

The WM Company:- WM/Reuters FX Benchmarks

European Central Bank – Foreign Exchange Contact Group
12th November 2015
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WM/Reuters FX Benchmarks

Overview

- WM/Reuters provides 160 Spot rates, 81 Forward rates and 11 Non-Deliverable Forward rates at fixed times throughout the global day (24*5.5)
- The WM/Reuters rates are intended to be reflective of the foreign exchange markets at a point in time
- International regulators and industry bodies are focused on enhancing the oversight of benchmark administration to improve confidence in the financial markets
- WM has concentrated on:
 - IOSCO: “Principles for Financial Benchmarks”
 - FSB: “Foreign Exchange Benchmarks - Final Report” & “Foreign Exchange Benchmarks – Report on progress in implementing the September 2014 recommendations”
 - FCA: UK benchmark regulations
- WM is fully committed to conforming and aligning with benchmark regulation as it applies to FX benchmarks including in UK, EU and other jurisdictions

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Recommendation 1: Extension of Fix Window - Complete

The group recommends the fixing window be widened from its current width of one minute. WM should determine the appropriate width in consultation with market participants.

- **WM/Reuters Analysis** – WM undertook detailed analysis, seeking to balance the desire for additional data points with the requirement that the fix rate was relevant at ‘point in time’
- **WM/Reuters Client Consultation** – WM proposed a 5 minute fix window centred around the hour, inviting feedback on this proposal from all WM/Reuters clients
- **Approval from WM Benchmark Oversight Committee and WM Board** - Governance determined by the ‘WM Changes to Methodology Policy’
- **15th February 2015** - extended the fixing calculation window from 1 minute to 5 minutes for all currencies. The fixing calculation window is now 2.5 minutes before the hour until 2.5 minutes after the hour (or half hour). Capture for the Trade currencies was maintained at every 1 second, providing a maximum of 301 snapshots of data per data source. Capture for the Quote currencies was maintained at 15 seconds, providing 21 snapshots of data
- **Outcome** - reasonable balance between data density and timeliness; longer trading period available. Customer feedback has been limited but positive.
- **FSB Update** - report generally favourable.

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Recommendation 2: Incorporation of broader range of sources – In Progress

The group recommends that WM should incorporate price feeds and transactions data from a broader range of sources to further increase its coverage of the FX market during the fixing window, provided it is assured that the additional sources are of sufficient quality and are representative of the market.

- **WM/Reuters Analysis** – WM undertook detailed analysis to (i) determine if Thomson Reuters Matching could be an appropriate data source for additional currencies and (ii) enhance the methodology to optimise the use of transaction data from the data sources.
- **WM/Reuters Client Consultation** – WM proposed the use of Thomson Reuters matching for additional currencies and an enhancement to the methodology, inviting feedback on this proposal from all WM/Reuters clients
- **Approval from WM Benchmark Oversight Committee and WM Board** – as per the ‘WM Changes to Methodology Policy’
- **15th February 2015** - Thomson Reuters Matching data added for CHF, EUR, JPY and RUB. A change in the methodology to pool the trade rates from across data sources was implemented.
- **Post 15th February 2015** - Currently reviewing the use of EBS trade data for additional currencies. Additional data sources being considered for analysis. The inclusion of additional sources will be dependent on availability and quality of the transaction data available.
- **Outcome** - More transaction data is being used in the calculation and WM is committed to continuing to extend the range of data sources used in the calculation.
- **FSB Update** - confirmed greater scope for more data sources and acknowledged WM is actively pursuing this

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Recommendation 3: User Group – In Progress

WM should expand their consultation activities to include a named user group to consider the proposed changes to the calculation methodology and to ensure it remains appropriate going forward.

- **WM** - confirmed its intention to create an informal User Group, with market participants drawn from across a broad range of the WM/Reuters client base, to include representation from both the buy-side and sell-side
- **Approval from WM Benchmark Oversight Committee** – Creation of User Group and User Group Charter
- **WM/Reuters User Group** - The objective is for members to provide feedback on the methodology, potential changes, put forward ideas and suggestions for debate and consideration for the benefit of the service. WM has completed a User Group Charter to outline the expectations and responsibilities from the User Group.
- **User Group Members** - Potential participants are being invited to join the User Group.
- **Outcome** - It is anticipated this group will begin meeting by the end of 2015.
- **FSB Update** – re-confirmed their desire to see a named User Group established.

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Recommendation 4: IOSCO Review – Complete

The group supports the findings of the IOSCO review of WM and endorses the recommendations for improvement contained in that review.

- **IOSCO Review 2014** - The IOSCO review was performed in April/May 2014 but the report was not published until September 2014, alongside the FSB report. WM attested compliance to the “IOSCO Principles for Financial Benchmarks” in July 2014, with the compliance statement publicly available on www.wmcompany.com
- **IOSCO 2015** - WM has reviewed its compliance in 2015 and updated the Compliance Statement accordingly. The updated Compliance Statement and updated policies are publically available on the WM Company website
- **Outcome** - WM has taken a proportionate approach, as appropriate, in applying the IOSCO Principles
- **FSB update** – the FSB confirmed in their report that IOSCO is planning to re-assess WM against the principles and their recommendations

Financial Conduct Authority (FCA)

WM/Reuters Closing Spot Rates – Regulated Benchmark

Following the recommendations by the Fair and Effective Markets Review, during 2015 the FCA extended its supervision of UK benchmarks to include another 7 benchmarks, including the WM/Reuters Closing Spot rates

- **Interim permission** - WM received interim permission from the FCA on the 1st April 2015 to operate as the benchmark administrator for the WM/Reuters Closing Spot rates (4pm UK time)
- **Full permission** - WM has applied for full permission, providing the required documentation
- **Authorisation process** - WM is liaising with the FCA and providing supplementary information as required during the authorisation process
- **FCA Consultation:** CP 15/18 Fair, reasonable and non-discriminatory access to regulated benchmarks – WM responded by 3rd August deadline

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