Foreign Exchange Prime Brokerage
Reverse Give-Up Relationships:
Overview of Key Issues and Analysis of Legal Framework

I. INTRODUCTION

Foreign exchange prime brokerage allows clients to source liquidity from a variety of executing dealers while maintaining a credit relationship, placing collateral, and settling with a single entity—the prime broker. The product emerged in the early 1990s, and gained momentum when several financial institutions entered the prime brokerage business with more formal operational controls, procedures, and processes. This approach laid the foundation for an expansion of the client base to include hedge funds, commodity trading advisors, asset managers, small banks, and other foreign exchange market participants. The fundamental concept in a "plain vanilla" prime brokerage arrangement is the "give-up"—whereby a prime broker accepts foreign exchange trades executed between its client and a dealer. In this arrangement, the prime broker is interposed between the dealer and its client as counterparty to offsetting foreign exchange trades.

Since the late 1990s, foreign exchange prime brokerage has evolved from the "plain vanilla" give-up model into a more complicated set of "reverse give-up" relationships among multiple prime brokers, give-up parties, and their clients. Clients in this area include hedge funds and asset management companies that execute trades with several dealers for their own accounts, for the accounts of financial institutions, or for hedge funds that maintain accounts at financial institutions. Additionally, reverse give-up relationships arise when clients manage money for hedge funds that transact with different prime brokers or when, for business or credit reasons, clients desire to use multiple prime brokers. In a reverse give-up, the prime broker, to whom the foreign exchange trades of its clients have been "given up," in turn enters into offsetting transactions with another financial institution that may or may not be a prime broker.

The Financial Markets Lawyers Group (FMLG) seeks to explain to market participants the different types of reverse give-up relationships that have emerged and provide an overview of key legal and operational issues that they should consider when engaging in reverse give-up trading activities. These issues are distinct from those that arise in the "plain vanilla" prime brokerage context; thus, they require an understanding of the complexity of the relationships and associated documentation. Recognizing that market practices for defining the legal relationships and processes of reverse give-up relationships are diverse, the FMLG aims to heighten awareness of the key issues to enable counterparties to negotiate and engage in reverse give-up relationships in a productive manner that appropriately addresses relevant risks and processes.

