



EUROPEAN CENTRAL BANK

EUROSYSTEM

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Foreign Exchange Benchmarks

Progress report on the
implementation of the FSB
recommendations

Frankfurt am Main, 12 November 2015

1-Introduction



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

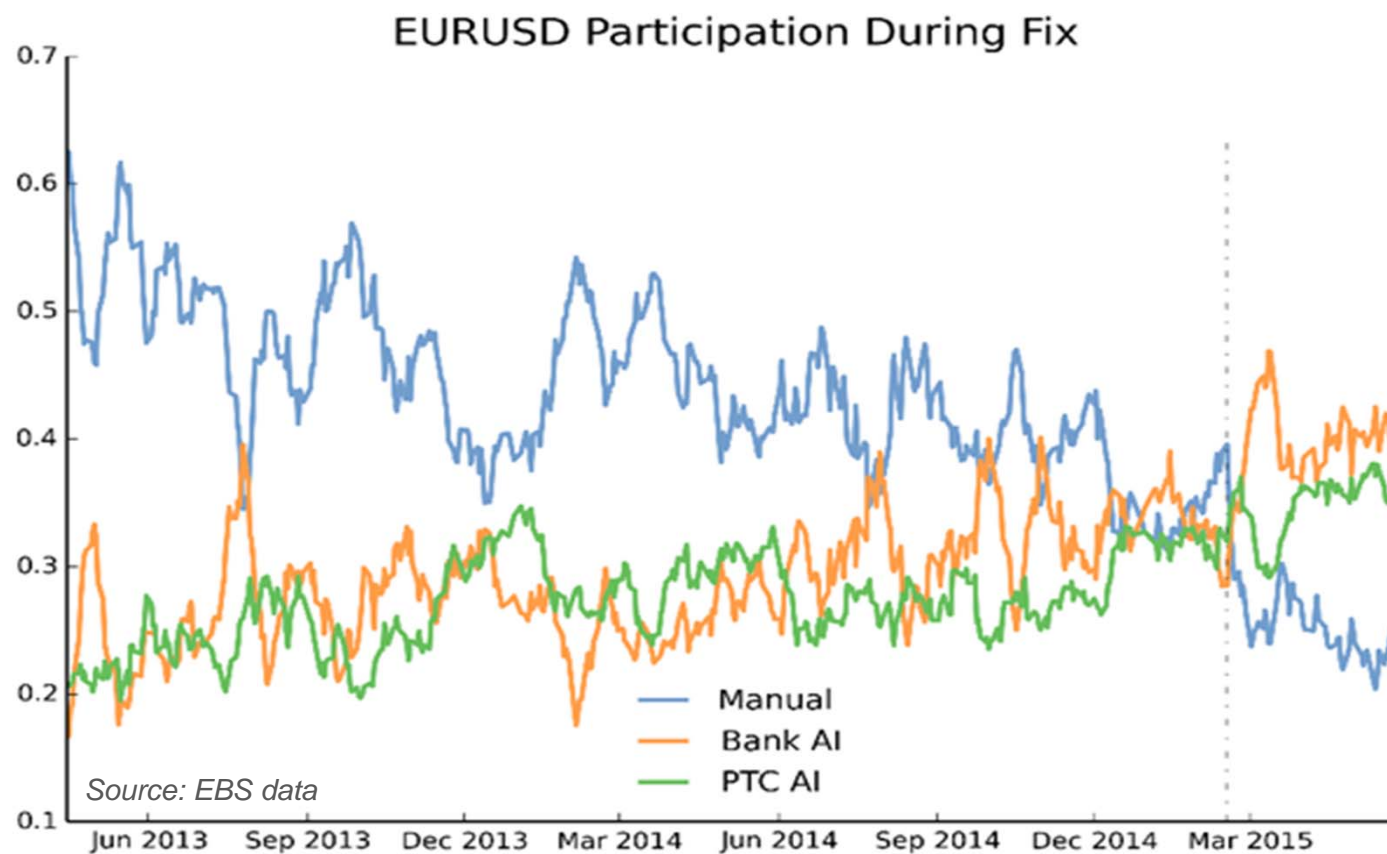
Industry-led initiatives welcome

Increased use along with automated execution of trades

Key challenge: large residual balances

2-Findings

