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MARKETS WSJ PRO

Forex Investors See Regulation as a Top Issue

Tightening rules could make currency trading more difficult, expensive

By CHIARA ALBANESE
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LONDON—Global regulators are tightening rules around trading in financial markets after a series of scandals, which could make currency trading more difficult and expensive, said industry participants at a foreign-exchange conference in London on Wednesday.

"We are looking closely at the cost issue [of trading foreign exchange]," said BlackRock Inc. portfolio manager Gordon Ibrahim in a panel discussion at the conference. Mr. Ibrahim specializes in currencies at the asset manager, which oversees $4.7 trillion.

A survey presented at the TradeTech FX conference showed that regulation and compliance was the biggest concern for three-quarters of the 54 senior traders at banks and asset managers who were polled. Reduced liquidity, increased risk awareness, streamlined processes and higher costs were the top ways in which new regulation affected currency businesses, according to the survey.

“The regulatory drive is massive,” said Lee Sanders, head of currencies and fixed-income trading at AXA Investment Managers, which oversees €694 billion ($782 billion) in assets. “Every firm wants to be seen doing the right thing,” he said in a panel discussion.

A long-running probe by global regulators into whether currency traders tried to collude to rig rates has cost large banks billions in fines to resolve allegations of wrongdoing.

The fines haven’t been enough, said Robin Poynder, director at industry consultancy FMR Advisory, in a speech at the event. He said he expects more investigations to follow. “More personal accountability and more regulation across spot foreign exchange will be needed,” he said. Traders should be able to justify their actions to regulators, he added.

The Financial Stability Board, an international body that monitors the financial system, has set up a committee tasked with restoring confidence in the foreign-exchange market by introducing stricter rules. Trading in currencies has typically been a very lightly regulated area of the market.

In addition, a committee of central bankers and banks is working on a new global code of conduct for traders. The first part of the code is set to be unveiled in May 2016 and will give clarity on the use of a trading strategy known as “last look,” said Guy Debelle, assistant governor of the Reserve Bank of Australia, in a progress report last week at the Bank of England.

Regulators have discussed banning the use of “last look,” which allows banks to give a quote for a transaction but withdraw it before completing the trade. Regulators say the practice makes the markets smoother because banks are more inclined to offer good prices when they have the option to back out, but it can distort price levels when trades aren’t completed.

“Last look creates a lot of liquidity in the market,” said Mr. Sanders. If this is removed, new technology would be needed to take its place, he said.

Asset managers are also increasingly using algorithms designed to transact without human involvement, traders say, which can help reduce the cost and risk of executing large currency trades.

“Transparency and cost of execution is why the buy side is coming to the table asking for algos,” said Asif Razaq, head of foreign-exchange algorithmic execution at BNP Paribas, in a panel discussion Wednesday.

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