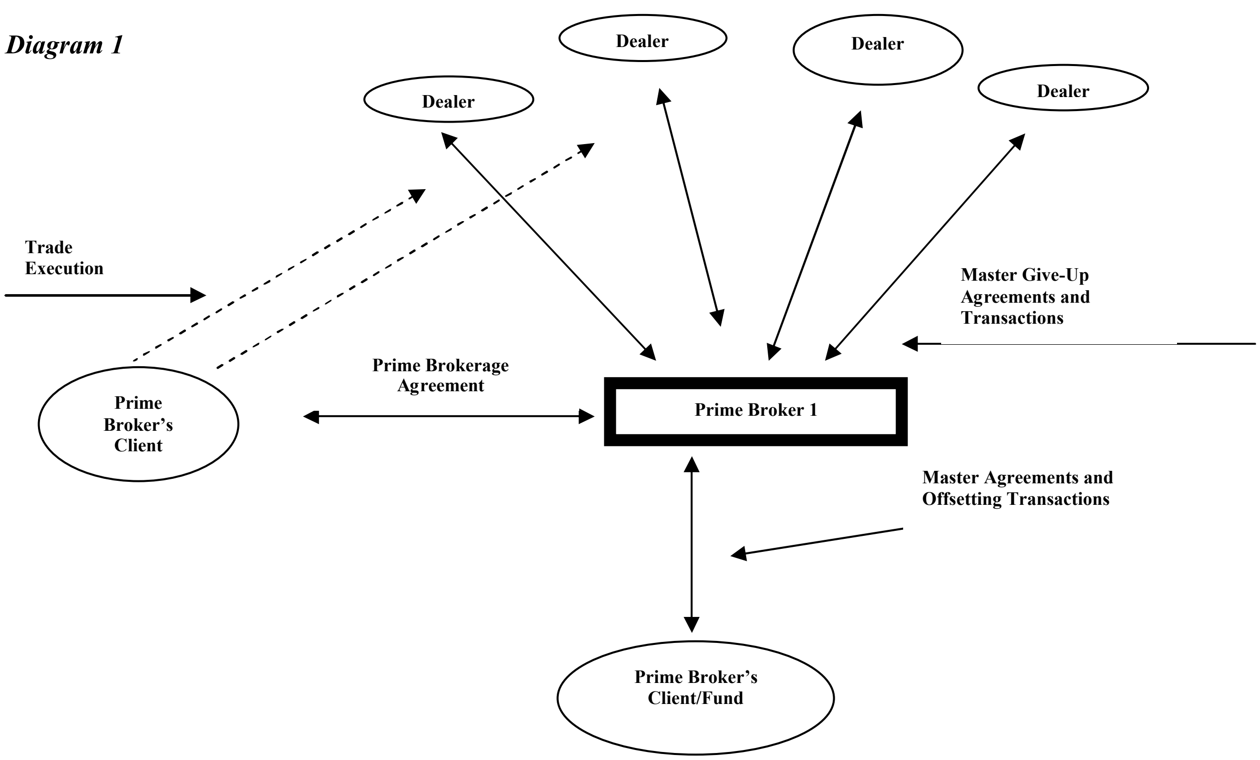
II. REVERSE GIVE-UP PARTICIPANTS AND RELATIONSHIPS

A. No Reverse Give-Ups

A “plain vanilla” prime brokerage relationship involves three parties—the client, the prime broker, and the executing dealer. The client conducts a trade with the executing dealer for give-up to its prime broker. When the prime broker is notified of the trade by the client and executing dealer and accepts the trade, the prime broker—rather than the client—becomes the party to the transaction. This relationship is documented under the prime brokerage agreement between the client and prime broker, and under the master give-up agreement between the prime broker and executing dealer.

In Diagram 1, assume that the prime broker’s client is a hedge fund or an asset management company that executes trades with several executing dealers. The client trades for its own account and manages hedge fund accounts serviced by the prime broker. The trades are given up to the prime broker under the terms of each master give-up agreement between the prime broker and each executing dealer and of the prime brokerage agreement between the prime broker and the client. The prime broker enters into offsetting trades with the client and with the hedge funds, as instructed by the client. The offsetting trades are typically governed by master agreements, such as the ISDA (International Swaps and Derivatives Association) Master Agreement or the Foreign Exchange Committee’s IFEMA (International Foreign Exchange Master Agreement) or FEOMA (International Foreign Exchange and Options Master Agreement), between the prime broker and the client, or the prime broker and the hedge funds.

Diagram 1



To address risks arising from the "plain vanilla" give-up relationship, the Foreign Exchange Committee published in 2005 the first industry Master FX Give-Up Agreement, followed by best practice recommendations.[1] The agreement and recommendations address several key relationship issues, such as the scope of the give-up relationship, trade notification, trade acceptance or rejection, and post-trade events. Specifically, the Master FX Give-Up Agreement addresses: (i) the types of trades that the prime broker will accept and the credit limits that apply to the give-up relationship; (ii) when the client and/or executing dealer must provide trade notifications to the prime broker; (iii) the rights and obligations of the prime broker concerning acceptance or rejection of trades, including notices (if any) to be provided by the prime broker; and (iv) the party responsible for determination and notification of post-trade events. These key issues are further developed in reverse give-up relationships, as described below.

