



EUROPEAN CENTRAL BANK

EUROSYSTEM

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New framework for the ECB Euro Foreign Exchange Reference Rates

Frankfurt, 9 June 2016

Background of the reference rates

- Since 1999, reference exchange rates against the euro have been set in a daily concertation between central banks (2.15pm CET)
- Today, exchange rates are provided for 31 currencies
- Setting methodology is based on point in time observation with some central banks contributing others verifying the rates
- Usage evolved over time, now not only for reference but also for trading

Rationale for the new framework

- FSB recommendations on FX benchmarks - http://www.fsb.org/wp-content/uploads/r_140930.pdf

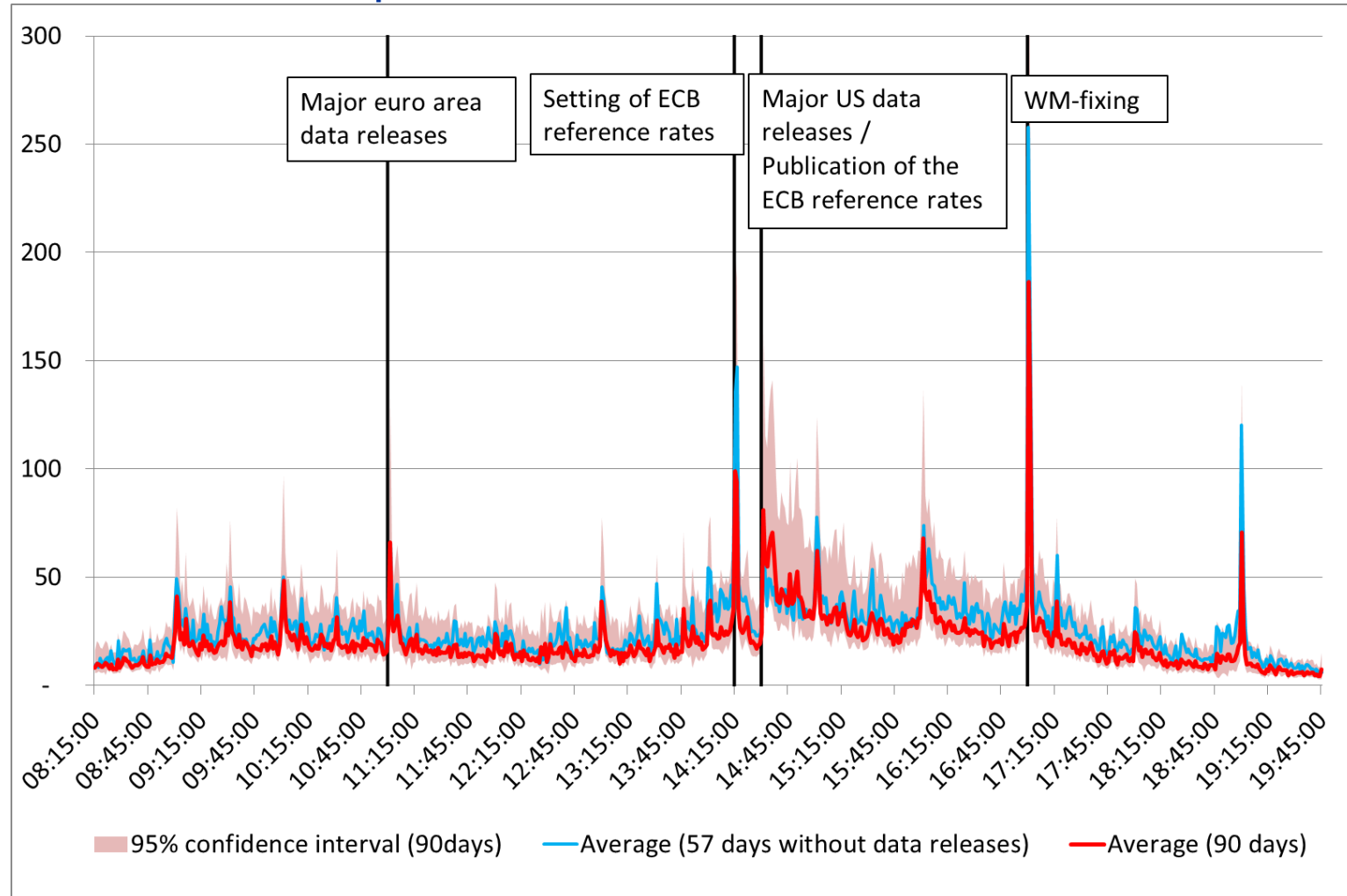
- Recommendation 5 on central banks

“5) The group considers that, where central banks publish reference rates, it is the responsibility of each to set internal procedures. Central banks should at least take note of guidance from the