STATE STREET
GLOBAL MARKETS.

12 August 2014

Secretariat to the Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Via electronic mail: fsb@bis.org

Consultative Document – Foreign Exchange Benchmarks (15 July 2014)

Dear Sir/Madam:

State Street Global Markets ("SSGM") appreciates the opportunity to comment on the Consultative Document on Foreign Exchange ("FX") Benchmarks issued by the Financial Stability Board ("FSB") on 15 July 2014 (the "Consultative Document").

SSGM is the investment research and trading arm of State Street Corporation ("State Street"), one of the world's leading providers of financial services to institutional investors. Headquartered in Boston, Massachusetts, State Street specialises in providing institutional investors with investment servicing, investment management and investment research and trading.

SSGM strongly supports the work of the FSB's FX Benchmark Group ("the Group"), and we generally agree with the recommendations included in the Consultative Document. We particularly support the strong business practice and governance requirements in recommendations 8-15. Our comments today, however, focus primarily on the Group's operational recommendations for the benchmarking process, as described in recommendations 1-7 of the Consultative Document.

As an initial general observation, we view the availability of broadly accepted, reliable, and consistent FX benchmarks as critically important to smooth functioning of global financial markets, and are particularly important to the "real money" managers who constitute SSGM's core customer base. While we strongly support strong regulatory and legal attention to potential manipulation of FX markets, we also strongly support the constructive effort the Group has taken to preserving and improving the ongoing use of FX benchmarks.

Our comments on individual recommendations follow below.

1. **The group recommends the fixing window be widened from its current width of one minute. It seeks feedback from market participants as to the appropriate width of the calculation window.**

SSGM agrees that the window should be widened as it would be more difficult than in a 1 minute fixing window for a market participant to hold or manage the market if seeking to influence the rate. In addition, a longer fixing window would increase the opportunity for offsetting interest to come to the market when an order imbalance exists at the fixing window time. This in turn should result in a more accurate valuation fixing where natural economic interest is reflected in the fixing rate.

While we support a longer window, we do not believe the precise width of the window is critical. Based on the finding reporting in the Consultative Document suggesting average flow increases tenfold at the 1 minute 4pm fix, considering moving to a 10 minute window would seem to be a reasonable starting point, if the goal is to reflect normalized genuine economic interest at average levels of trading interest.

While a window shorter than 10 minutes could address the Group's policy goals, going much beyond 10 minutes would, in our view, introduce unwanted consequences and increased costs to end-users. The longer the window, the more risk principal market makers agreeing to trade at the fix assume. This higher risk would translate into higher costs for end-users, and perhaps reduced liquidity at the benchmark window.

2. **The group seeks feedback from market participants as to whether there is a need for alternative benchmark calculations (such as a volume weighted or time weighted benchmark price) calculated over longer time periods of up to and including 24 hours.**

We do not believe that institutional investors are currently demanding such alternatives, primarily because such alternatives do not accurately reflect prevailing exchange rates close to the time when the underlying assets are valued. While we have no objection to the development of alternative benchmarks to meet commercial interest from end-user, we would oppose regulatory guidance or mandates requiring development or use of such alternatives.

3. **The group also seeks feedback from market participants as to whether the fixing windows should continue to be centred exactly on the hour (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.**

Event risk will be reduced if the fixing window is moved to before the start of an hour (and half hour) so that the fix windows avoid economic news and numbers that are typically announced on the hour or half hour.

4. The group proposes that WM investigate the feasibility of receiving price feeds and transactions data from a broader range of sources to further increase its coverage of the FX market during the fixing window, and should regularly assess its coverage as market structure continues to evolve. In that regard the group also proposes that in the short term, WM develop its methodology to utilise the transactional and quote information from both Thomson Reuters Matching and EBS, wherever both are available

In general SSGM supports adding bona fide transaction data from active sources that will increase the data points used to calculate the fix, including a representative sample from additional ECN's beyond EBS and Reuters, as well as futures exchanges and active bank executed transactions.

We particularly agree with the recommendation that coverage should be regularly assessed as market structure evolves. A recent trend towards banks executing more transactions outside of

ECNs, for example, suggests relying only on ECNs as a source of transactional data may not always represent the market price.

