

December 2024

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# WMR Spot Rates – Market Update on Methodology Consultation



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## Introduction

The London Stock Exchange Group (“LSEG”) is a leading global financial markets infrastructure and data provider, trusted to deliver excellence by customers, partners and markets around the world. We play a vital social and economic role in the world’s financial system. With our trusted expertise and global scale, we enable the sustainable growth and stability of our customers and their communities. LSEG offers benchmark and index solutions through FTSE Russell. FTSE Russell is a global index provider of benchmarks, analytics, and data with capabilities across asset classes and has two authorised benchmark administrators: FTSE International Limited and Refinitiv Benchmark Services (UK) Limited (RBSL), both of which are authorised in the UK by the FCA under the UK Benchmark Regulation (“UK BMR”).

As benchmark administrator, RBSL is committed to ensuring that the WMR FX Benchmarks continue to be the most transparent and appropriate representation of the global FX markets and provide market participants with solutions for a wide range of use cases. RBSL is focussed on maintaining and maximising the quality, integrity and robustness of the benchmarks to provide rates which accurately represent the underlying currency markets at a point in time.

WMR FX Benchmarks originated for use in fund/portfolio valuations, mark-to-market, performance measurement, and index calculations. As the WMR FX Benchmarks have evolved and been enhanced over time, they are now suitable for a diverse range of financial purposes, including investable products, derivatives, financial contracts, reporting, auditing, analysis and research, and FX trade execution.

In June 2024, RBSL launched a consultation to seek feedback from a broad cross section of market participants on a proposal to add spot transaction data from the Cboe FX Platform into the calculation of certain WMR Spot “Trade Currency” Benchmarks. The objective of the proposal is to ensure that the WMR FX Benchmarks continue to source sufficient and appropriate transaction data that is representative of the currency markets and their methodology meets the needs of users. The following announcement provides an update to market participants on this consultation.

## Overview of the RBSL Consultation

The WMR Spot Rate benchmarks are designed to accurately reflect the underlying FX markets for each currency at each publication through the global day. This is achieved using the most appropriate and representative data sources and adequate sampling of bona fide transactions across the respective currency markets. RBSL determines which platforms supply the data that are used in the calculation of the WMR spot rates in an objective manner, based on the quality and representativeness of the data on those platforms.

A public market consultation was launched in June 2024 and invited feedback from WMR benchmark stakeholders, including asset managers, foreign exchange traders and brokers, industry associations and market infrastructure providers, on a proposal for the addition of data from the Cboe FX Platform to the WMR benchmark methodology for certain spot currencies.

### Consultation Approach

RBSL periodically consults the market regarding significant changes to benchmark methodologies and a robust governance process exists to facilitate this type of engagement across all stakeholders. The consultation was made available to all market participants through the following [link](#). Supporting information was provided to facilitate a dialogue that was underpinned by relevant data analysis and a projected impact analysis. The consultation also sought feedback on the preferred implementation approach for any changes and whether RBSL should consider additional data sources in the future.

## Consultation Proposal and Market Feedback

The WMR spot rate consultation considered whether Cboe FX transaction data should be used in the construction of WMR spot rates for certain liquid currencies, including AUD, CAD, CHF, CNH, EUR, GBP, HKD, JPY, NZD, and SGD. After reviewing the level of engagement and comments received, RBSL are providing additional details on the proposal and offering market participants a further opportunity to provide their feedback as part of this process.

### Framework for diligence of data inputs and incorporation in the WMR methodology

To ensure the data being sourced for WMR benchmarks is appropriate and equivalent across platforms, RBSL performed an analysis of all (anonymized) executed trades and quotes/orders from Cboe to support this consultation. Although no market participant will receive the same data as WMR, WMR would receive all relevant transactions if Cboe data were to be used in the WMR spot rates. The results of the data analysis performed by RBSL showed that both executed trades and quotes/orders from Cboe were comparable with the primary data platforms. It is posited that the use of Cboe FX transaction data would, therefore, increase the amount of valid data used in the WMR calculations across currencies, while ensuring that the sample transactions remain a broad representation of the market and widely accessible.

In addition to rigorous data quality and data sufficiency review, robust governance and integrity are important to ensure the appropriateness of such platforms for inclusion in the WMR benchmarks. RBSL understands that Cboe has a strong framework where participation on the platform is governed by operating procedures and market maker standards to promote best practice, including adhering to the FX Global Code and, since April 2023, requiring each Market Maker to have issued a Statement of Commitment to the FX Global Code.

In addition to the quality controls and validation checks that are performed as part of the WMR benchmark calculation process, there is a comprehensive monitoring and surveillance program which is run by a team independent to the WMR operations team. This program uses independent technology to assess all data received from all platforms to identify any potential market/data manipulation, ensuring the integrity of the WMR benchmarks. Cboe FX transaction data would be included in this program should it be added to the WMR benchmark calculations.

### Appropriateness of the use of Cboe FX transaction data in the methodology for select WMR Spot rates

RBSL recognises that the primary FX platforms, specifically LSEG Matching and EBS, have a central role in the FX market for price discovery and execution and, as such, remain an important and significant data source in the calculations for the WMR Spot rate benchmarks. However, it also acknowledged that secondary platforms have evolved and those that facilitate sufficient trading volume can be considered a genuine market platform with bona fide transactions. Cboe, for example, estimates that through August 2024, its market share is 20% with volumes of \$32.2 billion executed on its ECN.<sup>1</sup>

A greater number of initial consultation responses supported the inclusion of Cboe FX transaction data in the WMR FX benchmarks, asserting that the proposed change would improve representativeness of the WMR benchmarks, considering Cboe represents a growing pool of market liquidity. Furthermore, a subset of the supporting respondents also suggested that RBSL consider use of Cboe data for a broader range of currencies than those selected, which may be a future consideration, subject to the satisfactory data quality and data sufficiency requirements being met and the inclusion of Cboe data being broadly endorsed.

