



DEUTSCHE BÖRSE
GROUP

FX Exchange for Physicals: The Great Potential of FX EFPs

FX EFPs Explained: Understanding Their Growing Popularity

An FX EFP is a type of off-exchange transaction between a client and their bank that occurs outside the central limit order book (CLOB).

The trade has two legs, consisting of the same currency pair in opposite directions:

1. An over the counter (OTC) FX trade
2. An exchange-traded FX Futures trade

The OTC leg of an EFP is typically an FX Spot, although there is growing interest in using FX Forwards and FX Swaps, and this leg always remains bilateral. The FX Futures leg, conversely, is registered with, and centrally cleared, by an exchange. The basis between the two – the liquidity provider's charge to cover the forward points plus any additional fee they wish to include – is agreed by the two parties prior to execution.

Due to its hybrid nature, clients benefit from both an existing OTC liquidity pool for initial execution and the advantages of centrally clearing the Futures leg of the transaction.

By reducing counterparty and credit risk with the FX Futures leg of the trade, the result has an extra layer of security in terms of counterparty and asset protection, transparency from the use of an exchange listed product, and operational efficiency from the multilateral netting that clearing brings. Ultimately, EFPs are a win-win for banks and their clients.

”

Using EFPs to clear their clients' OTC FX exposure allows banks to manage their increasing regulatory costs that are driven up by SA-CCR and other regulation. The win for their clients is better pricing opportunities while interacting with OTC FX liquidity and platform providers – plus all the benefits that clearing can bring.

- David Holcombe, Head of Product, FX Futures and Clearing at 360T.

Two Common Ways Traders Use FX EFPs

Traders can either convert an existing OTC FX position into an FX Futures position, through a straightforward buy/sell transaction with their bank. This is known as Traditional EFP. Alternatively, they can tell their bank that they want to buy/sell FX Future contracts by using the OTC liquidity pool. This is known as an Immediately Offsetting EFP.

The Traditional EFP

For example, a client wants to sell his FX Spot position of \$100 million EURUSD and use an EFP to roll that into a EURUSD Futures position for the next quarter, in order to simplify their subsequent rolls and remove their tie of this position against a specific bank.

In this traditional EFP, the buyer and seller will settle the OTC leg between themselves once the EFP has been registered. The FX Futures leg is cleared as part of the normal registration process.

The basis (that is the forward points plus any charges from the bank) is agreed between the client and the bank as part of the EFP negotiation.



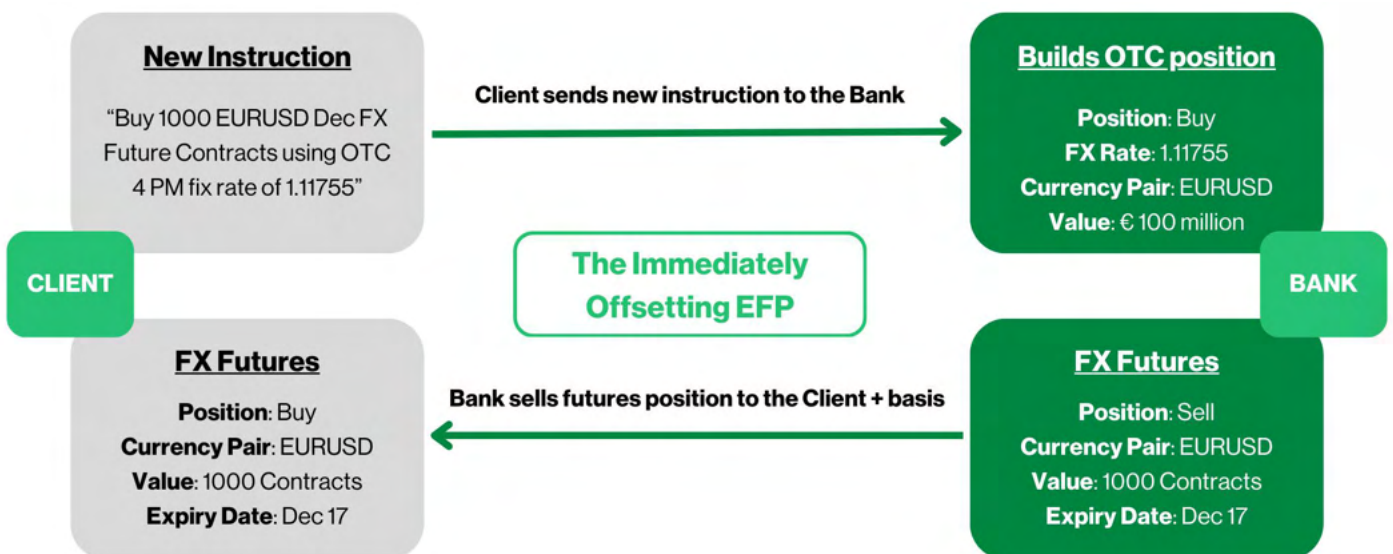
The Immediately Offsetting EFP

This is where the EFP is used to clear the result of an OTC activity (for example, an algo execution), into a Futures position. In this scenario, the client does not want or need an OTC position himself and believes the use of OTC liquidity will achieve a better execution rate than an outright buy/sell FX Futures trade from their bank.

For example, a client wants to use a bank’s OTC algo with target rate of today’s 4pm fix, to buy 1000 EURUSD December futures. The client is not converting an existing OTC position, he is instead instructing the bank to buy a Futures Contract using an OTC fix rate at a specific time.

The bank’s algo would then build the \$100 million OTC EURUSD position at the target rate into the client’s holding account. Then, at EOD (or whenever the OTC position is ready) the bank uses an EFP to buy that position from the client holding account into their house book, while at the same time selling the relevant futures position to the Client.

