Foreign Exchange Benchmarks

Progress report on the implementation of the FSB recommendations

Frankfurt am Main, 12 November 2015
Key dates:
- 30/9/2014 – Publication of FSB report with recommendations
- 15/2/2015 – WMR fixing window to 5 minutes for all currencies
- 30/6/2015 – Cut-off date for assessing implementation of FSB recommendations
- 1/10/2015 – Publication of implementation report

Assessment
- Overall good progress in implementing many recommendations
- Recommendations have been adopted to varying degrees
- Operational changes and enhanced scrutiny helped reduce incentive and opportunity for improper trading behaviour
- Regulators and FX market participants must remain focused on achieving a more complete implementation
2-Findings

Benchmark transactions execution
[Reco 6 to 8]

- Charging for fixing transactions

  Bid-offer spread and fixed fee, or a combination of both

Largely implemented for WM fixings

Issues

- Most liquid currency pairs
- Pricing structure still under review in some cases
- Uneven communication
- Competitive disadvantage
- Application limited to WMR 4 pm

To be applied by all sell-side institutions to all benchmarks
3-Findings

Benchmark transactions execution
[Reco 6 to 8]

- Separation of fixing orders
  *Widely implemented through*
  - physical separation of desks
  - different processes for collecting and executing fixing orders
  - a move to electronic desks with algo execution
  - enhanced internal scrutiny

High cost for some participants, leading to cessation of fixing activity

- Independent netting and execution facilities
  *Industry-led initiatives welcome*
  *Increased use along with automated execution of trades*
  *Key challenge: large residual balances*
2-Findings

Increasing share of algorithmic execution

Source: EBS data

Manual = manual trading    Bank AI = dealer algorithm    PTC AI = prime-broker customers algorithm
2-Findings

Trading volume now distributed more evenly over fixing window

Source: EBS data
2-Findings

Market conduct [Reco 9 to 13]

Widely implemented through a review of internal policies, procedures and guidelines to adopt

- regional codes of conduct
- Shared Global Principles

With trainings and attestations to increase awareness and adherence

Single global code of conduct (see BIS FXWG initiative)

Index providers and asset managers [Reco 14 to 15]

Scope for greater follow-through

Central bank reference rates [Reco 5]

Methodology and procedures assessed against IOSCO principles