Increasing share of algorithmic execution



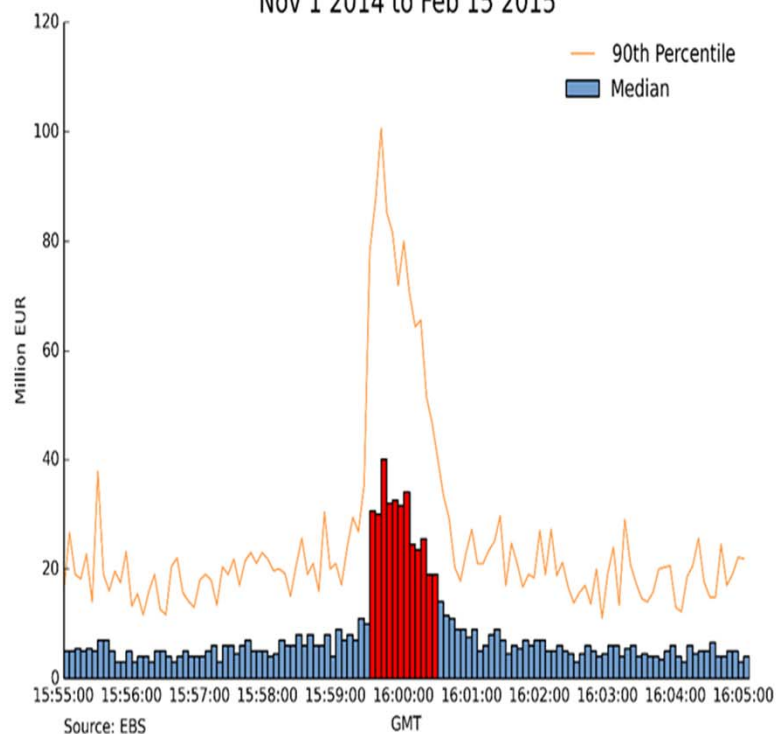
Manual = manual trading Bank AI = dealer algorithm PTC AI = prime-broker customers algorithm

2-Findings

Trading volume now distributed more evenly over fixing window

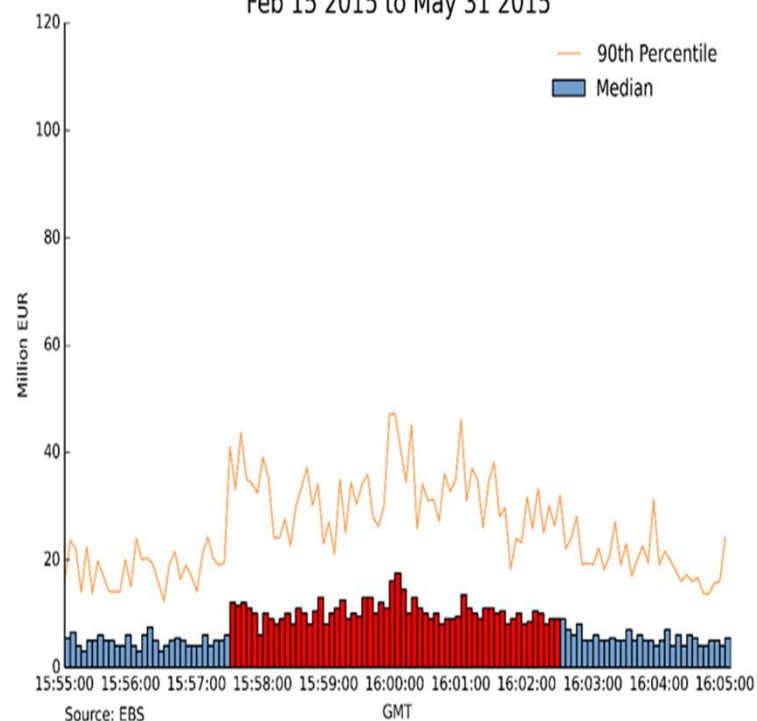


EUR-USD: Median 5-Second Trading Volume
Nov 1 2014 to Feb 15 2015



Source: EBS data

EUR-USD: Median 5-Second Trading Volume
Feb 15 2015 to May 31 2015



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