With the immediately offsetting EFP there is no OTC settlement between the bank and the client. The bank has sold the Client a futures position, which will be cleared as normal, and the bank’s internal booking buys the OTC position back from the client’s holding account before settlement instructions are generated.



FX EFP Transactions With 360T

360T clients use the OTC price enquiry model (RFQ/RFS) for their EFPs.

How it works

1. The client selects their specific Futures contract/expiry and adds the rest of the EFP terms.
2. They send this to the selected banks from their basket – placing them in pricing competition for the EFP.
3. Once the banks respond with the quote of their basis, the client accepts the winning bank's price. This triggers the EFP execution.
4. Once the EFP transaction is completed, 360T automatically reports the details into the exchange for registration.
5. The clearing firms involved clear the trade and perform any subsequent give-ups or reallocations.

The screenshot displays the 'Exchange For Physical (FCEU)' interface. At the top, it shows 'Product Definition' and 'Competitive Bidding'. The main area is divided into 'OTC Position' and 'FX Future' sections. The 'OTC Position' section shows a 'Sell' order for EUR and a 'Buy' order for USD, with an effective date of 'Wed, 05.07.2023'. The 'FX Future' section shows a 'Buy' order for EUR and a 'Sell' order for USD, with an effective date of '21 Sep 2023'. Below these sections is a 'Provider List' table with columns for 'Transaction' and 'Comments'. The 'Indicative Value' is shown as '3,3' and the 'Request Timeout' is '05:00'. The 'Regulatory Disclosures' section includes 'Cancel' and 'Send' buttons. The bottom section shows the 'Best Price' for 'I Sell EUR' at '2.8' and a table for 'Counterpart (1/28)' with columns for 'I Sell EUR' and 'P&L', showing a value of '2.8' and '0.00' for '360TBANK.TEST'. The 'Clearing House' section shows 'Eurex Clearing AG' and 'No broker'. The 'FX Future' section shows 'I Buy EUR / Sell USD (FCEU)' with a notional amount of '2,100,000.00 EUR / 21 Contracts' and an effective date of 'Thu, 21. Sep 2023'. The 'OTC Spot' section shows 'I Sell EUR / Buy USD' with a notional amount of '2,100,000.00 EUR' and an effective date of 'Spot // Wed, 05. Jul 2023'. The interface includes 'Amend', 'Cancel', and 'Send Again' buttons.

”

The strength of the 360T offering is that in one venue, customers can view the quotes of all of their EFP market makers in competition.

– David Holcombe, Head of Product, FX Futures and Clearing at 360T.

Clearing FX EFP On 360T

Unless clients are self-clearing, they need to use a clearing broker for their access to the exchange. The clearing broker provides mapping details that 360T uses to route EFP trades for clearing.

EFP trading relationships are managed in the same way as with other OTC FX products in 360T – each client has their own basket of banks. If a new client-bank relationship needs to be mapped, the process is simple. The client would first request access to the bank they wish to face. Once the bank completes their side of the setup, and it is confirmed on 360T, the new mapping is established.

A Note About Credit

Since the Futures leg of the EFP is always cleared, its execution requires no bilateral credit or settlement relationship between the client and the bank.

For a Traditional EFP, where there is an OTC settlement required between client and bank, bilateral credit is required.

For an Immediately Offsetting EFP, there is no OTC settlement between the client and the bank. Only limited bilateral credit is used while the OTC position is built, which is then bought back from the client's account as part of the EFP registration. This is why banks won't demand a full credit relationship against clients.

”

Clients use EFPs to benefit from OTC liquidity while optimising their portfolios from a capital, credit, and uncleared margin rules perspective. More and more clients are increasingly relying on EFPs when moving from uncleared to cleared FX products.

– Tobias Rank, Head of FX Product Sales at Eurex.

The Benefits of Using EFPs with 360T

- 360T is one of the only FX venues where you can put your banks in competition for EFP transactions.
- Clients can trade EFPs with banks simply by entering into a give up agreement. They can add new trade counterparties within days for even more efficiency.
- 360T supports both types of FX EFPs: traditional EFPs with an OTC leg settlement obligation, and Immediately Offsetting EFP.
- While the OTC leg of the trade is bilateral, 360T provides full Straight Through Processing (STP) into the exchange for reporting and futures leg execution and clearing.
- Using built-to-clear FX Futures products helps enhance the collateral and margin efficiencies offered by central clearing.
- Firms can trade FX Futures in the exchange orderbook with all-to-all firm liquidity where everyone faces the same price, or off-exchange where they agree price and terms bilaterally with their liquidity providers
- A zero-development 360T tool allows banks to offer bilateral FX Futures to their clients, and 360T APIs will offer routes for both clients and banks to use EFP to clear their OTC outright and FX Swap business.

The Global FX Marketplace

360T is far more than an award-winning multi-bank, multi-asset trading platform for OTC and listed financial instruments. As Deutsche Börse Group's global FX unit, the company offers services across the entire trading workflow of FX to satisfy the needs of Corporate Treasurers, Institutional Asset Managers and Hedge Funds as well as Banks. Beyond optimising execution, 360T allows clients to directly reduce their operational costs and risks in all parts of the trading life cycle while enhancing compliance and transparency at the same time.



Please do not hesitate to contact your local account manager for more information or contact us at info@360t.com - www.360t.com

Europe

Frankfurt

Tel: +49 69 900 289 0

Americas

New York

Tel: +1 212 776 2900

Asia Pacific

Singapore

Tel: +65 6597 1770

Middle East

Dubai

Tel: +971 4 458 7440

South Asia

Mumbai

Tel: +91 22 4077 1437