Futurization of FX Derivatives

January 14, 2014
Executive Summary:

FX swaps and forwards received exemptions from trading and clearing requirements imposed on derivatives in other asset classes. However, they will still feel the impact of trade reporting requirements, anti-evasion authority, business conduct standards and Basel III capital requirements. These influences are likely to encourage a shift of some FX swaps and forwards business to futures.

A share of non-deliverables forwards and FX options flow should move to futures as well: These instruments didn't escape the grasp of trading and clearing requirements, which will make trading them will become more expensive. Futures offer a cheaper way for some users to gain the exposures they need.

The move to futures will require investors to rethink how they access the FX market, dealers to revamp business models to facilitate trading in a profitable way, and technology providers to offer solutions to help all market participants adapt and succeed in the new market.

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