

Comments on Foreign Exchange Benchmark Group (FXBG) Consultation Paper

Reply by Gaurav Chakravorty, DV Capital LLC

I have been a major FX trading participant in a long time and this is the best proposal I have seen in a long time.

The key point here is the proposal to turn foreign exchange trading into a utility. Matching buyers against sellers in an anonymous way is the function of a market places. The FX market, as I see it is fast deteriorating.

- Unlike other markets (like equities or futures or commodities) it has resisted making participants anonymous. Majority of trading is still named, and sophisticated participants regularly fleece latency-incentive participants.
- Fragmentation is more than any market and is accelerating. Now banks like Credit Suisse are pitching to hedge funds, large and small saying "Look, on anonymous markets like EBS Reuters liquidity is drying up. The only participants are HFT ("high frequency trading") players. You don't want to trade against them. Send us your flow by using these algorithms of ours and we will match your flow internally". This might work as a retaliatory tactic against HFT firms, but this serves to make the market more opaque reduce price transparency.
- The biggest fault in all of this are with the exchanges like EBS, Reuters, Hotspot. They have trading fees in tiers, for instance for the largest volume HFT players, the fees are less than \$1 a contract but for the genuine participants like corporates who transact at best a few million dollars in average a day, the fees are as high as \$7 a trade. This is in effect subsidizing an industry (HFT) that is then making the market place worse for the genuine flow by inserting a lot of financial spam, and placing and canceling orders and creating artificial price turbulence.
- If there is a flat per-contract-fee global exchange catered to genuine participants with a minimum order life of 1 second at least, it will immensely add to financial efficiency of smaller participants. The cost of setting it up without fancy infrastructure would be at best 10 - 20 million today.
- There is a lot of collusion between HFT participants and banks selling their algorithms [[Tower CSFB tie-up](#)], but the marketplace is deteriorating for real money participants and they don't have a voice in all of this.

About me: I have absolutely no horse in this race, and no benefit or loss from the implementation of this. I have been on the HFT side, and the youngest partner at Tower Research Capital, back in 2008. I am adding this comment purely because I really liked the proposal and I see a glimmer of hope in this fast deteriorating market for real participants.

Hope this helps