Mifid

Big banks to fight Mifid push for extra transparency in FX markets

Lenders say additional disclosures required would be cumbersome to provide and of little value

Eva Szalay in London MAY 16, 2019

Some of the biggest banks in the $5tn-a-day currency markets plan to use a prominent lobby group to push back at rules requiring them to disclose the charges they impose on customers, lining up a potential clash with regulators.

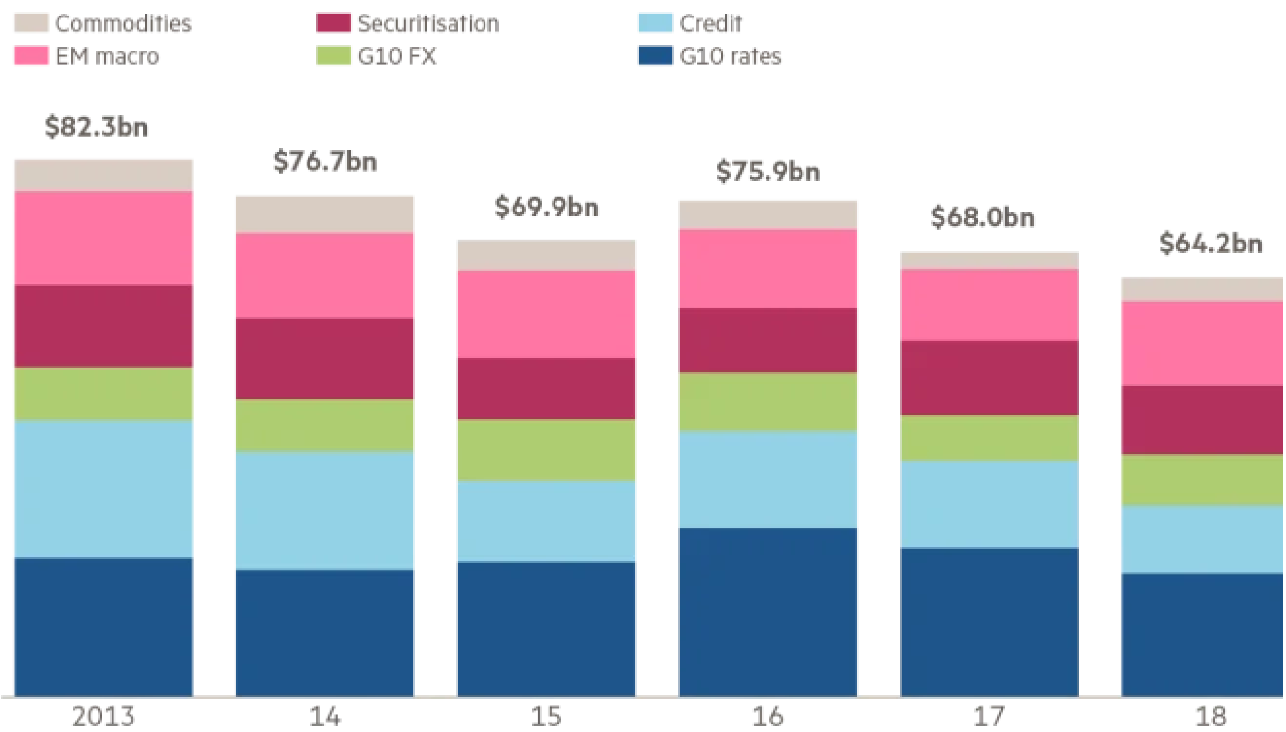
The Brussels-based Association for Financial Markets in Europe (AFME), which represents banks and other market participants, is in the process of reconvening a working group on the issue. The group is aiming to change the minds of regulators after the European Securities and Markets Authority, the Paris-based agency overseeing the EU, updated its guidance on the matter at the end of March, showing few signs of relenting.

Banks say the extra transparency is cumbersome to provide and of little value. But regulators appear to be in no mood for a rethink.

“Lobbying for fewer disclosures is not going to help rebuild the trust in financial services,” said Christopher Sier, a consultant and former chair of the Institutional Disclosure Working Group at the UK’s Financial Conduct Authority.

In contrast to most markets, trading in currencies does not involve commissions. Instead, banks make money by slapping a so-called “spread” on transactions, making it somewhat more expensive for clients to trade with them than for banks to trade with each other. Under new rules brought in last year by the second Markets in Financial Instruments Directive (or Mifid II), banks now have to explain any mark-ups and costs they impose through those means, with the aim of helping investors pick which banks to deal with. Mifid exempts spot transactions, such as instant exchanges of dollars for yen, but derivatives — swaps, options, forwards — are covered.

Steady FX revenues cushion weak bond-trading results at big banks



G10 FX revenues at 12 global investment banks
Source: Coalition
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For the banks, foreign-exchange trading has been one of the steadier lines of business in the aftermath of the financial crisis, as other areas like credit and commodities have waxed and waned. Last year the top 12 global banks earned $7.9bn from trading G10 currencies alone, according to Coalition, a consultancy.

Hence their enthusiasm for carve-outs. "The industry consensus is hardening around a position that there should be a disapplication for . . . professional clients and eligible counterparties receiving the mandatory information on costs and charges," Julian Allen-Ellis, a director at AFME told the Financial Times.

According to AFME documents seen by the FT, the lobby group's staff have "sounded out" investors about their stance on the issue and found that they "see very little value in the disclosures".

Last week members of the lobby group held a call with members to decide if representatives should push for a full-scale exemption of wholesale transactions from the rules, or if they should ask the regulator to allow professional clients to opt out of receiving the information. Following the discussions, the lobby group will probably ask regulators for a full exemption, people familiar with the conversation said.

AFME has long argued that the rules, which were initially intended for retail clients, are unsuitable for

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Jonathan Lipkin, director at The Investment Association

participants in the wholesale market, such as asset managers and corporate customers. So-called “professional” participants already receive information about their dealings with banks that is above and beyond what regulators require under Mifid II, AFME says. As a result, extra mandatory disclosures are a costly and unnecessary exercise, according to Mr Allen-Ellis, who added that banks were taking a strong stand on the matter at the request of their clients.

“Wholesale clients often ask to stop receiving [mandated disclosure] information but at present [banks] cannot acquiesce to those requests and have to continue to produce and provide information that their clients neither use nor want,” he said.

The European Commission rules, however, are simple, stating that “every difference between the price of a position for the firm and the respective price for the client should be disclosed, including mark-ups and mark-downs”. The disclosure of such information is designed to help asset managers break down the costs for their own clients, such as pension funds.

Since Mifid II took effect, most banks have published disclosures around estimated and maximum costs they expect to charge for various contracts. But a survey last year from PwC on the topic found that dealers were providing “differing levels of transparency” in their reports. Banks have also taken a variety of approaches to what they disclose, making it harder for investors to compare the information. “Given the disparity . . . our view is that clients of [banks] will find it difficult to perform meaningful analysis of costs and charges,” PwC said.

For banks, currency trading costs are often part of a complex equation. Corporate customers, for example, often receive cheaper costs for borrowing if they push all their currency transactions through a particular bank. That can make it tricky to provide a precise schedule of fees.

Jonathan Lipkin, a director at The Investment Association, a trade body that represents UK investment managers who collectively look after £7.7tn ($9.9tn) of assets, said the trade body was working with UK and European regulators to ensure clients are given consistent and meaningful information.

“The accuracy and quality of data provided by market intermediaries, such as brokers who facilitate the trading process, is vital,” Mr Lipkin told the FT.