IOSCO principles, especially where central bank reference rates are intended for transaction purposes. In that respect, transparency in governance and computation methodology would meet expected public demand and reinforce the credibility of the relevant reference rates.”

- Manipulation of the ECB euro reference rates - <http://www.fca.org.uk/news/fca-fines-five-banks-for-fx-failings>
- 14:15 CET: one of the spikes in the daily trading activity

ECB Euro FX Reference rates

EUR/USD intraday traded volume in Q1 2015 (EUR million per minute)



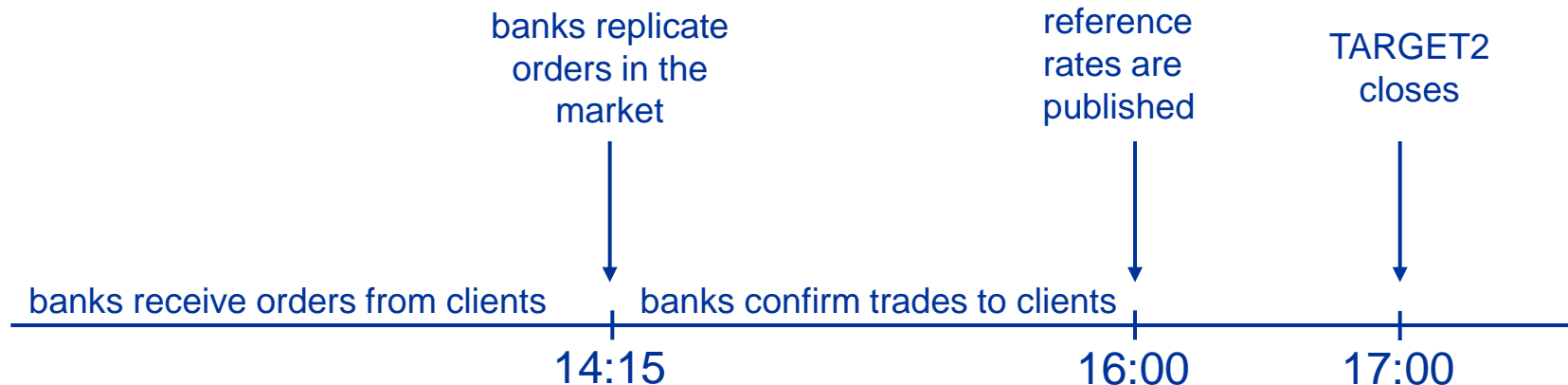
Source: EBS.

New framework published on 7 December 2015:

<http://www.ecb.europa.eu/press/pr/date/2015/html/pr151207.en.html>

<http://www.ecb.europa.eu/stats/pdf/exchange/Frameworkfortheeuroforeignexchangereferencerates.en.pdf>

- Reaffirm the “Information-only” purpose; strongly discourage usage for trading purpose
- Delay publication to 16:00 (CET/CEST)



New framework published on 7 December 2015:

