Foreign Exchange Benchmarks Consultative Report

To help address the issues arising from this market structure, the working group is proposing possible recommendations for reform in the foreign exchange market in the following broad categories:

Working Group	**RVS comment**
The calculation methodology of the WMR benchmark rates	Any one platform for many pairs covers too small a share of market activity. They should use as many sources as possible and should in the interim incorporate the data from all 3 current sources (no. 4 page 24)
The publication reference rates by central banks.	
Market infrastructure in relation to the execution of fix trades.	Review of how Index providers use the 4pm Fix as this is fundamental to the rest of the markets behaviour and changes here could lead to positive changes for asset managers and banks around how they provide transparency and best execution on the FX component Sharing of trade information between market makers can lead to collusive behaviour – would be limited if; • an auction replaced the 4pm fixing method (page 21) But this may not be realistic for the FX market • Best execution regulation and market structure changes were implemented that promote trading over the day rather than in and around the fixing.(page 28)
The behaviour of market participants around the time of the major FX benchmarks (primarily the WM 4pm London fix)	Market makers should be empowered to educate clients on benefits of trading at times away from the fix which requires market structure changes that mean they can justify the prices clients receive

Apart from the forthcoming IOSCO recommendations, the draft recommendations are summarised below. While comments are welcome on any aspects of the report and proposals, the group is particularly inviting feedback on selected recommendations as highlighted (recommendations 1, 2, 3, 6 and 11). Full details on each recommendation are given in the body of this report on pages 22-28.

Working Group	**RVS Comment**
The group recommends the **<u>fixing window be widened</u>** from its current width of one minute. It seeks feedback from market participants as to the appropriate width of the calculation window	• RP -Window width should be on a currency by currency basis • RP- Fixing could be based on the average not median, which could reduce the affect any emerging news at the time has on the ability for users to match the BM, ensuring the Fix remains fit for purpose by generating a replicable market price. • A move away from the 4p.m. fix has many downsides. e.g. If some currencies fixed at different times then the liquidity provided from cross currency trades could well be affected, some currencies do not have a natural market versus the USD. • As the bank's offering a service that includes the ability to trade at a mid-price unknown at the time of the agreement, widening the window significantly may result in a reduced appetite to offer this service - I would suggest maximum should be 5 minutes for liquid currencies. Potentially illiquid currencies could be greater, but it should be noted that the wider the window, the more opportunities arise to influence the Fix.
The group seeks feedback from market participants as to whether there is a **<u>need for alternative benchmark calculations</u>** (such as a volume weighted or time weighted benchmark price) calculated over longer time periods of up to and including 24 hours.	• Introduction of an auction instead of current Fixing, if there were the liquidity • Use SWAP instead. (Appendix 1)
The group also seeks feedback from market participants as to **<u>whether the fixing windows should continue to be centred exactly on the hour</u>** (half hour) or whether the fixing window should close or start on the hour. Market participants should consider whether this view changes depending on the size of the window.	• As the 4 pm fix is widely known to occur, then central banks etc have the ability to ensure that they do not disrupt Markets unnecessarily by releasing sensitive information around this time. The F/X markets in general offer good liquidity on a global scale, this needs to be respected when addressing the issue of the Fix. • Even if the fix was carried out at a different time, market participants would need to be aware of the change and so the potential problems would merely be moved, not resolved.
The group supports the development of industry-led initiatives to create independent	• A central utility leads to a silo infrastructure

netting and execution facilities. However, it also is interested in seeking feedback from market participants on the development of a global/central utility for order-matching to facilitate fixing orders from any market participants	which can be negative for market structure as it does not promote competition or choice for participants. Any such utility would need to be regulated • Block trading venues required to facilitate large orders around the fixing time or at any other time without unnecessary impact to the market • Centralised utilities have the additional downside of not taking into account credit/country limits - In a situation where one side of a potentially 'matched fix' could not transact with the other for the above reasons, there would be a need for a 3rd party to be introduced
More broadly, the group recommends that banks establish and enforce their internal systems and controls to address potential conflicts of interest arising from managing customer flow	• Separation of client and house flow trading responsibilities – should already be happening. • Compliance departments should impose internal standards and process with enforcement methods • Internal review of timeframes for execution of client flow • In the same way that the CF40 function was introduced to combat potential conflicts in the Ibor submissions, a similar appointed role could be created to handle the F/X fix. If market participants had the P/L issues that are inherent with the Fix system removed, then the temptation to influence the fix would be removed, the onus instead placed on a more senior figure within the bank. Potential downsides to this approach though revolve around the global nature of the F/X world, where less regulated countries/institutions still have access to the market liquidity and therefore have the ability to unfairly influence the fixings. • It may be possible with the above structure for the person in the newly created role to report to local CB's etc what their Fix position will be in advance, giving the CB the ability to intervene/net at a global level should they wish to do so. Also they would have an idea of potentially adverse factors affecting liquidity - particularly relevant to smaller economies