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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

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

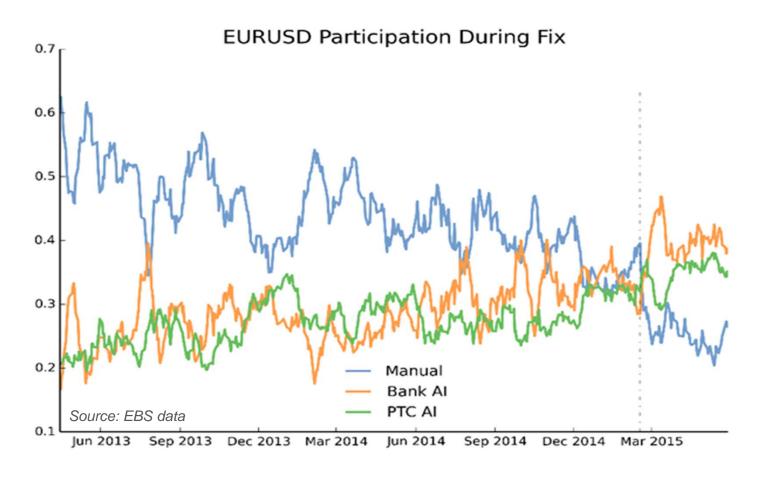
Industry-led initiatives welcome

Increased use along with automated execution of trades

Key challenge: large residual balances

Increasing share of algorithmic execution

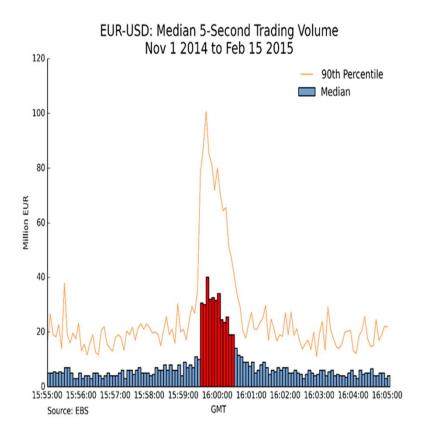




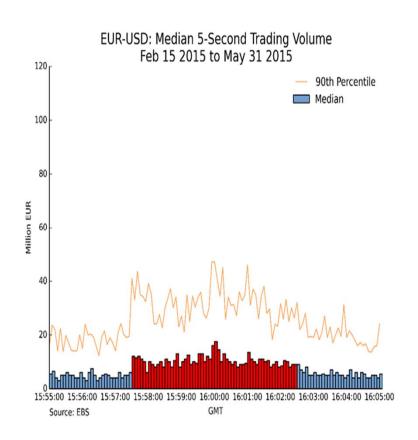
Manual = manual trading Bank AI = dealer algorithm PTC AI = prime-broker customers algorithm

Trading volume now distributed more evenly over fixing window









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