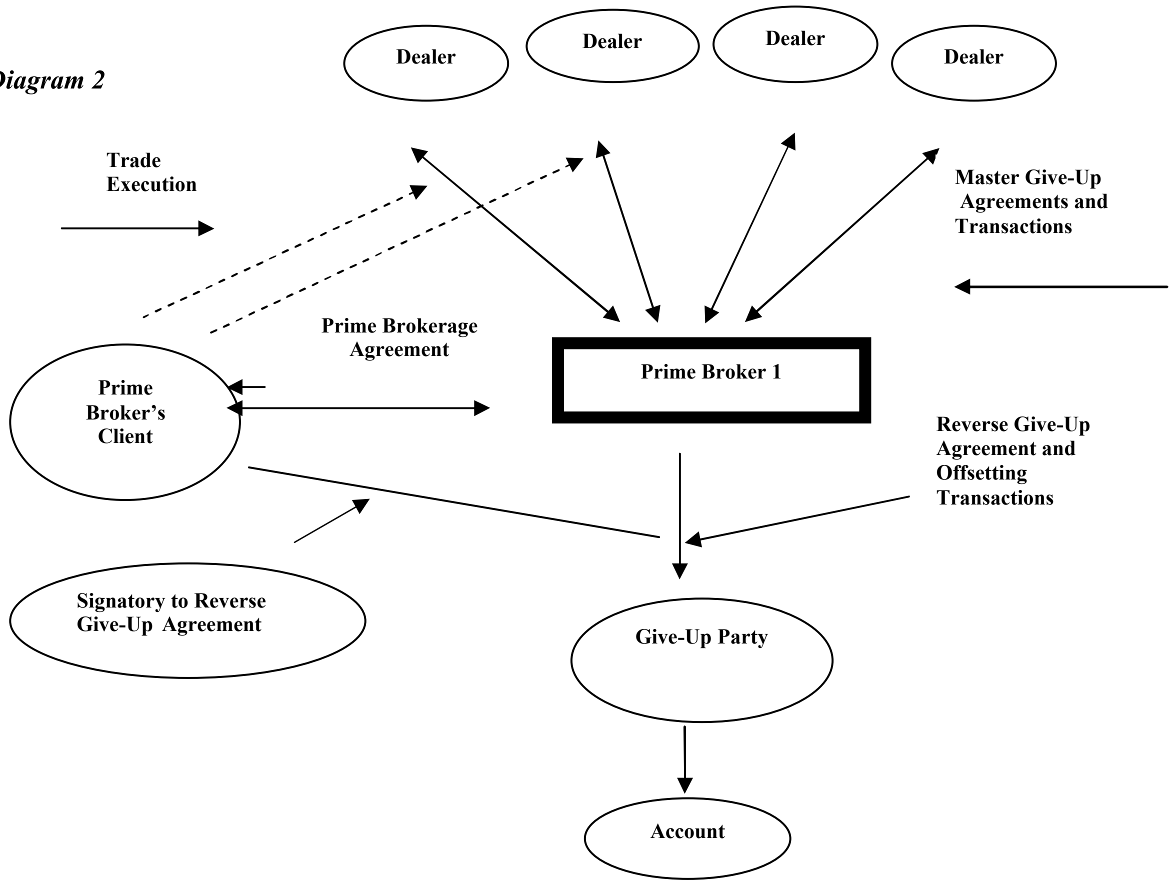
B. Reverse Give-Up Party

A reverse give-up relationship introduces a fourth party to the prime brokerage relationship among the client, the prime broker, and the executing dealer. The fourth party is a reverse give-up party, often a financial institution that acts as custodian for hedge fund accounts for which the client trades as manager. The give-up party may also permit the client to trade for its proprietary book. This relationship is typically documented under a reverse give-up agreement among the prime broker, the give-up party, and the client.

In Diagram 2, assume that the prime broker's client is a hedge fund or an asset management company that carries out trades with several executing dealers. The client manages hedge fund accounts for which the give-up party acts as custodian and trades for the give-up party's own account. The trades are given up to the prime broker, under the terms of each master give-up agreement between the prime broker and each executing dealer, and the prime brokerage agreement between the prime broker and the client. The prime broker then enters into offsetting trades with the give-up party, under the terms of the reverse give-up agreement between the prime broker and the give-up party (and typically the client). The give-up party enters into offsetting trades with the hedge funds managed by the client. When the client trades for the give-up party's own account, trades are internally booked to that account.

[1] For more on the development of the prime brokerage product and the Foreign Exchange Committee's best practice recommendations for the industry, see "Foreign Exchange Prime Brokerage: Product Overview and Best Practice Recommendations," published December 19, 2005 (available at <http://www.newyorkfed.org/fxc/2005/fxc051219a.pdf>). The Master FX Give-Up Agreement and an accompanying Compensation Agreement are available at the websites noted in footnote 3 below.

