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FSB Consultative Document on Foreign Exchange Benchmarks (15 July 2014)

Barclays Bank PLC ("Barclays") welcomes the Financial Stability Board's consideration of important issues around FX benchmarks in its Consultative Document dated 15 July 2014. It is clear that the Foreign Exchange Benchmarks Group ("FXBG") understands the issues and policy concerns around FX benchmarks and their proposals are evidence of a robust analysis. Barclays' view is that the report is generally fair and balanced and we set out below our feedback on the FXBG's five key recommendations.

Barclays is a major global financial services provider engaged in personal banking, credit cards, corporate and investment banking and wealth and investment management with an extensive international presence in Europe, the Americas, Africa and Asia. With over 300 years of history and expertise in banking, Barclays operates in over 50 countries. Barclays moves, lends, invests and protects money for customers and clients worldwide.

Barclays is a top tier provider of FX and risk management services through a fully integrated offering, covering an extensive liquidity spectrum, from the highly liquid currencies traded electronically in size through BARX (our multi-asset class e-trading platform) to illiquid, non-deliverable or even pegged currencies traded through our local on-shore offices. We provide an extensive range of products, from spot and forward through exotic options and structured products. BARX provides 24 hour, two-way executable streaming prices in over 50 currencies and 300 currency pairs, plus vanilla and exotic options and strategies. We also provide FX solutions for our personal and corporate clients.

<u>Barclays' feedback</u>

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 length of the calculation window.*

   Barclays agrees with FXBG's recommendation to widen the fixing window from its current width of one minute.

   Barclays understands that a very wide fixing window could provide replication/hedging challenges for some market participants, which could in turn impact market liquidity. A wider window would also increase market participants' ability to observe trading activity in the early part of the window and for those observations to potentially influence trading activity later in the window.

   Barclays believes that first observation in any new methodology should not begin much earlier in the day than at present. This is to prevent adding operational challenges for buyside participants, by effectively requiring them to calculate their net hedging needs much earlier in the day.

In Barclays' view, a thirty minute window would be optimal, as this strikes the right balance between the benefits set out in the Consultative Document and the risks outlined above.

2. *The group seeks feedback from market participants as to whether there is a need for alternative benchmark calculations (such as volume weighted or time weighted benchmark price) calculated over a longer period of time of up to and including 24 hours.*

   In Barclays' view, a balanced solution for liquid currencies would be a thirty minute fixing window (as proposed in 1 above) based on a simple mean of the most recent trade executed at each of a number of frequent equally time-spaced observations throughout the window. For some illiquid currencies where trades are not sufficiently frequent, an assessment needs to be made as to whether this approach or a median of trades or a time-spaced mean based on the buy and sell interests at each observation point is more appropriate.

   A composite methodology based on an average (whichever averaging method is used) of several widely-spaced brief (e.g. one minute) windows has the benefit of easier replication for market participants than a longer single window. However, in Barclays' view, a composite methodology is more vulnerable to market participants' observing trading activity in the early period(s) within the composite framework and for those observations to potentially influence trading activity in later periods.

   As a general point, Barclays recommends that whichever methodology is put in place, it should avoid the need for amendment of existing market legal documentation which references the current benchmark.

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 start or close on the hour. Market participants should consider whether this view changes depending on the size of the window.*

   In Barclays' view, having the fixing rate available at the same time as at present would have the benefit of a lesser operational impact on those who utilise the rate, which if combined with a longer fixing window than at present, requires a period leading up to the hour.

4. *The group supports the development of industry-led initiatives to create independent netting and execution facilities. However, it is also 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.*

   Barclays is open to the development of a global/central utility for order-matching to facilitate fixing orders from any market participants, subject to a full cost-benefit analysis being undertaken.

5. *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.*

Barclays agrees with the recommendation that banks further develop and enforce their internal systems and controls to address more specifically potential conflicts of interest arising from managing customer flow.

We would be happy to discuss any of the above, at your convenience.

Yours sincerely,

Adrian McGowan
Head of FX Trading, Barclays