



FSB Foreign Exchange Benchmarks – Consultation Response

Background

ICAP welcomes the FSB consultation on foreign exchange benchmarks. ICAP's EBS is a leading platform in spot FX and one of two contributors of data for calculating the daily FX fix. EBS provides to WM Company, under license, a market data feed that includes spot FX bid and offer prices via its EBS Ticker product.

We broadly endorse the recommendations set out in the consultative document. We have focused our responses below on those areas that are of most relevance to us. Nevertheless, we fully support the objectives of the FSB group to further strengthen operational controls and limiting information sharing amongst contributor institutions to the fix as recommended in the document (Recommendations 8 - 13).

Benchmark calculation

- 2) Under Recommendation 2, the FSB FX benchmarks group seeks feedback on the need for alternative benchmark calculations. ICAP supports the idea of alternative benchmark calculations provided they result in a more accurate representation of the real market price (e.g. VWAP or TWAP-based calculation). This supports clients with best execution obligations, many of which already calculate reference prices using VWAP and TWAP-based metrics. We note however, that any alternative benchmark should abide by the IOSCO principles covering governance, quality of the benchmark, quality of the methodology and accountability. ICAP also recommends that regulators encourage greater flexibility in the use of different benchmark fix rates, and endorse the use of legal documentation that refers to "benchmark rates" in general without specifying any one fix rate or provider. Such documentation would provide maximum flexibility to those wishing to introduce or use alternative benchmark rates without requiring a burdensome contractual amendment process.

- 3) Recommendation 3 seeks views on centring the fixing window exactly on the hour and half hour mark. ICAP supports the current practice and does not believe it is necessary to change current market convention.
- 4) Recommendation 4 proposes that WM investigates the feasibility of receiving price feeds and transactions data from a broader range of sources. ICAP doesn't object to using a broader range of information sources. However, such information sources should contribute data from deep and independent liquidity pools subject to uniform participation guidelines. Any attempt to include all possible sources of information to the derivation of the fixing price will add unnecessary cost and complexity and ultimately dilute the importance of the fixing price. More specifically, ICAP notes that applying a consolidated reporting model such as the one existing in equities markets today would not be appropriate for arriving at the fix rate.

Foreign exchange reference rates set by central banks

- 5) Recommendation 5 notes that central banks' reference rates should be subject to similar regulatory standards (i.e. IOSCO principles) as commercial providers. ICAP supports this recommendation and encourages transparency in governance and computation methodology, as well as the use of a transactional, electronically-auditable methodology for setting the rate.

Market Infrastructures

- 6) Recommendation 6 highlights the development of industry-led initiatives to create independent netting and execution facilities and seeks feedback on the development of a global/central utility for order-matching to facilitate fixing orders from any market participants. ICAP supports netting and execution facilities that are independent of undue influence and offer improved auditing, transparency, straight-through-processing (STP), and electronic capabilities. While we recognise the potential value of a global/central utility for order-matching, we do not believe such a utility model should be mandated and welcome the market driven innovation that will result from competition in this area.

Behaviour of Market Participants

- 7) In Recommendation 7, the FX benchmarks group recommends that fixing transactions be priced in a manner that is transparent and is consistent with the risk borne in accepting such transactions. ICAP believes that banks who offer a fixing service should be appropriately compensated for the risk borne. We also think that it is more important to generate transparency around the pricing mechanism than to be prescriptive about the mechanism itself. In

general, ICAP believes that there will be no viable solutions to the current challenges of the fixing process without the strong endorsement of the regulatory community for appropriate compensation for those who assume the risks during the fixing process.

Index Providers

- 14) Recommendation 14 notes that index providers in other markets should review whether the foreign exchange fixes used in their calculation of indices are fit for purpose. For ICAP's own benchmarks business, we have voluntarily adopted the IOSCO Principles for Financial Benchmarks and fully support this recommendation.

Conclusion

As highlighted throughout our response, we broadly endorse the recommendations set out in the consultative document, and support all reasonable improvements to arrive at a robust benchmark / fix methodology. We look forward to continuing our dialogue with the FX benchmarks group and would be happy to provide any further information.