

Future Finance

Vanguard to Challenge Banks' Grip on \$6 Trillion Currency Market

By [Alastair Marsh](#)

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- ▶ Indexing giant testing peer-to-peer FX via blockchain
 - ▶ Firm aims to 'lower the cost of investing for all investors'
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Having revolutionized the business of buying stocks, [Vanguard Group](#) is now coming for currencies.

The investing pioneer obsessed with lowering costs is testing a new way for asset managers to trade currencies and avoid big investment banks, according to a person familiar with the matter. The platform, based on the blockchain technology that powers Bitcoin, has been operational for two months and has handled some trades, said the person, asking not to be named because the project is private.

If successful, the venture could shift power in the \$6 trillion a day currency market that banks such as JPMorgan Chase & Co. and Deutsche Bank AG have ruled for decades. While skeptics say it will be challenging to get enough investment firms on board, the cost savings of peer-to-peer trading could prove appealing in a world where profits are being squeezed by a [race to the bottom on fees and mounting regulatory burdens](#).

“Direct trading really is the Holy Grail for the buy-side,” said Campbell Adams, a former senior currency trader at Deutsche Bank who founded a platform called ParFX in partnership with banks including Citigroup Inc. and JPMorgan. “In theory, it sounds great because you can reduce your costs if you can match directly with someone else who has a countervailing interest,” he said. Yet “it will require a critical mass of users.”

Breaking From Banks

Vanguard, with more than \$5 trillion in total assets, trades about \$2.5 trillion of currencies a year, Andy Maack, its global head of FX trading, told an industry publication this year. There’s a “tremendous amount of interest in the potential for disintermediation,” he said in an interview last month with The Trade, describing a system that would be “decoupled from banks” and price discovery would move to outside platforms able to match peers.

“Vanguard is currently piloting a project focused on improving the efficiency and reducing risk of FX hedging,” company spokeswoman Carolyn Wegemann said, declining to elaborate. It’s part of the firm’s commitment to “lower the cost of investing for all investors,” she said.

Bloomberg LP, the parent company of Bloomberg News, operates an FX trading platform for banks.

Asset managers face a historic shakeout

The project would be among the most significant applications of blockchain in finance. While nearly all major banks and money managers are experimenting with the technology to do everything from issuing bonds to processing payments -- JPMorgan has developed its own digital token and Banco Santander SA has issued tokenized debt -- few have used it in large-scale commercial operations.

The project’s success would also mark a leap in the evolution of the FX market, which has been inching toward a peer-to-peer model over at least two decades, said Adams, who has more than 30 years experience trading currencies and now runs Pure Digital, a venue for cryptocurrencies.

When Adams worked on the FX trading desks of Citigroup, Morgan Stanley and Deutsche Bank in the 1990s, asset managers made currency trades almost exclusively through banks. In the mid-2000s, buy-side firms could match trades with other investors on electronic trading platforms but still had to go through a bank to execute them, said Adams. Vanguard’s initiative would bypass that, too.

Success isn't guaranteed. It remains to be seen how the venture will operate, whether there'll be sufficient liquidity, who will be allowed to participate and who will be willing to sign up, Adams said.

Swaps, Forwards

A blockchain-based peer-to-peer platform would have greatest impact on swaps and forward markets rather than in spot trading because on a day-to-day basis opposite interests among investment firms may be limited in spot, said Adams. Banks are also more dominant in these derivatives trades because investors may rely on them for credit lines, said Jay Moore, the founder of FX HedgePool, a currency platform that matches buy-side customers.

Vanguard, based in Valley Forge, Pennsylvania, is no stranger to challenging convention. Founded in 1975, the investor-owned firm made its name with the first index mutual fund. It later was among the biggest proponents of ditching a long-held market practice that let currency dealers back out of losing trades.

Why proponents see the promise of blockchain

"Vanguard has proven to be pioneering and very forward thinking in many ways, so it makes sense for them to take the lead," said Moore, who's based in New York and previously worked for Brown Brothers Harriman. "The market won't change on its own, it takes someone to push the envelope."

The Vanguard FX platform uses blockchain technology developed by Symbiont, a New York-based company that's applying the technology behind Bitcoin to capital markets, said the person familiar with the matter.

This also isn't the first time Vanguard has partnered with Symbiont: The firms previously teamed up to explore applying blockchain to the investment giant's process for updating the index data behind its mutual funds. A spokeswoman for Symbiont, which is backed by Citigroup and Nasdaq Inc., declined to comment.

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