a broker, e.g. "dealt by Tullett Prebon")
- Details of confirmation, which may include:
  - client/counterparty
  - trade date
  - settlement/value date
  - buy/sell
  - organisation name
  - amount
  - currency/commodity/security
  - rate/price/yield
  - full settlement instructions
- Method of deal (telephone or broker's name)
- Payment (SSI or full details of alternative)
- Reference number
- Name of caller

Format to be used over telephone by the receiver (organisation B):

- Details of deal from B's viewpoint
- Reference number
- Name of person confirming

#### **4.3.7.2. When your counterparty is a corporate**

If the financial institution has not received confirmation of the deal after one hour by facsimile, telex or internet, its operations staff should initiate a telephone confirmation.

Failure to receive a corporate confirmation could result in:

- Incorrect name
- Incorrect SSI

- Unwanted currency positions
- Failed settlement

The financial institution has a responsibility to ensure that deal confirmation is completed. Special care should be taken as corporates may be netting off against new trades for value same day.

#### **4.3.8. Fax**

To be used where telephone not available.

Include type of deal, reference number, details of deal, method of deal and payment instructions. For example:

FX Confirmation - Ref 23456

A [name in full] buys GBP1,000,000 and sells USD1,501,500 at 1.15015, value 5 April 2005, from B [name in full].

Method dealt: telephone

Payment: SSI to apply.

#### **4.4. Late Trading**

Deals that cannot be confirmed on the deal day because of late trading must be confirmed as soon as possible and no later than 10.00 am on the following business day.

If confirmation of full details of a trade cannot be made, at least its existence should be verified.

#### **4.5. Exercise of FX Options**

If an FX option is exercised, the resulting FX deal must be confirmed in accordance with these rules on the date of exercise.

## **5. Settlement**

### **5.1. Continuous Linked Settlement**

[www.cls-services.com](http://www.cls-services.com)

CLS Settlement is the market standard for FX settlement and is the industry's response to continuing regulatory concern about the settlement and systemic risk associated with the growth in FX trading. Settlement risk is the risk that one party to an FX transaction pays out the currency it sold but does not receive the currency it bought.

The settlement service went live in September 2002 settling seven currencies for 39 Member banks. Seven years later the service settles seventeen currencies for 59 Member banks and over 5,000 other participants. Direct participants or Members are also shareholders in CLS Group and have an account at CLS Bank, an Edge Act bank based in NY.

The service eliminates settlement risk using a unique combination of payment versus payment in “central bank funds”, multilateral payment netting supported by a comprehensive, standardised operating and legal framework. The service is delivered by a resilient infrastructure that complies with the Federal Reserve Bank standards for critical infrastructures under its oversight. The key attributes are as follows:

- Matches settlement instructions, on average within 30 minutes after trade execution;
- Eliminates FX settlement risk by settling both sides of each trade simultaneously, PvP. In the event of failure by one party to the trade, the principal is immediately returned to the other party;
- Settles seventeen currencies that account for 94% of daily traded value (*BIS Triennial FX Survey 2007*);
- Multilaterally nets the cash obligations between all Members for each value date. Currently this process achieves a netting efficiency of 97%, or for every \$1 trillion settled, the members have to fund \$30 billion in the respective currencies settled;
- Settles payment instructions related to trades executed in five main instruments:
  - FX spot
  - FX forwards
  - FX option exercises
  - FX swaps
  - Non deliverable forwards

CLS Bank does not guarantee the settlement or become counterparty to any transaction. The FX trade obligations remain with the trading parties. The service risk model is designed to assure protection against the loss of principal value by any one party to an FX trade.

Members input transactions into the CLS system and hold a direct account with CLS Bank. User members input transactions but do not have a direct account with CLS Bank and thus are sponsored by a Settlement Member for their payments. Third party participants do not have direct access to CLS and therefore must use a Settlement Member who submits transactions and processes payments on their behalf.

There were seven CLS launch currencies (AUD, CAD, CHF, EUR, GBP, JPY and USD). A further ten currencies (SEK, NOK, DKK, SGD, HKD, NZD, KRW, ZAR, MXN and ILS) have since been added.

The CLS Non-Deliverable Forward (NDF) Settlement Service has been live since November 2007, providing settlement risk elimination and operational risk reduction for Members and Third Parties.