Diagram 2

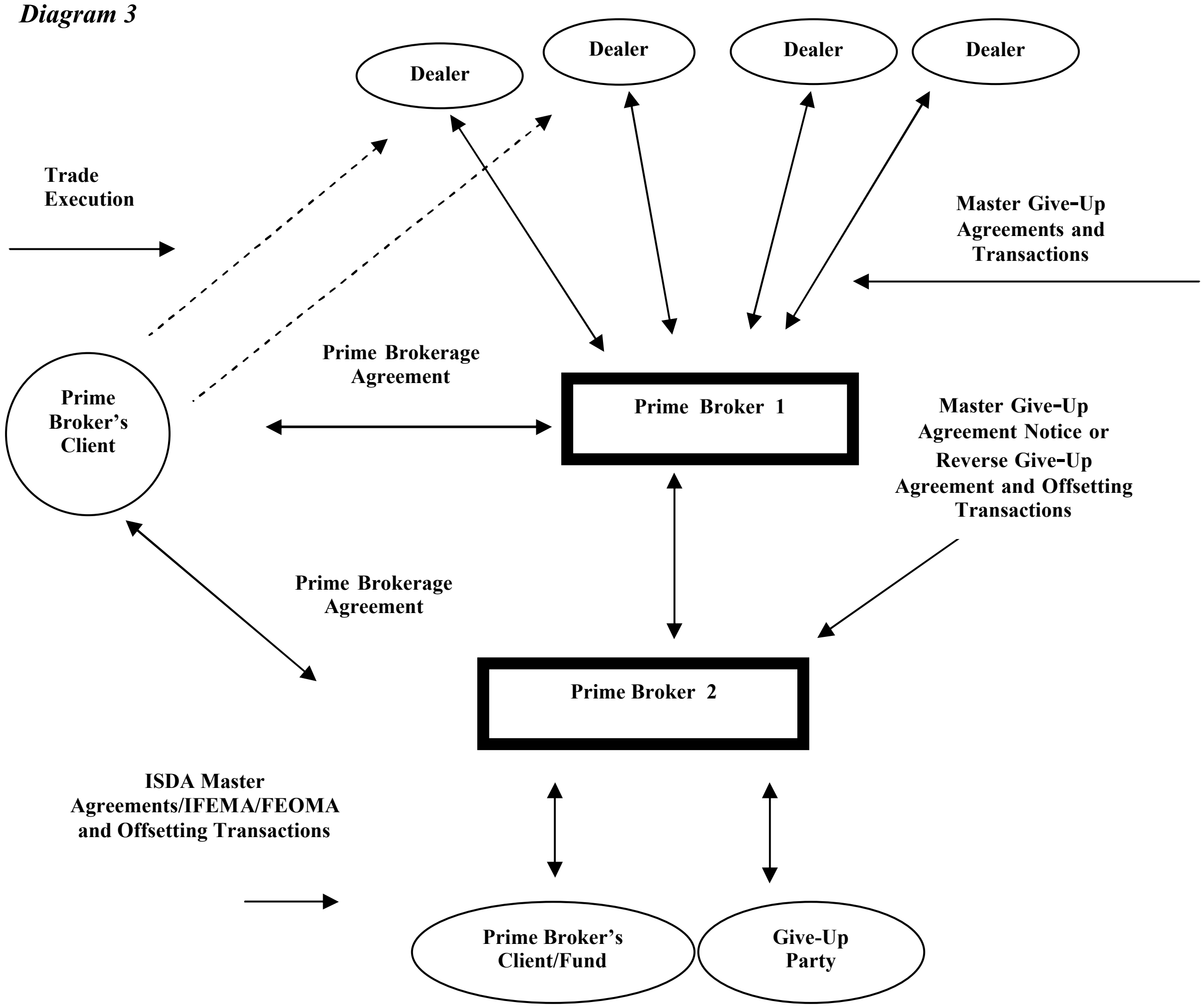


This reverse give-up relationship raises the key issue of whether the give-up party is a passive recipient of trades, or if it actively imposes limits on trades allocated to it and on procedural requirements for notices. The give-up party may separately limit the client's trades outside of the reverse give-up relationship with the prime broker.

C. Two Prime Brokers

A reverse give-up relationship can also involve a fifth party—a second prime broker—in addition to the client, the first prime broker, the executing dealer, and the give-up party. A second prime broker can be involved when the client manages money for funds that have relationships with different prime brokers, prefers to diversify its business with other prime brokers, or already has used extensive lines with dealers through the first prime broker. The reverse give-up relationship between two prime brokers is typically documented under a reverse give-up agreement or a master give-up agreement between them, while the client has entered into a prime brokerage agreement with each of the prime brokers, as illustrated in Diagram 3.

Diagram 3



Assume that the client is a hedge fund or an asset management company that executes trades with several executing dealers for its own account and for the give-up party's own account at the second prime broker; it also manages hedge fund accounts for which the second prime broker acts as prime broker. The trades are given up to the first prime broker, under the terms of each master give-up agreement between the first prime broker and each executing dealer, and the prime brokerage agreement between the first prime broker and the client. The first prime broker then enters into offsetting trades with the second prime broker. The prime brokers can have in place a reverse give-up agreement between them (and possibly the client), as well as separate prime brokerage agreements with the client, that governs these trades. However, it is also possible to document a reverse give-up under the master give up agreement between the first prime broker, acting as dealer, and the second prime broker, acting as prime broker. The second prime broker then enters into offsetting trades with hedge funds managed by the client and with the give-up party. These trades are governed by the terms of master agreements in place with these parties. In addition, the second prime broker enters into offsetting trades with the client, which are typically governed by the terms of the master agreement between the prime broker and the client.

This scenario raises the legal issue of whether the second prime broker, in the reverse give-up arrangement with the first prime broker, takes on the role of a passive give-up party or instead takes on the role of a prime broker that actively controls the trades given up to it and requires notices. It also raises a "Wall" issue for the first prime broker, in that trades executed on the sales side could, depending on the documentation, be conducted under the same give-up lines as trades that have been "reverse" given up in the prime brokerage business. As discussed in Part III.E.1, financial institutions typically maintain a Wall that restricts the flow of information between their prime brokerage business and their trading and sales desks.

D. Multiple Relationships

In reality, trades given up to a prime broker are split in several ways among other prime brokers, give-up parties, and client funds or accounts. The existence of multiple relationships among these parties raises issues such as transparency of trades beginning with the first prime broker, disclosure to clients of fees charged by both prime brokers, and operational risk.

In Diagram 4, assume that the first prime broker's client is a hedge fund or an asset management company that executes trades with several executing dealers. The client manages hedge fund accounts for which there are multiple prime brokers, trades for one or more give-up parties with accounts at multiple prime brokers, and trades for its own account. The trades are given up to the first prime broker under the terms of a master give-up agreement between the first prime broker and each executing dealer, and the prime brokerage agreement between the first prime broker and the client. In turn, the first prime broker enters into several offsetting trades with:

i) hedge funds managed by the client;
ii) the give-up party; and
iii) the client, with respect to trades for the client's own account.

These offsetting trades are governed by the terms of several different documents:

i) the master agreements between the first prime broker and the hedge funds;
ii) the reverse give-up agreement between the first prime broker and the give-up party; and
iii) the master agreement between the first prime broker and the client.

