Currency-fixing probe rattles Singapore
By Jeremy Grant in Singapore and Alice Ross in London

Singapore, the world’s fourth largest centre for foreign exchange trading, has been unnerved by a probe by the city-state’s watchdog into possible “irregularities” in the market for fixing the rates for key southeast Asian currencies.

The development threatens to ensnare some of the biggest banks’ trading of FX and raises questions over the way the city-state has become Asia’s hub for the trading in so-called non-deliverable forwards (NDFs) in the Indonesian rupiah, Malaysian ringgit, Vietnamese dong and Thai baht.

The development also highlights how Singapore’s regulator, the Monetary Authority of Singapore, has opened a new front in the sprawling global probe into rate-rigging involving Libor, or the London Interbank Offered Rate, a benchmark interest rate used globally to set the price of everything from mortgages to complex derivatives.

Regulators around the world have been investigating as many as 20 financial institutions over the manipulation of Libor and other benchmark rates that underpin $500tn of contracts worldwide.

The latest Singapore probe centres on whether exchange rates in the main southeast Asian currencies may have been manipulated as part of a routine process by which a panel of banks set a daily exchange rate applicable to NDF contracts on maturity.

That process is similar to the way panels of banks have set the Libor rate.

NDFs are a type of financial derivative widely used by companies to protect themselves against future fluctuations in non-convertible, emerging market currencies that they may use as part of doing business in that country. They are also traded speculatively by banks.

An NDF is a contract for a fixed amount of a non-convertible currency – such as the Malaysian ringgit – due on a specific future date at an agreed future rate. At maturity, that rate is compared with a daily “reference rate”, with any difference payable in the convertible currency used in the contract – such as the dollar.

In the case of the ringgit, that rate is published by the Malaysian central bank daily. But a separate rate is submitted by a panel of banks in Singapore under the auspices of the Association of Banks in Singapore. The same applies to other southeast Asian currencies, including the Philippine peso.

The MAS in September directed banks on the ABS rate-setting panel to review their processes for setting rates for NDFs.
That was an extension of the watchdog’s existing probe of the rate-setting process for the Singapore interbank offered rate – a local Libor variant used to set local mortgage interest rates – as well as a “swap offered rate”, which represents the average cost of funds used by local banks for commercial lending.

The MAS directed banks to “report immediately any irregularities they uncover, and to take appropriate disciplinary action against staff involved in such irregularities”.

The banks include UBS, Citigroup, Deutsche Bank, Standard Chartered, Morgan Stanley, JPMorgan and BNP Paribas and RBS.

Two people familiar with the matter said the banks submitted the results of their reviews to the MAS in December and were now awaiting the regulator’s response. “We’re now waiting for them to tell us what they want to do,” said one.

The MAS said: “The reviews are ongoing, and it is premature to speculate on the outcome of these reviews at this stage.”

Some banks have suspended traders as part of their reviews to allow unfettered access to emails and instant messages that might reveal more about how rates were set, people familiar with the matter said.

No evidence of manipulation of the NDF rates has yet emerged. However, currency investors who are active in the Asian NDF market said they were concerned by the development. Some said they had contacted local dealers but had found it difficult to get any clear information on the probes.

But investors and traders said they were not wholly surprised by the potential irregularities given what many view as the “wild west” nature of the NDF market.

“We are concerned, but not surprised,” said one investor who regularly trades the NDF contracts said to be under scrutiny.

“At any one time you might have just eight guys trading the Philippine peso – and they all know each other,” said one trader. “It’s a thin, wishy washy market: it’s the perfect market for manipulation.”

Some investors were being reassured by their banking contacts that their money was not at risk and there was no threat to liquidity in the markets due to any loss of traders.

“There are other markets where these securities can be traded. So while a turnover in traders may impact some, there are always opportunities to execute trades,” said one investor.

Joseph Cherian, professor of finance at the National University of Singapore Business School, said:

“When people who set rates, be it interest or foreign exchange, have their P&L [profit and loss account] – and by extension, their compensation – determined by the very rates they set, the temptation to do wrong is always high.”

The MAS probe has raised questions over why reference rates for southeast Asian currencies are set by banks in Singapore as an alternative to rates already provided by the central banks of the countries with such non-convertible currencies.
“If you are a trader sat in Singapore, by definition you don’t have access to the spot market in that other country. How can the guy in Singapore even determine where spot is? It’s a crazy system,” says one senior trader of Asian currencies in Singapore.

In a sign of how the issue is starting to ripple across the region, Malaysia’s central bank, Bank Negara, this week told Malaysian banks not to use an “offshore” reference rate for the pricing of US dollar-ringgit NDFs and to use the existing onshore reference rate instead.

“This circular is to remind people that the reference rate for pricing of FX contracts involving ringgit should be the onshore rate,” a Bank Negara spokeswoman told the Financial Times.