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To the

Financial Stability Board

Foreign Exchange Benchmark Group

Group Legal
Financial Instruments

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Mainzer Landstraße 151, D-60327 Frankfurt am Main

11. August 2014

Dear Sirs,

Response to the Financial Stability Board's "Foreign Exchange Benchmarks Consultative Document" dated 15.07.2014

We would like to thank you for your efforts and the opportunity to participate in the consultation in the above matter. Please find below our responses to selected questions or recommendations in the order as they appear in the original document.

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.

We are generally not convinced that the widening of the fixing window would significantly reduce manipulation risk in the FX market. From the publicly available information on the cases which have come about during the last 12 months, it seems to us that the main issue is rather violation of internal or external rules of conduct by individual market participants, such as for instance taking advantage of their knowledge of client orders or front-running or by collusion among individuals. It does not seem to us that the structure of the fixing itself was the problem; it was more the behaviour and culture of some individuals involved.

Our main concern in relation to the widening of the fixing window would be the increased hedging risk to which a bank would be exposed when trying to hedge the market risk when executing the client order to trade at the fix. The longer the fixing window is open, the higher becomes the hedging risk for the bank. We therefore strongly believe that the fixing window should not be extended to a time span longer than 10 minutes.

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.

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As mentioned in our response to No.1 above, we are of the opinion that the manipulation risk in the FX market does not originate from the structure of the fixing, but from improper conduct of individuals, which was in some cases facilitated by a – with hindsight – questionable setup of the trading activity within the organisation of some market participants. Therefore, in our view, a shift to a different benchmark would not necessarily decrease the risk of wrongdoing.

In our view, from the proposed alternative benchmarks, the time weighted approach would be at least doable, as long as it is still commercially justifiable (which certainly is not true for a 24h time span). We would prefer a time weighted average benchmark over a volume weighted average (which are usually based on exchange data), as the volume in the FX market is not readily transparent due to the various venues it is traded, and the calculation of a volume based benchmark would be quite difficult.

It should be mentioned that the demand to be able to trade at a defined fixing is a service by banks to customers provided to address a specific customer demand. It is therefore necessary to take this client demand into account in any re-structuring of the market, as the client ultimately needs to be able to fulfil its needs in a commercially reasonable fashion.

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.

Whereas we appreciate the logic behind this question, we do not see any impact of the position of the starting point of the window.

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.

We believe that centralising all fixing orders in a clearing utility outside of the individual banks, ideally one applying a netting mechanism, would dramatically reduce the risk of manipulation and malpractice in relation to execution of fixing orders. Such an external utility could ensure that any fixing order placed by a client would be outside of the knowledge of the FX trading desk and the netting of matching fixing orders would add another layer of certainty to reduce the risk of individual misbehaviour. Provided that such a utility would come under prudent supervision, we would strongly support such a change in the market infrastructure, as it would help to reinstate the credibility of the FX markets and its participants.

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.

We would welcome a change of the market practice towards the introduction of a market spread. This would avoid situations where for instance a client places (opposite) fixing orders with two banks in order to simply transfer monies from Bank A to Bank B. As Bank A and Bank B do not know from the respective other, opposite fixing order placed by the client there, this is in fact a money transfer, which is free of charge for the client, but which means an unnecessary market risk for the involved banks. The other downside of such behaviour is that this type of transaction increases – and in a certain way artificially, at least unnecessarily - the fixing volume.

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.

This is in our view a very valid recommendation which we fully support.

With kind regards

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