Contrastingly, certain respondents highlighted a difference in the type of trading platform between existing data sources and the Cboe FX Platform. Specifically, that the primary trading platforms currently used for these WMR spot rates operate a Central Limit Order Book (CLOB) whereby other secondary trading platforms, including Cboe, operate an Electronic Communication Network (ECN), which is comprised of multiple individual pools of curated liquidity. It was queried whether this difference would have a material impact on the benchmark calculations or their replicability by the market.

Respondents that commented on the appropriateness of data input sources based on platform type also queried whether the inclusion of transaction data subject to “Last Look”<sup>2</sup> may potentially distort the WMR spot rates. RBSL notes that the WMR methodology is robust and adopts a “Waterfall” approach to ensure use of the most appropriate data:

- **Level 1 – Executed Trade Rates** (primary data for the calculation of the WMR Trade Currencies). The executed trade rates which would be used by WMR benchmarks from Cboe are binding, bona-fide trades, irrespective of whether they

<sup>1</sup> Source: [Cboe FX’s market share represents Cboe FX spot volume divided by the total volume of publicly reporting spot FX venues (Cboe FX, EBS Markets, Refinitiv, and Euronext FX), and the ‘Overall Market’ is comprised of those venues. In the event any of these venues fails to publicly report its monthly volume before publication of this report, its monthly volume for purposes of determining the Overall Market may be sourced from industry publications.

<sup>2</sup> “Last Look” refers to a trade request for the quoted price that may be accepted or rejected.

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result from Firm quotes or quotes subject to Last Look. For the pairs in scope, incorporating Cboe data in an impact analysis (July 2024) resulted in Level 1 data being used for 99% of the WMR Closing Spot Rates.

- **Level 2 – Best Bid and Best Offer Order Rates** (secondary data which may be used at less liquid times during the global day when there are insufficient trade rates). The order rates on Cboe which may be subject to Last Look have an average fill rate of 85% and a response time of 10ms or less.<sup>3</sup>

In addition to the use of Firm trades in Level 1 of the methodology, the potential impact on the WMR benchmarks of Last Look data is mitigated through the one-second sampling of data; comparison of orders across platforms; using the median to remove outliers; and systematic validation checks and expert judgement where required to confirm validity and market representativeness of data. As it relates to Cboe transaction data specifically, Cboe states that best practice regarding Last Look is enforced through the issuance and monitoring of their Market Maker Standards which align with the recommendations of the FX Global Code Principle 17 and specify key criteria, such as minimum acceptance rates, maximum review time and quote duration thresholds, to ensure a robust and orderly trading platform is maintained.

Additionally, the data analysis performed by RBSL compared Cboe order rates to order rates received from the primary platforms used in the WMR calculations today and the order rates aligned with the market levels from other platforms throughout global trading hours.

It is recognised that continuous oversight of the quality of input data is imperative. Were Cboe data to be included in the WMR benchmarks, Cboe would provide currency-level monthly reports to WMR with statistics on fill rates, response times, breaches to market maker standards and any changes in the dynamics around Last Look for ongoing monitoring.

### Minimum Trade Volume Threshold

Consultation responses to date regarding the minimum trade volume threshold were varied, with some comments suggesting that the minimum trade threshold should be lowered, while others that the minimum trade threshold should be raised. As it relates to the analysis of Cboe data, RBSL found that use of a USD 500k minimum resulted in a comparable result across Cboe and the primary platforms used in the current methodology. WMR is committed to continually reviewing this volume threshold to implement the right balance between data quality and data sufficiency.

### Implementation Approach

The consultation proposed a notice period of two months between the announcement date and implementation of any change. This was broadly viewed to be sufficient from the sample of respondents who supported the inclusion.

## Conclusion and Next Steps

Since the consultation formally closed, RBSL has carefully considered the level of engagement, comments received as part of this consultation and the impact of the changes being proposed as suggested by certain responses. While most respondents were supportive of the inclusion of data from the Cboe FX Platform in the WMR benchmarks, RBSL recognises the scope, breadth and diversity of the usage of these benchmarks and seeks to ensure that a representative level of stakeholder views are captured.

It is also important that the considerations regarding the perceived lack of equivalence across the different platforms with regards to platform structure and operations, data parameters and accessibility, which have been responded to above, are fully considered by RBSL.

Overall, our intention is to ensure continued representativeness, resilience and robustness of the WMR benchmarks through a combination of appropriate parameters, rigorous validation, quality controls and continuous monitoring of transaction data inputs. As we progress to the final stages of the governance and due diligence process regarding this potential change, we would like to provide a further opportunity for benchmark users to provide their feedback on this important topic. This feedback will also be relevant to similar considerations regarding the incorporation of additional data from other secondary data platforms that may arise in the future.

WMR benchmark users are encouraged to contact [wmr.ops@lseg.com](mailto:wmr.ops@lseg.com) with their comments by 31<sup>st</sup> December 2024, which will then allow a period of further engagement until the 31<sup>st</sup> January 2025, at which time the consultation period will end.

<sup>3</sup> Source: [Cboe FX](#).

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For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

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