FX·Markets

New benchmark aims to break 4pm fix hegemony

Siren uses 20-minute trade window in a bid to combat fears of manipulation

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A new upstart has joined the foreign exchange benchmark fold. Siren, which began trading in January, is hoping to challenge the iron grip that the WM/Refinitiv 4pm fix has on the spot market.

Siren differs from the 4pm fix by using a longer observation window for trades. This has a twofold effect, its backers claim. One, the benchmark will be harder to manipulate. Two, it will be less susceptible to market impact, which will mean tighter prices for users such as pension funds.

One hedging expert sees merit in the new benchmark. “Siren is the most sophisticated alternative to the [Refinitiv] foreign exchange benchmark, for sure. There isn’t anything else like Siren available in the market at the moment,” says Abhishek Sachdev, chief executive officer of hedging advisory company Vedanta Hedging.

Refinitiv declined to comment.

The creator of Siren is data company Raidne and the administrator is New Change FX. Siren is calculated and published every 30 minutes throughout the day from 10pm GMT on Sunday through to 5pm EST on Friday. It uses aggregated market data from at least 10 electronic trading venues, while Refinitiv uses data from three venues in calculating the 4pm fix.

Raidne is hoping that best execution requirements will see buy-side firms shift from Refinitiv to Siren. If Siren can indeed provide tighter prices, firms may feel obliged to consider using the benchmark to meet their legal obligations.

But experts say the new fixing will struggle to gain a foothold in a market that is dominated by a long-established incumbent. Refinitiv's 4pm fix is deeply embedded in pension fund mandates and contracts, which would have to be redrafted to accommodate a new benchmark.

"So far we haven't had anyone screaming down the door begging to start trading on Siren with us but they may well change over time, once Siren becomes more understood and well known," says the head of algorithmic FX trading at a large dealer.

Raidne says it is in discussions with 10 pension funds about using Siren. None have yet signed up to the benchmark. At the time of writing, seven of the world's top 10 FX banks have stated that they will provide Siren based on client request, Raidne says.

In a fix

The WM/Refinitiv 4pm fix has not been without controversy. In 2013, the rate was embroiled in a manipulation scandal whereby traders colluded in pushing through a large number of trades during the benchmark's observation window. Such activity was able to artificially move the exchange rate up or down, allowing banks to front-run the market in a practice known as pre-hedging.

Regulatory probes resulted in fines for banks and the firing and even **prosecution** of traders. It also prompted the administrator of the 4pm fix to lengthen the observation window of trades from one minute to five minutes in 2015. The move was aimed at increasing the number of trades eligible for the calculation of the rate, therefore making it harder for a group of market participants to manipulate it.

Newcomer Siren goes even further to avoid market manipulation through the use of a 20-minute window.

"A longer observation window essentially means that the actions of any one market participant will make up a much smaller percentage of market activity and therefore any impact of what they're trying to do will be significantly diluted," says the head of algorithmic FX trading. "So if someone really did want to manipulate a benchmark like Siren they'd have to put a lot more capital at risk than if they tried to manipulate a benchmark like Refinitiv's."

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> **Abhishek Sachdev, Vedanta Hedging**

Siren's use of a longer observation window also has the effect of creating cost savings for clients, says Jamie Walton, co-founder of Raidne and former head of the currencies and rates quantitative trading team at Morgan Stanley.

Raidne's analysis of historical trading data from 20 pension funds has found average savings of $500 per million for funds using Siren's 4pm fixing rate compared to Refinitiv's across the 70 currency pairs available on Siren. The firm has also calculated average savings of $800 per million for G10 currencies at month-end.

"It's an unintentional benefit to Siren as we didn't specifically design it for this purpose," says Walton. "But the fact that we're using a longer window means that we don't have all of the market impact associated with trading the Refinitiv fixing – which means market participants trading with Siren will see better prices on average than trading with Refinitiv."