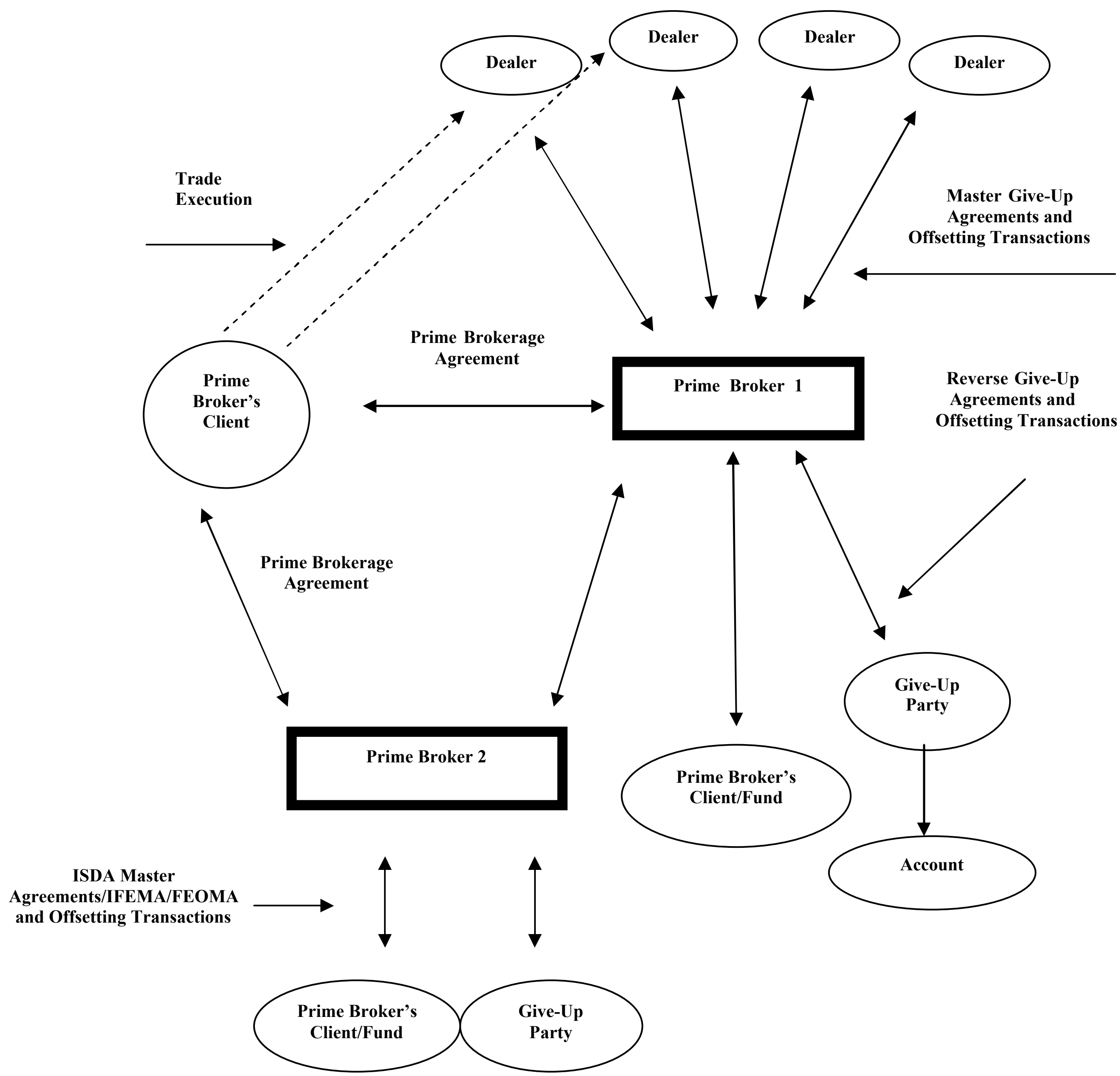
In addition, the first prime broker enters into offsetting trades with the second prime broker (and possibly other prime brokers). The offsetting trades are executed under the terms of a reverse give-up agreement entered into on a bilateral basis between the prime brokers or, alternatively, under the terms of a master give-up agreement between the first prime broker, acting as dealer, and the second prime broker, acting as prime broker. In turn, the *second* prime broker (and possibly other prime brokers) enters into several offsetting trades:

i) with hedge fund accounts managed by the client;
ii) with a second give-up party; and
iii) with the client, with respect to trades for the Client's own account.

Each of these offsetting trades is governed by the terms of several different documents:

i) master agreements between the second prime broker and the hedge funds;
ii) the reverse give-up agreement between the second prime broker and the give-up party, and the master agreement between the second prime broker and the give-up party; and
iii) the master agreement between the second prime broker and the client.

Diagram 4



III. Key Relationship Issues

A. Credit Limits

Prime brokerage arrangements require active credit-limit monitoring against the limits set forth in governing legal agreements. In the prime brokerage agreement, the prime broker establishes limits for acceptance of the client's trades. In the master give-up agreement, the prime broker establishes limits for acceptance of the client's trades vis-à-vis the executing dealer. Reverse give-up arrangements require the analysis of additional relationships among the client, the prime brokers, the give-up parties, and the client accounts in determining the applicability of credit limits. The key issues concerning administration of limits in reverse give-up arrangements are:

1. Would a give-up party impose limits for the trades it accepts from a prime broker?

2. Would a prime broker impose limits for the offsetting trades it enters into with a give-up party?

3. When there are two prime brokers, do both prime brokers' limits apply to the client's trades given up to the second prime broker?

Would a give-up party impose limits for the trades it accepts from a prime broker?

