



## **AFB Comments: FSB's Consultation on Foreign Exchange Benchmarks**

### **Introduction**

The Association of Foreign Banks (AFB) welcomes the opportunity to provide comments to this Consultation Paper.

The AFB represents the foreign banking sector which provides financial services throughout the UK, mainly in London, through branches, subsidiaries and representative offices. The AFB provides a forum for the sharing of information on industry issues for the mutual benefit of foreign banks operating in and out of the UK and makes representations to industry, government, regulatory bodies and other financial services organisations to ensure the attainment of good international practice.

The foreign banks concerned engage in a wide range of banking and investment business activity in the UK primarily in the wholesale banking markets. They make a significant contribution to London's standing as a major global financial centre and to the depth and breadth of the European Financial Markets facilitating trade across the Community. Member banks and their affiliated organisations range from the largest with several thousand staff to the smallest with ten or less staff.

The Foreign Exchange Benchmark Group, part of the Financial Stability Board (FSB), has issued a Consultation Paper which sets out a number of proposals to help reform the foreign exchange market in the following broad categories:

- The calculation methodology of the WMR benchmark rates
- The publication reference rates by central banks
- Market infrastructure in relation to the execution of fix trades
- The behaviour of market participants around the time of the major FX benchmarks (primarily the WM 4pm London fix)
- Recommendations from a forthcoming IOSCO review of the WM fixes.

This document provides the AFB's comments on the draft recommendations presented in the Consultation Paper.

### **AFB comments to the Consultation Paper's draft recommendations**

- 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.***

The AFB notes that the wider the fixing window, the more difficult it can be for traders to match a fixed rate that is guaranteed to clients, which may increase the foreign exchange risk faced by financial institutions. Expanding the trading window to 2 minutes would likely not create a material difference; however, a window wider than this could create additional risk.

- 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.***

As stated in our comments with respect to Draft Recommendation 1, above, the wider the fixing window the more difficult it can be for traders to match a fix rate that is guaranteed to clients. With respect to alternative benchmark calculations using either volume weighting or time weighting, we note the importance of identifying reliable sources of data for those calculations.

***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.***

The AFB would suggest that the 4pm London fix is maintained, as it is generally not impacted by news releases at that time of the day, i.e. a fairly stable window, and there is enough liquidity in the market for banks to hedge their position.

#### ***Draft Recommendations 4 and 5***

The AFB does not have any comments on these particular draft recommendations.

***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.***

The AFB notes that if a global/central utility for order matching were to be established, it could have the effect of reducing fix trade order-flow through financial institutions, which may lessen interest on the part of financial institutions to provide fix trade services to clients.

#### ***Draft Recommendations 7 – 10***

The AFB does not have any comments on these particular draft recommendations.

***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.***

The AFB fully agrees with and supports the recommendation that financial institutions should have internal systems and controls in place to prevent any wrongdoing in respect of fix trading, including any wrongdoing arising from conflicts of interest.

#### ***Draft Recommendations 12 – 15***

The AFB does not have any comments on these particular draft recommendations.