



## MNI ANALYSIS: FX 'Last Look' Not Going Away--More Transparent

--Battea's Hansen: Banks Taking Ownership, Clients Being Educated, Compensated

--NY Fed Potter: GFXC Seeks Additional Feedback on Last Look

By Vicki Schmelzer

NEW YORK (MNI) - When the Foreign Exchange Working Group released the Global Code of Conduct for the foreign exchange industry in May, some market participants were hoping that a practice called "Last Look" might be eliminated.

Instead, "Last Look" got the FXWG's tacit approval, albeit with a stern warning that its use on electronic platforms must be transparent to clients.

Peter Kilbinger Hansen, Chairman of Battea - Class Action Services LLC, explained the "Last Look" practice in layman's terms in an exclusive interview with MNI.

Many banks' single platforms, and in some cases electronic market makers' platforms, had "Last Look" built in as a stealth feature, he said.

A client attempting to trade on a firm FX price on the platform might find that the deal was not executed, Hansen said.

The banks "would suspend the execution and not execute. And they would take a 'last look' at the market around them to see has anything had changed since they put up that quote," he said.

"And if it did, they would reject the transaction," Hansen said.

"So, clients were seeing rejections or they were experiencing delays in execution and receiving different execution prices than the quotes that were advertised," he said.

Justifiably, customers "were frustrated and upset" with being quoted one price and executed at a different price, which led to them eventually taking legal action to seek reparation, Hansen said.

He stressed however that "Last Look" issues were the outlier and that there were "plenty of times" where clients were indeed executed at the desired price.

Making the "Last Look" feature more transparent to clients is one of many steps that banks are taking to win back clients' trust, Hansen said.

"You have to give the banks credit for taking ownership," he said.

"They are showing good faith and they're settling" and "are doing the right thing by their customers," Hansen said.

In comments Wednesday before an audience at FX Week's annual conference, Simon Potter, executive vice president of the Markets Group at the Federal Reserve of New York, highlighted a few of the guiding principles the FXWG calls "not regulation," but "a set of voluntary, global best practices" for the FX market.

"Last Look" has been a hot topic of discussion and was outlined in Principle 17 of the Code's 55 Principles, he said.

"Last look is described in the Code as a practice in which a market participant receives a trade request and has the opportunity to accept or reject that trade request against its quoted price," Potter said.

"The Code notes that if utilized, last look should be used as a risk mechanism to verify validity and/or price," he said.

Potter noted that there were divergent views on the "Last Look" practice.

"On the one hand, some market participants argued that such trading activity would always be detrimental to the client as it could move the market in a direction that is not to the client's advantage," he said.

"On the other hand, some market participants felt that such trading activity could increase their ability and willingness to conduct client trades presented by clients without necessarily placing the clients at a disadvantage," Potter said.

Some FX market players preferred to "only use dealers that don't trade during the last look window, while others preferred having different options," he said.

Given strong opinions on the subject, the "newly formalized" Global Foreign Exchange Committee (GFXC) has decided to reach out for additional feedback on trading using the "Last Look" feature, posing two questions, Potter said.

"First, it asks whether respondents agree with the characterization of trading activity during the last look window and whether there are examples where such activity can benefit the client within the context of how last look is described in the Code," he said.

"Second, it asks whether respondents believe the language related to trading during the last look window should be modified," Potter said.

"The GFXC is not only seeking views at the tails, but also those more in the middle of the spectrum as well," he added.

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