When deciding whether to impose limits for trades it accepts from a prime broker, a give-up party will consider several factors. One key factor is the capacity in which the give-up party is acting for the client. If the give-up party assumes the role of an active prime broker, it would be inclined to impose limits in order to control the amount of its exposure as a result of entering into offsetting trades with hedge fund accounts managed by the client. A secondary concern of the give-up party would be to control the amount of the give-up party's line with the prime broker that the client may use. Alternatively, if the give-up party is acting in another capacity, such as a custodian for the client, it would be less likely to impose limits for the trades it accepts from the prime broker, unless line usage is an issue. In making this decision, the give-up party would consider the size of current limits with the prime broker and the sensitivity of the client's trades vis-à-vis the current limits. However, the give-up party may separately impose limits on the client's trading activity outside of the reverse give-up relationship with the prime broker. The give-up party may do so by specifying limits in its ISDA master agreement with the client, if it executes offsetting trades with the client. Alternatively, if the give-up party is an end-user, limits may be specified in the investment management agreement between the give-up party and the client.

Would a prime broker impose limits for the offsetting trades it enters into with a give-up party?

A prime broker that accepts a client's trades with an executing dealer and gives them up to another party by entering into offsetting trades incurs credit risk against the give-up party. The prime broker may or may not decide to impose limits on offsetting trades that will be entered into with the give-up party. The prime broker's main concern would be credit line usage, although there is a divergence of views and practice in this area. In the past, prime brokers did not impose their own limits on give-up parties because they could control the amount of trades they would accept through lines with clients and executing dealers in the prime brokerage and give-up agreements. Any limits on the give-up party's side would be a subset of lines extended to the client. However, recently, prime brokers have become concerned that clients could use the prime broker's credit line with the give-up party, which the prime broker would prefer to use for its own proprietary trading or its own customers. In such a case, the prime broker would impose separate limits on offsetting trades with the give-up party.

When there are two prime brokers, do both prime brokers' limits apply to the client's trades given up to the second prime broker?

The first prime broker has daily settlement or net open position limits and can reject the client's trades with a particular executing dealer that do not fall within these limits. When this happens, the trade is never submitted to the second prime broker and, in effect, the first prime broker's limits affect the reverse give-up relationship. Alternatively, a trade may be accepted by the first prime broker, which has entered into the trade with the executing dealer, but not fall within the limits established by the second prime broker. This situation occurs when a client attempts to allocate a trade over its limits established with the second prime broker. The agreement between the first prime broker and the client would require the client to reallocate the trade by the end of the day, such as to a third prime broker or a fund that the client manages. Alternatively, the client may obtain from the second prime broker its consent to exceed the limit in exchange for additional collateral. If all else fails, the trade could be unwound and the client may be responsible for compensating the executing dealer for any losses under a compensation agreement.

The first prime broker may want to consolidate its limits with the limits applicable when the second prime broker is acting as a prime broker. Conversely, the second prime broker may want to consolidate its limits against trades accepted from the first prime broker, regardless of the capacity in which the first prime broker is acting. That is, with a particular client, the first prime broker may be acting as a prime broker by accepting trades the client enters into with other executing dealers (and then entering into offsetting trades with the second prime broker), and also may be acting as an executing dealer by entering into trades with the client that are given up to the second prime broker (resulting in a trade between the two prime brokers and an offsetting trade between the second prime broker and the client/fund or give-up party). If the second prime broker seeks to consolidate limits on all trades accepted from the first prime broker, this would raise "Wall" issues for the first prime broker, as discussed in Part III.E.1.

B. Trade Notifications

In a typical give-up relationship, the executing dealer and the client are required to notify the prime broker once a trade has been executed, informing the prime broker of the material terms of the trade. In reverse give-up situations, procedures for notification of executed trades depend on how the parties view their relationships.

1. *Would a give-up party require notices of trades to be provided by the client and/or the prime broker?*

2. *Would the give-up party accept trades only if the notices match?*

3. *When there are two prime brokers, what notices will be required and which party will need to give them?*

A give-up party's position on whether and from whom it will require trade notices will vary based on the relationship of the parties and how the give-up party obtains legal certainty that the prime broker and the client are bound to a trade with certain terms. A give-up party that has taken on an active role such as that of a second prime broker may require matching trade notices from the prime broker and the client, as if the prime broker were an executing dealer. More typically, a conventional give-up party receives trade notices only from its client or only from the prime broker and later confirms trades with the prime broker. The give-up party would obtain the agreement of the prime broker or the client that the trade notice provided by the other party would be sufficient evidence of the terms of the trade to which it is bound. In the give-up context, this arrangement takes the form of a trading authority agreement, under which the client acts as agent and attorney in fact for the prime broker (or vice versa) for purposes of notices.

When there are two prime brokers, most commonly the first prime broker would receive trade notices from the executing dealer and the client while the second prime broker would require matching trade notices from the first prime broker and the client. The second prime broker views the client as the one who went to the first prime broker and executed a bulk trade given up to the second prime broker in part. The first prime broker acts as an executing dealer. The second prime broker enters into a mirror trade based on the terms of the trade between itself and the first prime broker, and therefore requires matching notices in order to protect itself from basis risk between the trades booked against the client and the first prime broker. However, the second prime broker may agree to receive notice from the investment advisor that handles trade allocations rather than from the first prime broker. There is a risk to the second prime broker in doing so that can be addressed by obtaining the agreement of the first prime broker that it may act on a notice from the client. A fund may also notify the second prime broker of the trade it has accepted an allocation of, if the client trades for the fund.