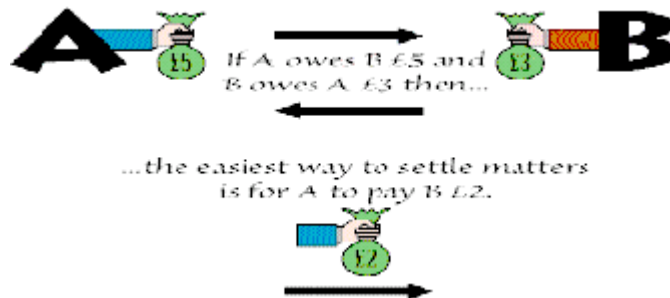
CLS has also partnered with The Depository Trust & Clearing Corporation (DTCC) to provide an automated settlement service for cash flows relating OTC credit derivatives contracts. This links DTCC Deriv/SERV's Trade Information Warehouse to the CLS settlement service. The service started operation in mid 2007 with settlements between the primary dealers in the warehouse; this has more recently expanded to include buy-side firms.

The Reserve Bank of Australia has introduced extended operational hours for the RTGS system to accommodate CLS settlements.

CLS has established protocols published and administered by CLS Bank International. The purpose of these Protocols is to offer market participants an efficient way to address issues relating to standards and/or best practices surrounding post-trade processes where related instructions are submitted to the CLS System for Settlement services in CLS Bank. Full details are available on the website; [www.cls-group.com](http://www.cls-group.com).

## 5.2. Payments Netting (non-CLS transactions)

I owe you £5 but you owe me £3. If I give you £2, we're quits -- the concept of netting in a nutshell.



Payments netting is an arrangement in which opposite payments are matched. This usually occurs where there are opposite obligations in the same currency, between the same parties, and involving the same risk management product or different products on a common date.

On the due (value) date, the amounts due for payment between the parties are netted off and only the difference is paid by one of the parties to the other.

Payments netting results in a simple set-off at the time of payment without altering the contractual rights of the parties under the contract. Payments netting reduces settlement risk.

### *Netting Arrangements*

CLS is the principal system for netting payments.

If a counterparty (generally a corporate client) wishes to net off maturing transactions on an ongoing basis, the bank must be notified with adequate time for the first netting to be effected. All payments related to subsequent deals with the bank will be netted against payments for deals maturing on the same day.

Deals transacted for same-day value which are to be included in netting together with maturing deals are to be advised accordingly to the bank (optional in the agreement).

Customers wishing to net-off transactions on an ad hoc basis should notify the bank as earlier as possible on the day netting is to take place, ideally by 9:30am.

#### *Netting Procedure*

The bank will contact the counterparty by 9:30am on value date and confirm the currencies and amounts to be remitted by either party.

#### *Payments Netting Confirmations*

On completion of the telephone confirmation, the bank will transmit a facsimile summary of deals netted on the day. Each facsimile will detail the individual deals maturing on the day which constituted the net result. The customer is required to provide similar confirmation on the day to the bank, or acknowledge the confirmation provided by the bank by signing and returning a copy by facsimile.

Alternatively, the bank may confirm the trades through its online system to the customer.

#### *Confirmation Discrepancies*

The customer should notify the bank by telephone immediately if a discrepancy is identified in a payments netting confirmation.

Payments Netting Documentation

**Bilateral Payments Netting Agreement**

Note: This agreement does not cover transactions processed under continuous link settlement (CLS).

This agreement outlines the procedures in relation to bilateral payments netting for non-CLS deals between [Party A – Counterparty] and [Party B – Bank]. *(This paragraph can be tailored to include all deal types or specific deal types, as mutually agreed)*

Payments and receipts in [currencies to be included] in settlement of foreign exchange deals are to be netted.

“Value today” foreign exchange deals, money market deals and derivative product trades are to be excluded. (optional clause - include as appropriate)

The bank agrees to contact the other party on a recorded telephone line [before 9:30am Sydney time]<sup>1</sup> on value date to agree net settlement currency amounts.

Formal confirmation showing a summary of deals netted and amounts payable/receivable will be sent by fax (or other electronic means) by the bank to the counterparty. Acknowledgment by return is required. This may be by signing and returning the original facsimile or through a proprietary system.

If a net settlement amount cannot be agreed, each party shall attempt promptly and in good faith to resolve the dispute. If such a dispute is not resolved, the individual deals will be settled individually and no netting will be undertaken for that particular currency.

Each party agrees to provide five working days notice of any intention to withdraw from this agreement.

Contact Numbers

Party A: Telephone \_\_\_\_\_ Fax \_\_\_\_\_

Party B: Telephone \_\_\_\_\_ Fax \_\_\_\_\_

This agreement will commence: \_\_\_\_\_

Signed for and on behalf of:

[Name of Party A]

[Name of Party B]

\_\_\_\_\_  
Signed

\_\_\_\_\_  
Signed

\_\_\_\_\_  
Name

\_\_\_\_\_  
Name

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

<sup>1</sup> Specifying a particular cut off time is optional.