5. The group considers that, where central banks publish reference rates, it is the responsibility of each to set internal procedures. Central banks should at least take note of guidance from the IOSCO principles. However, where central bank reference rates are intended for transaction purposes, the group encourages compliance with the relevant IOSCO principles.

SSGM concurs.

6. **The group supports the development of industry-led initiatives to create independent 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.**

SSGM supports industry-led initiatives to develop netting and execution facilities, but notes addressing potential conflicts of interest is essential in such service platforms. While various business models could be feasible, it is critical that such platforms clearly delineate between agency and principal activity, and ensure the operators of such platforms have no ability to use data flows to benefit their principal book. State Street's soon to be launched TruCross/FX platform is a primary example of such an industry developed matching and execution service overseen by our agency FX business.

The potential for a global/central utility for order-matching to facilitate fixing orders from market participants deserves further study, but, in our view, would be years in development and very challenging both in terms of technology development and in gaining functional agreement and alignment of incentives. We do not believe further work on such a concept should be viewed as a substitute for the Consultative Document's suggested recommendations to improve the existing system.

7. The group recommends that fixing transactions be priced in a manner that is transparent and is consistent with the risk borne in accepting such transactions. This may occur via applying a bid-offer spread, as is typical in FX transactions, or through a clearly communicated and documented fee structure such as a direct fee or contractually agreed price.

SSGM strongly concurs. Our soon to be launched TruCross/FX platform incorporates documented transaction fees in the form of rate adjustments in a fashion that we believe meets the objective of this recommendation.

8. The group recommends that banks establish and enforce their internal guidelines and procedures for collecting and executing fixing orders including separate processes for handling such orders.

SSGM concurs that banks should establish and enforce internal guidelines and procedures related to fixing orders. We do not, however, believe mandating separate processes for such orders is the only effective method to address concerns about potential inappropriate sharing of information. Clear and comprehensive disclosure to clients about how orders are handled, and how transaction information is protected, and any potential conflicts of interest that may exist, can allow end-users the benefit of choosing whether to execute with the principal market making desk, or via a separate process such as an agency FX service or a matching platform, or some other means.

9. Market-makers should not share information with each other about their trading positions beyond that necessary for a transaction. This covers both individual trades, and their aggregate positions.

SSGM concurs.

10. Market-makers should not pass on private information to clients or other counterparties that might enable those counterparties to anticipate the flows of other clients or counterparties, including around the fix.

SSGM concurs.

11. **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.**

SSGM concurs the banks should establish and enforce their internal systems and controls to address potential conflicts of interest including codes of conduct, communication policies, conflict of interest disclosures, as well as communication and transaction monitoring procedures and controls. Most importantly, we believe it is important to properly disclose the nature of dealing relationships with clients as agent or principal. Any lack of clarity as to if trades are being executed by an agent or with a principal can be problematic. We also support permitting clients the choice to determine if they want to execute with a principal desk or to hire an agent to execute their trades.

12. Codes of conduct that describe best practices for trading foreign exchange should detail more precisely and explicitly the extent to which information sharing between market-makers is or is not allowed. They also should, where appropriate, incorporate specific provisions on the execution of foreign exchange transactions including fixing orders.

SSGM concurs.

13. The group recommends stronger demonstration by market participants of compliance with the codes of the various foreign exchange committees, as well as their internal codes of conduct.

SSGM concurs that banks should establish communication monitoring and transactional monitoring among other controls to demonstrate compliance with internal codes of conduct. SSGM also believes that there needs to be better coordination between FX committees and the codes that they generate so that banks may better demonstrate compliance.

14. The group recommends that index providers should review whether the foreign exchange fixes used in their calculation of indexes are fit for purpose

SSGM concurs.

15. The group recommends that asset managers, including those passively tracking an index, should conduct appropriate due diligence around their foreign exchange execution and be able to demonstrate that to their own clients if requested. Asset managers should also reflect the importance of selecting a reference rate that is consistent with the relevant use of that rate as they conduct such due diligence.

SSGM concurs.

Thank you once again for the opportunity to comment on the matters raised within this Consultative Document. Please feel free to contact me should you wish to discuss SSGM's submission in greater detail.

Sincerely,

Mark Snyder
Executive Vice President and
Global Head of Sales & Trading and Research