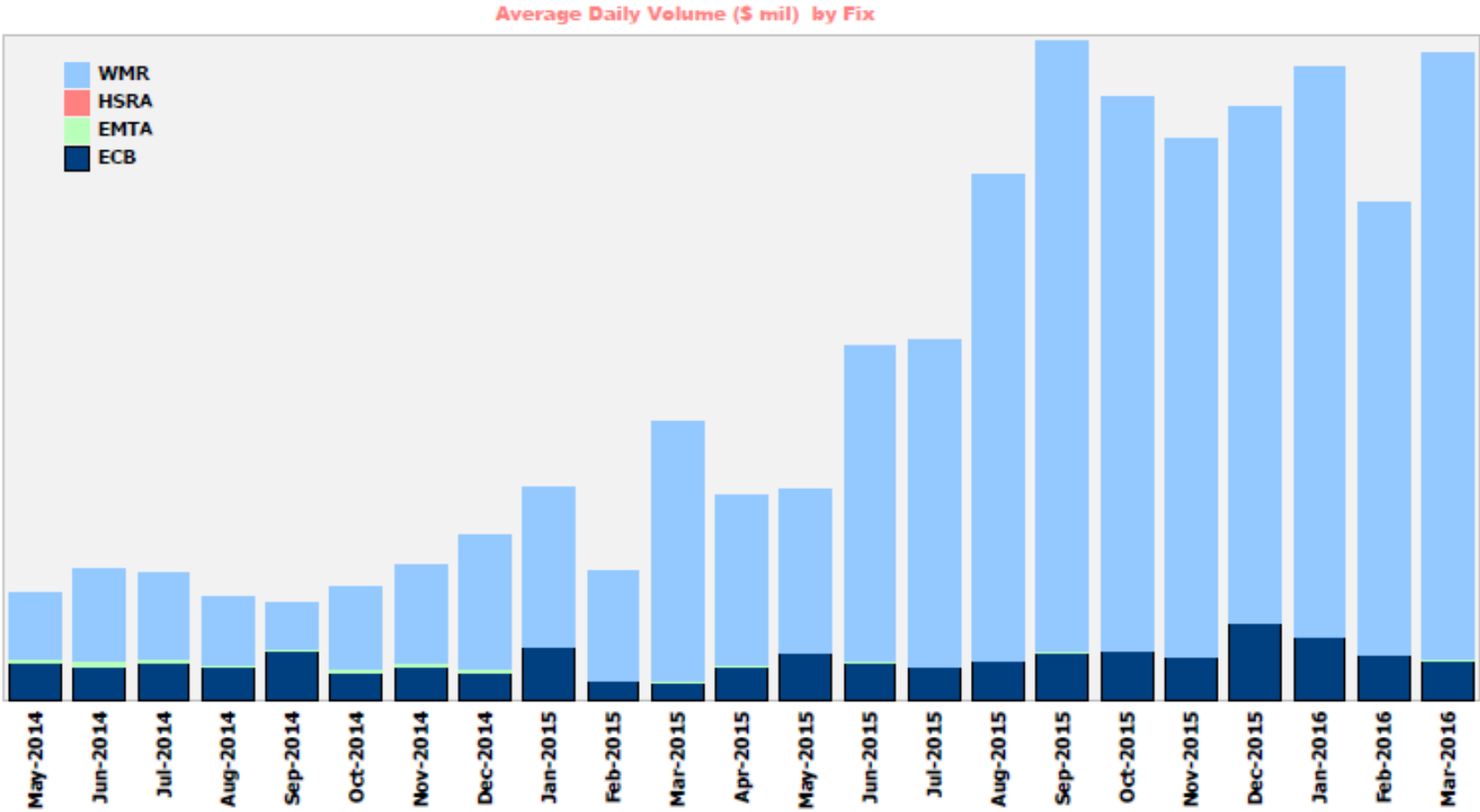
<http://www.ecb.europa.eu/press/pr/date/2015/html/pr151207.en.html>

<http://www.ecb.europa.eu/stats/pdf/exchange/Frameworkfortheeuroforeignexchangereferencerates.en.pdf>

- Be more transparent on the governance and the methodology
- Ensure broad compliance with the IOSCO principles
- Effective implementation on 1 July 2016
- But two challenges reported by key users (e.g. corporates, asset managers):
 - Legacy contracts
 - Alternatives not free of charge

ECB Euro FX Reference Rates

Evolution of Trading at FX Fixings and Reference Rates on EBS eFix



Source: EBS.

Thank you
for your attention!