C. Trade Acceptance and Rejection

Once the prime broker receives notice of a trade, it has certain rights and obligations with respect to the acceptance or rejection of the trade, and it must determine if a trade meets the applicable conditions of the prime brokerage and master give-up agreements. The prime broker may reject a trade if it is not within the scope of permitted transactions specified in the give-up agreement with the executing dealer, if it is not within the specified tenor limits, if it is not within the specified credit limits, or if the trade details provided by the executing dealer and the client do not match. A reverse give-up relationship introduces the possibility of trade rejection by a give-up party and any other prime brokers that are part of the reverse give-up arrangements. The procedures for trade acceptance and rejection are particularly critical in reverse give-ups because, ultimately, the client will need to appropriately allocate trades to the give-up parties and accounts for which it acts as manager.

1. *Would a give-up party reserve a right to reject trades?*

2. *When there are two prime brokers, what are the second prime broker's notification obligations to the first prime broker, if any?*

3. *When a trade is rejected, who bears the risk that a trade will not be allocated to the appropriate client account?*

A give-up party will typically reject trades if they exceed credit limits, assuming that the give-up party has determined to apply limits to trades accepted from the first prime broker. Give-up parties rarely, if ever, reject trades as a result of process issues such as failure to receive trade notices on a timely basis.

If a second prime broker decides to reject a trade, it would typically do so on the same day that the trade has been given up to the first prime broker if notified on such date. As noted in Part III.A, the client agrees that all trades will be allocated, and any unallocated trades will go to the client's account directly, or the client will reallocate the trades to a give-up party or a fund managed by the client. The client will be responsible for allocating all trades given up to the first prime broker by the end of the day. Accordingly, the first prime broker does not bear the risk of the second prime broker's trade rejection. In some relationships, second prime brokers do not notify first prime brokers of trade acceptance or rejection, but typically confirm trades to first prime brokers in the ordinary course. By comparison, in other relationships, second prime brokers send first prime brokers notices of trade acceptance or rejection. In addition, the executing dealer is not concerned about whether the second prime broker will accept the trade. The executing dealer has a binding trade with the first prime broker. If this trade is ultimately unwound, the client may have agreed to compensate the executing dealer for any associated losses.

D. Post-Trade Events

Structured transactions involve post-trade events that could give rise to market or basis risk for the prime broker. Basis risk occurs when the parties interpret post-trade events differently—for example, whether a barrier has been broken and an option has been knocked out. In the case of non-deliverable forward foreign exchange transactions, the parties may not agree on the rates at which the fixing of such transactions should occur for purposes of valuation and settlement.

1. *When a give-up party or a second prime broker is involved, who is responsible for the determination and notification of post-trade events?*

2. *When a give-up party or a second prime broker is involved, who assumes the basis risk associated with varying interpretations of post-trade events by the parties?*

The issue of who is responsible for the determination and notification of post-trade events is a complicated one. In the "plain vanilla" prime brokerage relationship, the prime broker seeks to pass on to the client determinations made by the executing dealer. A give-up party or a second prime broker that is a major dealer may or may not agree to such an approach, but may be less concerned if it is matched on either side of the trade. If the give-up party or second prime broker agrees to this approach, the determination and notification of post-trade events would flow from the executing dealer to the first prime broker to the second prime broker.

However, the proprietary desk of the give-up party or second prime broker may not be comfortable with another dealer (the executing dealer) being the sole calculation agent and may seek to be joint calculation agent with the first prime broker. In this situation, the first prime broker will also seek to be joint calculation agent with the executing dealer on the other side of the trade. If it does not do so, the first prime broker will bear the basis risk should the executing dealer and the give-up party/second prime broker disagree on whether a barrier has been breached or on the interpretation of some other post-trade event.

E. Other Key Relationship Issues

1. *"Wall" between trading and prime brokerage business*

When a prime broker gives up trades to another prime broker, it needs to consider the effect of the Wall that typically exists between its prime brokerage business and its trading and sales desks. This Wall generally restricts the prime broker from giving information on its clients' trades to trading and sales personnel. As a result, if it effected reverse give-ups to the second prime broker under the same give-up lines that it uses when its sales desk executes a trade with the second prime broker's clients, its trading and sales personnel may need to see the line usage for the reverse give-up trades in order to monitor whether there is availability under the line for their future trades. The problem would arise because the Wall would often restrict the trading and sales personnel from having this access.

The prime broker can avoid this problem by conducting the reverse give-up trades under a different give-up line from that used for the give-ups executed by its sales desk. This separate line could be documented under the same master give-up agreement as used for the sales give-ups but both prime brokers would have to track the trades very carefully to avoid confusion over which line they should be charged to. More commonly, prime brokers in this situation would document the reverse give-up trades under a separate reverse give-up agreement with the second prime broker.

