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Vol 16/3

Challenging FX Benchmark Convention: Drop the Fix

Introduction

The FX market, and almost every party interacting with it, seems to universally dislike the variety of Fixes that characterize legacy FX "benchmarking" in the marketplace. These Fixes were originally conceived as point-in-time references used to calculate portfolio values. In a simpler world, the representative value of these Fix calculations was more important than their time-stamped accuracy when used to determine the NAV for a mutual fund located in a market in some distant time zone. It seems remarkable that inertia in the FX market impedes the adoption of a better, more utile approach to replace such an antiquated convention. **What to do? It's time to drop the Fix and embrace a live, streaming set of FX benchmarks that are built to deliver exactly what the market's participants need: a rules-based representation of an executable set of FX rates at any millisecond when the global FX market is open.**

Why a Benchmark and a Fix are not Synonyms

The London 4pm GMT Fix grew in significance over an extended period of time because it offered FX market participants the opportunity to transact at the same time at a singular market price – a mid-point rate – without "paying." The easy thinking was that if everyone got the same rate, then the Fix was fair to all. After the FX scandal and fines assessed, it must seem obvious to every market participant that this "fairness" thinking was misplaced at best, especially considering that the misbehavior just exacerbated the unfavorable volatility created by the point-in-time Fix. **Cürex would suggest that a market benchmark either has to be completely executable – a live, streaming calculation – or not executable at all.** Various capital markets have chosen their own approach based on their own idiosyncratic factors. It would seem that the FX market would be an ideal market for a live, streaming, executable benchmark – especially given its liquidity and fragmentation.

Can We Agree on the Definition of a Benchmark?

A "benchmark" is defined as "any standard or reference by which others can be measured or judged." This definition implies that certain characteristics must be present for a benchmark to have meaning. A "standard" is defined as "a rule or principle that is used as a basis for judgment." Using these two definitions, it seems clear that a benchmark needs to be rules-based and transparent. It would also seem logical that it must be relevant and current in the context of the judgment of value. A Fix on the other hand is an "outcome" based on actions taken at a point-in-time. Those actions, as revealed in the FX Fix scandal, might involve non-transparent activities which occur before the Fix calculation that affect the outcome. The only "rules" around the Fix are auction-related requirements. **Cürex would argue that a Fix is an outcome and a benchmark is a standard of measurement. Those two definitions are certainly not the same and have particular implications.**

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Relieving the Pressure on the Fix

Even in the absence of market misconduct, the crowding that occurs around the Fix introduces unfavorable volatility into the FX markets that is not necessary and clearly serves no purpose and provides no benefit. The association of a Fix execution and a "benefit" is part of the fundamental problem. The prevalent practice that separates an underlying equity or fixed income transaction from a related FX trade to secure an execution at the Fix is potentially both costly and risk inducing. Approaching market risk and establishing standard rules of execution are critical to every fiduciary's responsibility to deliver best execution outcomes. **Waiting to execute an FX trade at a Fix when the underlying transaction occurs hours earlier has to be explained by some logic and represent some benefit other than a legacy practice that delivers a questionable benefit.**

The Simple, Elegant Benefit of Live, Streaming Benchmarks: Best Execution

The difference between an FX execution associated with a live streaming benchmark vs. a Fix execution is straightforward. FX executions should occur naturally as the need arises and be evaluated against a live, rules-based standard – a representation of a consolidated ticker – instead of herding a day's worth of executions into a point-in-time auction to calculate a clearing price. The freedom achieved by letting executions occur anytime contributes to a marketplace where the ebb and flow of liquidity better represents the actual market conditions. **A live, streaming benchmark allows FX market participants to have a reference for their anytime executions, knowing that the benchmark is based on an anonymous, multi-contributor market comprised exclusively of executable bids and offers. Fortunately, that FX benchmark solution already exists.**

The FTSE/Cürex Benchmark Solution

Cürex in partnership with FTSE has already created the benchmark solution for the FX marketplace. While other providers endeavor to refine their approach to point-in-time, Fix-based benchmarks, Cürex has crafted a solution that challenges the legacy conventions head-on. Cürex has built an electronic marketplace where liquidity makers and takers can meet anonymously to transact. The strict rules imposed by Cürex create a virtual exchange for foreign exchange. Cürex has constructed a fair, transparent and democratic market where every bid and offer is executable and every participant sees exactly the same pricing at the same cost. Cürex takes the data generated by this marketplace and with FTSE's governance calculates a top-of-book set of benchmarks for 200 currency pairs. These live, streaming benchmark calculations clearly meet the definitions of "benchmark" and "standards." **The utility of the FTSE/Cürex benchmarks when compared to Fix alternatives is clear. Ironically, the market defines benchmark relevance by user adoption. FTSE/Cürex is disruptive – every innovation is by definition. While the Fix is widely adopted, it is fundamentally flawed in our opinion.** We think the FX marketplace should have the courage to take a big, logical step forward. It's time to drop the Fix and accept the FTSE/Cürex approach to benchmarking. Better benchmarking is a standard that everyone should be willing to embrace.

"View Point" provides Cürex's insight on relevant topics to institutional users of foreign exchange. Its mission is institutional FX user benefit and information. Cürex's goal is to provide fairness, transparency and unparalleled efficiency to the FX marketplace for the benefit of our partners and customers. Visit us often so we can share our View Points with you.

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