STATE STREET
GLOBAL ADVISORS

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 Advisors ("SSgA") appreciates the opportunity to comment on the Consultative Document on Foreign Exchange Benchmarks issued by the Financial Stability Board on 15 July 2014 (the "Consultative Document").

State Street Global Advisors (SSgA) is the asset management business of State Street Corporation, one of the world's leading providers of financial services to institutional investors. SSgA has $2.48 trillion in assets under management and over $100 billion in currency assets under management as of 30 June 2014.

SSgA strongly supports the work of the FSB's Foreign Exchange Benchmark 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 7-15. Our comments today, however, focus primarily on the Group's specific requests for feedback on recommendations 1-3, 6 and 11. We have also made comments on recommendations 7 and 15, which we believe could have a significant impact on the investment management industry.

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.**

SSgA

SSgA agrees with the recommendation that the trad ing window be widened. We would propose extending the window to 10 minutes for "trade" currencies and to 20 minutes for "non-trade" currencies. We view this decision as choosing an optimal trade-off between retaining the flavour of a point-in-time estimate of the FX market, while not choosing such a short window as to create liquidity challenges that distort price formation and increase incentives for market makers to "pre-hedge".

Based on the FSB's own analysis for EURUSD, the volume in the 1 -minute window around 16.00 GMT is about 10 times the volume during other liquid periods, so a 10-minute window should drop the fixing volume to more typical levels. However, given the lower levels of liquidity in the "non-trade" currencies, we believe a 20-minute window should be used. This would retain the current WMR methodology of having twice as long a window for the less liquid "non-trade" currencies, which we find sensible[1].

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.**

SSgA does not see a need for alternative *benchmark* calculations, such as a volume-weighted or time-weighted average price (VWAP or TWAP) over longer time periods. While these measures are useful for comparative purposes (please see response to recommendation 15), we do not see the benefit of their use in a benchmark calculation.

A VWAP would be difficult to construct in an OTC market like foreign exchange. The volume of any single trading platform or dealer might not be representative of the broader market. A meaningful TWAP could be more easily constructed, but the primary negative side-effects of trying to minimize tracking error to a long- horizon TWAP (or VWAP) would be twofold:

(i) Many of SSgA's clients benefit from the current methodology, as it provides sufficient time to amalgamate their currency exposures across all investments from the previous business day's close (T-1) for trading on month-end[2]. This allows us to closely track the foreign exchange hedging methodology used in most international asset return benchmarks. A longer-horizon TWAP would force many clients to move their exposure estimation back one trading day (T-2 from T-1) in order to have their trades ready by the start of the longer TWAP window, thereby increasing tracking error and reducing hedging efficacy.

(ii) The necessity for a market maker to space out a trade over a long window may actually increase the cost of the trade, as more effort and risk is required to execute it

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.**

SSgA strongly believes that the fixing windows should remain centred on the point in time (on the hour or half hour) that the fix purports to measure. As noted, data releases that increase market volatility typically occur on the hour (half hour). However, those data releases don't occur at 16.00 GMT and are unlikely to do so in the future. Moreover, moving the window to exclude these data release points creates as big a problem as it claims to solve – not measuring where the market actually traded when new information is discovered. Finally, we think that widening the window will resolve most of the issues with centering around the hour (half hour) as any spikes in price around data releases that are quickly reversed will have much less impact on the fixing rate.

[1] We also support the use of a sampling window for deliverable and non-deliverable forward rates, where possible. During the financial crisis, the use of sampling in determining forward rates would likely have led to more realistic benchmarks rates.

[2] Many of SSgA's clients prefer hedging in this manner as it provides efficiency gains as they can offset some hedging trades and cash flows that would have occurred if each investment manager employed currency hedging on a stand-alone basis.

If the FSB, after receiving feedback, still believes that fixes centred on the hour (half hour) are problematic, SSgA's preference would be for increasing the frequency of the fix calculation to every 15 minutes (but still centred around the quarter hour) and moving to an industry standard that is near the current 16.00 GMT fix (say, 15.45 or 16.15) where significant data releases are highly unlikely.

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.**

SSgA believes that a netting or order-matching platform could have substantial benefits for investors utilizing fixing orders, particularly if recommendation 7 comes to fruition. That said, we are somewhat wary of a single central netting utility for fixing orders. We would prefer to see a competitive solution where providers that have superior offerings naturally gain market share (and are therefore properly incentivized to enhance their offerings) and develop a multitude of liquidity providers to handle the trades that are not successfully netted.

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.

SSgA agrees with the principal of greater transparency in FX fix pricing. However, we have concerns that enacting recommendation 7 *in isolation* (i.e. fix trading with a bid-offer spread or fixed fee) would likely disadvantage SSgA's clients. The disadvantage would occur as market makers would still receive information about trades in advance of the fix and be able to use that information for their profit, but now there would also be an explicit transaction cost.

Therefore, SSgA believes that the move to a model where fix trades are priced commensurate with their risk needs to be taken in tandem with recommendations 6 and 8-13 in order to mitigate the potential side-effects of the informational advantage that principal traders accrue before the fix.

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.**

SSgA concurs with this recommendation. Establishing and effectively enforcing such controls will promote greater trust and transparency in the foreign exchange market and will be to the benefit of SSgA and its clients.

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 imp01tance of selecting a reference rate that is consistent with the relevant use of that rate as they conduct such due diligence.

SSgA strongly concurs with this recommendation. We view it as an integral part of our fiduciary responsibility to our clients to conduct Transaction Cost Analysis (TCA) on our foreign exchange transactions, both relative to the benchmark in question, but also relative to other points in time during the trading day, to ensure benchmark suitability.

We thank you for the opportunity to provide feedback on the Consultative Document and would be pleased to answer any questions you might have.

Sincerely,

Collin Crownover

Collin Crownover

Global Head of Currency Management State Street Global Advisors