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## Foreign Exchange Benchmarks

Progress report on the implementation of the FSB recommendations

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# EUROPEAN CENTRAL BANK

### 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

#### <u>Assessment</u>

- 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

### **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

#### <u>Issues</u>

- 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

## 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

### Increasing share of algorithmic execution





## Trading volume now distributed more evenly over fixing window







Source: EBS data

### 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