CME Group

12 August 2014

Via electronic submission to fsb@bis.org

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

Re: Foreign Exchange Benchmarks Consultative Document

To whom it may concern

CME Group provides derivatives execution, clearing, reporting, and market data services globally from our U.S. and European-based market infrastructure. CME Group exchanges offer the widest range of global benchmark products across all major asset classes, including futures and options based on interest rates, equity indexes, foreign exchange, energy, agricultural commodities, metals and alternative investment products. We commend the Financial Stability Board ("FSB") and the Foreign Exchange Benchmark Group ("group") on the work summarized in the Foreign Exchange Benchmarks consultation ("consultation") and appreciate the opportunity to comment on the group's draft recommendations.

Our comments support three main themes:

(1) Technical adjustments are necessary and many of the proposed recommendations are a good starting point
(2) The number of sources that produce FX fixing should increase
(3) Progress should continue towards the development of robust international FX benchmark standards

Please do not hesitate to contact me should you request any further information or comments.

Yours sincerely,

Kathleen M Cronin

Senior Managing Director, General Counsel & Corporate Secretary

CME Group comments on draft FSB recommendations

(bolded recommendations are those on which FSB is particularly seeking market feedback)

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.***

   CME Group notes that WMR lists the following 21 currencies as "Trade Currencies" : AUD, CAD, CHF, CZK, DKK, EUR, GBP, HKD, HUF, ILS, JPY, MXN, NOK, NZD, PLN, RON, RUB, SEK, SGD, TRY and ZAR) are referred to as "Trade Currencies". We recommend that this definition should be revised in order to separate major currencies from other, less liquid pairs. In particular, the current one minute window works well for AUD, CAD, CHF, EUR, GBP, JPY and MXN, but the same is not the case for less liquid pairs. In addition, we would recommend extensive liquidity backtesting on the one minute window for the borderline currencies, such as MXN and NZD. The backtesting would help to determine which currencies should fall under the one minute window because they are sufficiently liquid, and alternatively, for which currencies the fixing window should be widened. Liquidity levels can substantiate the argument that less liquid pairs could have a wider window, for example two or five minutes. Currently, the non-trade pairs (i.e. every other currency than Trade Currencies) have two minute period under WM/Reuters ("WMR") fix. We believe that this window should be widened to five minutes.

   In order to determine proper window tenors for reference rate calculations by currency, we recommend the construction of three-tier liquidity thresholds (tier 1 – liquid; tier 2 – medium; tier 3 – illiquid). According to such a classification, currency falling under tier 1 would have a one minute window, those falling under tier 2 would have two minutes and finally those under the least liquid, tier 3 category would have a five minute window. This categorization should be based on historic liquidity analysis, reaching back to pre-Lehman crisis levels, in order to account for sufficient periods of stress in the markets.

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.***

   CME Group is of the opinion that Volume Weighted Average Price ("VWAP") should be applied to the reference rate calculation where possible. However we recognize that WMR covers 160 pairs, some of which trade very infrequently so quoted data is unavoidable for certain illiquid currency pairs. We would therefore suggest that certain clients' quotes that are used in certain illiquid pairs could be stripped out. For example in African currency pairs, only quotes provided by local banks and international banks active in those markets and prospectively others could be used. They would be monitored and expected to quote correct rates. Any anomalies could be logged and addressed.

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.***

   CME Group believes that as long as the times are clearly delineated and kept as simple as possible, the question of fixing windows on a particular hour is not an issue. Although we believe that there is a need to make adjustments to the current WMR methodology, we recommend keeping changes and any subsequent disruptions to a minimum. There is a risk that too many changes will change market behavior in an adverse way (e.g. market participants will move away from the "new" WMR fixings and in its place new fixings will proliferate and cause potential dislocation in the market without a central reference price for the major currency pairs).

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*.

   CME Group supports this recommendation. We believe that WMR should consider taking more feeds if possible. Although banks represent the vast majority of the market making flows, there are increasing numbers of other market participants which should be taken into account. However, it should also be considered that while adding sources like EBS and TR Matching will be a step in the right direction, displayed quotes on these ECNs can be misleading if they are not credit-enabled counterparties. These ECNs match bilaterally, so situations can arise where the lack of a bilateral credit line can inhibit an executable rate. This could be addressed through a CCP mechanism whereby credit risk is mitigated.

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*.

   CME Group supports this recommendation. Central banks should adhere to IOSCO principles and any other relevant benchmark principles / guidelines when central banks reference rates are intended for transaction purpose. This should include rates published by the European Central Bank ("ECB") and by the Bank of England ("BoE").

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.***

   CME Group supports this recommendation. For example, EBS has a fix functionality that continually matches during the day, a central or global utility for order matching would be helpful. This should prevent large orders needing to be traded prior to the fix by netting all shorts and longs and if it worked should only result in small balances not matched before the fix. We are already seeing the proliferation of FX ECNs and matching platforms catering predominantly to retail SMEs, but there is an increasing number of larger players offering matching services to institutions as well.

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.*

   CME Group supports this recommendation. Applying a bid-offer spreads makes the most sense. However, there should be greater clarification on how contractually agreed prices can be considered "market" transaction-based pricing when they are pre-agreed spot.

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*.

   CME Group supports this recommendation. However, a potential risk is that banks cease providing the "WRM fixing price" to clients if the cost of administering the process is too high.

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.*

   CME Group supports this recommendation. There are instances when banks need to collaborate on a very large order (i.e. M&A FX transaction) but generally banks and /or market makers should not be discussing flows and/or transactions.

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.*

    CME Group supports this recommendation. Please refer to our comment under point 9.

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.***

    CME Group supports reasonable systems and controls requirements that are designed to address potential conflicts of interests. However, we also acknowledge that overly prescriptive systems and controls may lead to a situation where banks will not accept large fix orders from clients as there will always be a potential downside for them. CME Group believes that the FSB should consult further with market makers about potential solutions to this problem.

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.*

    CME Group agrees with this recommendation but also notes that it may be difficult to come up with a sufficiently detailed common code of conduct that will strike a right balance between defining and addressing potential "conflicts of interest" and ensuring sufficient protection for the banks against significant downside risk.

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.*

    CME Group believes that there should continue to be progress towards developing harmonized and robust international FX benchmark standards which would be developed through a centralized process by central banks, banks, exchanges, buy-side firms and other market participants. This will provide a consistent standard to assess ongoing application by foreign exchange committees and market participants.

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

    CME Group supports this recommendation. Historic backtesting and analysis, if not already done, should be reviewed by every major index provider.

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.*

    CME Group supports this recommendation.