

12 August 2014

FXBG COMMENT

Foreign Exchange Benchmarks – Consultation paper

Of the IOSCO Principals for Financial Benchmarks, *Data Sufficiency* is perhaps the area to emphasize in the context of the existing methods used in Foreign Exchange Benchmarks.

Benchmarks should be based on prices, rates, indices or values that have been formed by the competitive forces of supply and demand (i.e., an active market) in order to provide confidence that the price discovery system is reliable.

In respect of the existing methods used for the WM/Reuters Fix & the ECB's Reference Rates, one should look balance the importance of a maximising the observance of valid transactional data, with allowing participants an opportunity to transact at the final fix rate (or close to that rate). Broadly speaking, the existing protocols seem best placed to achieve this, with the only possible amendment being the potential inclusion of other sources of transactions in addition to EBS & Thomson Reuters

Responses to the specific recommendations made are noted in the table below:

Recommendation #	Response
1	Retain the current method. Especially for the liquid traded currencies, the longer the period the less point-in-time volume and hence the greater risk of market manipulation.
2	Although the weighted average principle is supported from a relevance perspective, taking into account all other factors, it is ultimately recommended that this not be adopted: <ul style="list-style-type: none"> This approach will render it near impossible for passive Asset Managers or Index providers to minimise tracking errors, or report with any meaningful consistency.
3	Retain the current method
4	This is generally supported with the following two conditions: <ul style="list-style-type: none"> This should only occur where the cost of inclusion does not exceed the benefit achieved from broadening the data-points. This is likely to only occur when including other sources that attract more than 5% of total market liquidity. If this does occur, the source of such price feeds must be well published (clear and transparent) and easily accessible (not captive or restricted liquidity pools)
5	This is supported.
6	It is not recommended that a global central utility for order-matching be established. One needs to separate the benchmarking exercise from mechanisms to facilitate orderly execution which at this stage is best left to commercial enterprise.
7	This is supported where practical.
8	This is supported.
9	This is supported.
10	This is supported.

11	This is supported.
12	This is supported.
13	This is supported.
14	This is supported.
15	This is supported.