2. *Transparency of client's trading activities to the prime broker*

As with any other relationship, a prime broker could face reputational risk with respect to its relationship with its clients. A prime broker could incur harm to its reputation if the client or one of the client's employees, for example, were to engage in fraud or other improper activities through its foreign exchange trading. At the same time, when a client splits trades among several prime brokers and give-up parties, the client's activities are less transparent to the prime broker. A prime broker should be prepared to investigate a complaint by an executing dealer, give-up party, or another prime broker that a client may have engaged in illegal or unethical trading practices. The prime broker should evaluate the reputational risk posed to it and assess whether it should modify its role or cease acting as prime broker for the client. While the prime broker is not legally responsible for ensuring that any of these parties or its client comply with applicable law and regulation, the prime broker should ascertain whether the client's trading activity affects any legal or regulatory obligation on the part of the prime broker.

3. Fees charged to the client

When two prime brokers are involved in the relationship, the client potentially faces two fees for the same trades. Prime brokers should be aware of and consider the issue of transparency of fees to underlying accounts. The investment manager should make disclosures to the underlying accounts regarding the fees that it will incur by using two prime brokers.

IV. ADDRESSING KEY RELATIONSHIP ISSUES IN DOCUMENTATION

A. The Prime Brokerage Agreement

The Prime Brokerage Agreement, which is executed by the prime broker and its client, establishes the framework under which the client executes trades with executing dealers that are given up to the prime broker. In the context of "plain vanilla" prime brokerage (without reverse give-ups), the Prime Brokerage Agreement would address several significant issues in this relationship. These issues include the trading authority of the client; the types of trades and limits that apply to trades that are given up to the prime broker (for example, size of trades, net open position limits, and settlement limits); and the fees that the prime broker charges the client. The prime broker also typically undertakes to maintain the confidentiality of the client's trading activities on the prime brokerage side and not share confidential client information with trading and sales personnel. In the context of reverse give-ups, additional key issues should be addressed in the Prime Brokerage Agreement: (i) the client's undertaking to allocate and, if necessary, reallocate trades to funds and give-up parties, and the process for allocation and reallocation of trades;[2] (ii) identification of the give-up parties; and (iii) is the party responsible for notifying the reverse give-up party of trades.

B. The Master FX Give-Up Agreement/Compensation Agreement

The Master FX Give-Up Agreement, which is entered into by the prime broker and each executing dealer, provides the terms and conditions under which trades between the executing dealer and the client are given up to the prime broker. In 2005, the Foreign Exchange Committee

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[2] See Part III.C.

published a Master FX Give-Up Agreement that contains generally accepted standard provisions addressing most aspects of the give-up relationship between a prime broker and a dealer, as well as a model Compensation Agreement. The Compensation Agreement may be entered into by the client and the executing dealer in order to establish liability for losses vis-à-vis these two parties in the event that the prime broker does not accept trades that were intended to be given up to the prime broker. These agreements are available for industry use to address the key relationship issues raised in the "plain vanilla" give-up relationship.[3] The terms of these agreements address "plain vanilla" prime brokerage relationships and do not address reverse give-up issues. However, if there are two prime brokers who document a reverse give-up relationship under an existing Master FX Give-Up Agreement, they may do so through a designation notice or a side letter that addresses all relevant terms.

C. The Reverse Give-Up Agreement

The Reverse Give-Up Agreement, which is entered into by the prime broker and the give-up party or a second prime broker, should address the key relationship issues between these parties described in this document. The Reverse Give-Up Agreement may also be signed by the client as a tri-party agreement, or, alternatively, the client may sign a side letter agreeing to the terms of the reverse give-up process described in the Reverse Give-Up Agreement. In the Reverse Give-Up Agreement, the parties should define whether any limits apply to trades that a give-up party (or a second prime broker) will accept from a prime broker, or to offsetting trades that a prime broker may enter into with the give-up party. The parties should also delineate the operational procedures associated with reverse give-ups, including: (i) which parties are responsible for providing trade notices upon which the give-up party or second prime broker will rely in accepting trades; (ii) the processes for trade acceptance and rejection by the give-up party or second prime broker, and for allocation and reallocation of trades by the client; and (iii) the processes for confirmation of trades. The Reverse Give-Up Agreement should also specify which parties in the reverse give-up relationship act as calculation agent(s) for purposes of interpretation of post-trade events.

D. The Master FX Agreements

The Master FX Agreements used in the reverse give-up context include the ISDA Master Agreements and the Foreign Exchange Committee Master Agreements (IFEMA, ICOM [International Currency Options Market Master Agreement], and FEOMA). All parties involved in reverse give-up relationships ordinarily execute close-out master netting agreements with each other that provide the underlying terms and conditions of their foreign exchange trades. The Master FX Agreements generally do not contain provisions that specifically address reverse give-up issues, although this may be possible in certain contexts. For example, a give-up party may set limits in the Master FX Agreements on the trades it will enter into with a client or a fund, which would apply to trading activity generated by reverse give-ups as well as other trading activity with the client or fund.

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[3] The Master FX Give-Up Agreement is available at <http://www.newyorkfed.org/fxc/masterfxgiveupagreement.pdf>. The Compensation Agreement is available at <http://www.newyorkfed.org/fxc/compagreement.pdf>.