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To: H.M. Treasury
The Bank of England
The Financial Conduct Authority
From: Russell Investments
Re: Response to the Consultation Letter Regarding Fair and Effective FICC Markets

Dear Sir or Madam,

Thank you for the opportunity to provide input in response to the consultation document of October 2014 entitled "*How fair and effective are the fixed income, foreign exchange, and commodities markets*" (the "Consultation"). The Consultation describes many timely and important themes and raises highly relevant questions. Due to the deadline for comments and considering responses already submitted by other organizations, we are limiting our comments to foreign exchange ("FX"). Notwithstanding the limited nature of our response, Russell would be glad to provide further feedback on any other topics where we can be a resource.

Section 5.1.3 of the Consultation entitled "Foreign Exchange" highlights the "*benefits stemming from the availability of multiple prices that can be sourced from different single-and multiple-dealer platforms.*" Also mentioned is the role that technology has played (primarily dealer-led) in developing these platforms and allusions to solutions proposed by the FSB's Foreign Exchange Benchmark Group to help maximize netting opportunities. Several concerns were raised regarding transparency and conflicts of interest including:

- Increased concentration of information flows in the hands of a limited number banks;
- Lack of transparency;
- Increased risk in times of market stress if banks cannot offload residual risk effectively, particularly if client flows move in the same direction;
- Increased opportunities and incentives for market makers to delay a decision to observe market moves and profit from it ("last look"); and
- Increased opportunities and incentives for dealers to capitalize on clients trading at the "fix."

At the end of Paragraph 15 on page 25 and on page 27 as Q9, questions are posed as to whether there are barriers impeding the FX market from moving further towards increasing transparency and reducing conflicts of interest. The balance of this letter is a response to that solicitation.

Background on Russell's FX services

Russell runs an *agency-only* FX program, meaning that we trade exclusively for our clients, putting their interests first. That goes a long way to mitigating conflicts. The clients of this service include Russell's funds (*e.g.*, UCITS funds) as well as many global institutional investors such as other asset managers, insurers, and pension funds. Orders are sent by clients to Russell's central FX desk and are collected for a short period of time and netted. The residual is traded competitively with over 20 non-affiliated banks. Russell manages the subsequent confirmation, settlement, and reporting. Russell views the agency network as the most conducive to fair and effective market operations.

From time to time we experience resistance to this outsourcing approach because the investor fears loss of control and increased operational risk. Russell understands these issues and consistently seeks to offer effective solutions to address or assuage client concerns. In direct response to those challenges, Russell recently created a new platform called the "RFX Network."

Our new solution – the *RFX Network*

To improve transparency and technology-related barriers, Russell has developed the RFX Network. The RFX Network is an innovative solution that allows clients to remain in control of their trading while taking advantage of the substantial benefits of the Russell FX program we have offered for many years. The RFX Network aims to provide a service for institutional investors that offers:

- Client-to-client matching of spot exposures within a buy-side community (available early 2015);
- Transparent mid-rate matching at an externally referenced benchmark;
- Matching for both fixing and non-fixing orders;
- Fair and safe environment, free from profit-motivated traders;
- Minimum information leakage and market impact; and
- Anonymous settlement via a central clearing party.

On the back-end, the RFX network yields advantages such as:

- *Liquidity:* the RFX Network uses aggregated liquidity from ~50 providers. An analysis of our transactions executed on the RFX Network reported an average cost of 0.24 bps, about 40 to 50% lower compared to costs experienced in more traditional venues;
- *Optimal internal netting:* the RFX Network is able to net trades at a mid-point price, allowing all parties to benefit. This differs from standard industry practice of combining buys and sells in a single block trade. The 'dominant' order is traded at the bid or the offer, giving the smaller, 'non-dominant' orders a better price; and
- *Client directed:* clients can handle their own trading, thus overcoming resistance from asset managers who want to stay in control of trading.

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Clients can use the RFX Network to deliver FX orders to Russell for execution (essentially a high-tech extension of the current Russell FX outsourcing program) or use the RFX Network to manage trading themselves on the platform. We believe that this second dimension goes a long way towards solving the challenges addressed in the Consultation. In particular, the RFX Network does not suffer from the issues regarding bank-run platforms. Russell believes we have a revolutionary way to help the investment community reduce transaction costs and enhance the trading experience.

We welcome an opportunity to discuss the RFX Network, our agency FX program, or any other questions posed by the Consultation. Russell's business model, service offerings, and position in the market provide us with unique insight into many of the issues raised in the Consultation, so please do not hesitate to contact us if we can be of further assistance.

Sincerely,

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