

FX Week

US meltdown spurs central clearer debate

LONDON & NEW YORK – The fallout from the collapse of Lehman Brothers and implosion of insurance company AIG has spurred renewed debate over the central-counterparty model for spot foreign exchange, as concerns over counterparty risk take centre stage.

“We’re hoping the long-term effect generally is to move these and other products onto exchanges or electronic communications networks (ECNs), where there is far more transparency and the possibility for increased distribution of risk,” said one hedge fund manager.


He said AIG’s demise was surprising and that Currenex is still trying to get back to normal after replacing the insurer with JP Morgan as the central clearer on its anonymous trading platform (*FX Week*, September 22).

However, a senior electronic foreign

exchange source in London said that, despite the fall of AIG, a number of existing customers are still in favour of the central counterparty model. But he added a number are going to be more cautious about who the central clearer is, moving forward. “With the events of AIG, people might have second thoughts about who exactly that counterparty is, what exactly that central-counterparty model should be,” he said.

He added that a certain type of customer segment will perform perfectly well in an exchange environment. “But we do have a lot of customers that exchanges would not help because of post-trade services and other non-direct execution-related services. Traders that have to do a lot of allocations would find it easier to trade with one counterparty, making the post-trade allocations easier.”

Meanwhile, vendors report increased enquiries from traders looking to mitigate risks by using systems with in-built pre-trade counterparty credit risk assessment tools. David Mallinder, business development manager at Eurobase in London, said he has seen heightened interest from new and existing customers in the pre-trade credit assessment tool inherent in Eurobase’s Siena eTrader.

The credit check facility screens counterparties, and only offers prices once the counterparty has been cleared. “The ability to control credit within an electronic trading environment was not a problem before, but now it is more of an issue,” said Mallinder. “Most other systems manage credit only after the trade has taken place, and a number of people have been talking about how this can be managed before the trade.”  *Gail Mwamba*