However, experts warn that Siren faces a tough task to prise market participants away from the Refinitiv rate. The 4pm fix is enshrined in the majority of pension fund contracts, so making a switch to Siren would require firms to draw up new contracts or change clauses in existing documentation – a time-consuming process.

While a pension fund may only have a handful of investment agreements to rewrite, a large asset manager could well have thousands to rewrite in order to switch to Siren. Indeed, some pension funds and asset managers may need to change their execution partner to accommodate a switch to Siren.

“You’re going to see a lot of resistance and natural inertia in the City of London towards alternative benchmarks, especially among large asset managers and pension funds as they’re used to doing things in a certain way, so it may not be easy for them to undertake the changes that are being proposed to them,” says Vedanta Hedging’s Sachdev.

Ralf Donner, head of fixed-income, currencies and commodities execution solutions at Goldman Sachs – the first bank to begin trading Siren – says initial hurdles exist not only for asset managers and pension funds in switching to Siren but for banks too. While it’s relatively straightforward for banks to offer a new benchmark to clients, the challenge comes when attempting to hedge and price trades using the rate.

“That’s a question of trial and error as we may not initially know how to price Siren so that it precisely matches our hedging costs – or indeed what those hedging costs may look like as we’ve never hedged that benchmark before,” he says.

Legal threat

Buy-side firms may also have an extra motivation to explore Siren: a threat of legal action. In Europe, investment firms must adhere to best execution under investor protection rules laid down in Mifid II, the sweeping markets regime introduced in 2018.

Article 27 of Mifid II dictates that investment firms must take sufficient steps to obtain the best possible results for clients when executing orders – with these execution factors including things such as price, cost, speed, likelihood of execution and settlement, and size.

FX market participants, including banks and asset managers, are also bound by the FX Global Code of Conduct to follow principles of best execution.

"Therefore, if someone can prove that the current 4pm fixing isn't optimal and that there is a better benchmark to switch to, asset managers and banks have a legal duty to consider something like Siren. If they don't consider those benchmarks then they're going to have to justify why not, otherwise they're potentially on some legally shaky ground," says Sachdev.

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In fact, Vedanta is taking strong action on behalf of its pension fund clients in pressuring asset managers who it suspects of failing to offer a better benchmark to their clients. Vedanta's lawyers initially send a letter to asset managers asking them to consider a new benchmark – in this case, Siren. If an asset manager doesn't engage, then Vedanta follows up with a letter from its litigation team. Sachdev describes the overall approach as "carrot and stick".

With the FX Global Code set to include **greater disclosure** on things like algorithmic trading through the use of cover sheets containing standard information, Goldman's Donner believes a similar process could apply to benchmarks. This would enable market participants to compare rates like Siren alongside Refinitiv's – and thus be able to make a more informed decision as to which rate is right for them.

"One avenue going forward is to have a similar questionnaire on fixings or to simply add a few questions to the current algo questionnaire being discussed around fixings. That might cover things from a legal basis," he says, adding that clients are becoming increasingly aware that clumsy fixing constructions can have a significant impact on trade performance.

However, the head of algorithmic FX trading at the large dealer says another way for market participants to meet best execution requirements would simply be for Refinitiv to widen its observation window – thus undermining Siren's appeal as a challenger benchmark and making a switch to Siren largely redundant.

"If enough people revolt against Refinitiv and switch to Siren then the only thing Refinitiv needs to do to gain back their market share is to announce that they are widening their five-minute observation window to 20 minutes," the head says.

A spokesperson for a large asset manager agrees that such an outcome is a reason not to be hasty in switching to alternative benchmarks like Siren.

"That's not to say that the ideas from alternative benchmarks are unwelcome. However, if they were to start to gain traction, it may simply be possible for [Refinitiv] to expand its own observation window in a similar fashion," he says.

Correction, May 20, 2021: *Siren began trading in January, not April, as a previous version of this article had stated.*

Editing by Alex Krohn
