Deutsche Bank

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Secretariat to the Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
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Dear Sir / Madam,

Deutsche Bank response to Financial Stability Board consultation document on foreign exchange benchmarks

Deutsche Bank welcomes the interim report of the Financial Stability Board (FSB) foreign exchange benchmark working group (FXBG). In particular, we welcome its focus on ensuring market confidence in the most widely used benchmarks, plus the report's recognition of the specific nature of FX benchmarks and their uses by FX industry participants. Availability of robust, reliable and transparent FX benchmarks - including WM/R - is essential to provide our institutional, corporate and retail clients with a range of financial services products.

Overall, we welcome the thorough analysis in the report and broadly support its draft recommendations. We have contributed to the response from the global FX division of the Global Financial Markets Association. However, we also wanted to respond directly to highlight some key issues, especially with respect to the recommendations where the FXBG has indicated it is keen to get input from market participants. These comments reflect our views not only as an FX dealer, but also as a user of FX benchmarks.

- **Draft recommendations 1-4, changes to WM/R:** While any changes to WM/R benchmark rates will be for the WM company to decide, we expect that WM will make structural changes in light of the final FSB recommendations. From a market participant perspective, we wish to highlight three key points on potential changes to any FX benchmarks, including WM/R:
    - Any widening of the time window needs to balance the objective of reducing opportunities and incentives for market manipulation with the consequences of increased market - and execution - risk for dealers and, ultimately, clients.
    - We support development of alternative benchmarks, with input from market participants, which users of benchmarks could then consider based on specific intended use and client needs. For example, we would support development of a volume weighted average price (VWAP) as the most representative of the underlying market. We believe this is the most robust methodology as it is based on actual transactions and would work better across currencies. Alternatives must be developed in consultation with market participants to ensure they are commercially viable (i.e. have sufficient liquidity and are replicable for hedging purposes). While current data availability makes replicating VWAP challenging, we believe hedging is possible and the market is also already moving towards transparency. Any transition would need to be carefully managed, market-led and phased over time, given the potential impact on existing contracts that reference benchmarks.

- Finally, any changes to FX benchmarks need to take into account the differences between broadly traded currencies and less liquid, especially emerging market, currencies. We welcome the report's recognition that such differentiation is needed, but want to emphasise that changes will have a more pronounced impact on these markets, given the lack of liquidity.

- **Draft recommendation 6, global/central utility:** Deutsche Bank supports the development of independent netting facilities. While a single global utility would fully maximise netting opportunities, we have concerns about the feasibility of creating a central, global utility and its impact on competition and choice. There are also challenges around the ownership model, whether public or private. Our view is that regulatory endorsement of one market infrastructure, at this nascent stage of development of facilities, may be to the detriment of innovation to provide alternative solutions, competitive pricing and risk management to meet client needs. We suggest monitoring further market development in this area before pursuing this option.
- **Draft recommendations 7-13, behaviour of market participants:** We strongly welcome the recommendation that FX participants should enhance and monitor adherence to existing codes of conduct. As the report recognises, many banks have already made changes in these areas and are working with central banks to develop further execution guidelines and communication standards. We agree that existing codes of conduct should be revised to provide clarity around information sharing and, in doing so, should consider: (i) how a "market maker" is defined for these purposes; (ii) where the sharing of information in a lawful and legitimate manner can be appropriate; and (iii) how to calibrate changes according to the nature of the market (e.g. widely traded vs less liquid markets).
- **Draft recommendations 14-15, users of FX benchmarks:** We agree with these recommendations, which should reflect best practice already in place in many firms. From a user perspective, what is important is provision of reliable and robust benchmarks, based on a transparent calculation methodology. Whether this is the WM/R 4pm fixing or an alternative to be developed in the future will depend on the specific client's needs and the nature of the benchmark most appropriate to them. It is essential from our perspective that WM/R remains an option for pricing purposes.

Please do not hesitate to let us know if you have any questions about any of these points, or if there are any issues related to this topic which you would like to discuss further.

Yours sincerely,

Daniel Trinder

Daniel Trinder
Global Head of Regulatory Policy