

MEMO# 31602

February 7, 2019

European Commission Initiates Consultation Regarding Liquidity and the Euro in FX Markets

[31602]

February 7, 2019 TO: Derivatives Markets Advisory Committee

Equity Markets Advisory Committee

Fixed-Income Advisory Committee

ICI Global Trading & Markets Committee RE: European Commission Initiates Consultation Regarding Liquidity and the Euro in FX Markets

The European Commission recently launched a targeted public consultation seeking feedback on foreign exchange (FX) markets.^[1] The consultation aims to assess the role of the euro in these markets—especially compared to other major currencies—as well as whether trading in the euro is conducted efficiently and with adequate market liquidity. The consultation includes 15 questions regarding efficiency and liquidity of foreign exchange markets and the functioning of foreign exchange markets more generally. The questions are reproduced in the appendix to this memorandum. The consultation period will close on March 31, 2019.

If you would like to share your feedback on the EU FX markets with ICI Global, please contact George Gilbert at george.gilbert@ici.org or Giles Swan at giles.swan@iciglobal.org by March 1, 2019.

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Appendix—Questions from the Consultation

Foreign exchange markets in general

1. In your view, how liquid are foreign exchange markets, in general?

- Foreign exchange markets are typically highly liquid
- Foreign exchange markets are typically quite liquid
- Foreign exchange markets often have less than adequate market liquidity
- Don't know / no opinion / not relevant

2. In your view, what are the main factors that determine the degree of market liquidity in

foreign exchange markets?

3. What policy measures, if any, do you think would be necessary to address any impediments to market liquidity in foreign exchange markets?

4. a) In your view, how does the cost of currency hedging in euros compare to US dollars?

- About the same
- Typically higher in euros
- Typically lower in euros
- Don't know / no opinion / not relevant

4. b) In your view, how does the cost of currency hedging in euros compare to Japanese yens?

- About the same
- Typically higher in euros
- Typically lower in euros
- Don't know / no opinion / not relevant

4. c) In your view, how does the cost of currency hedging in euros compare to British pounds?

- About the same
- Typically higher in euros
- Typically lower in euros
- Don't know / no opinion / not relevant

4. d) In your view, how does the cost of currency hedging in euros compare to Swiss francs?

- About the same
- Typically higher in euros
- Typically lower in euros
- Don't know / no opinion / not relevant

5. For the relevant instruments, are you satisfied that exchanges and/or market makers are listing sufficient euro currency pairs, and, if not, which currency pairs would you like to see listed?

- Yes
- No
- Don't know / no opinion / not relevant

Please explain your answer.

6. a) For the relevant instruments, are you satisfied that exchanges and/or market makers are efficiently promoting euro currency pairs versus major currencies?

- Yes
- No
- Don't know / no opinion / not relevant

6. b) For the relevant instruments, are you satisfied that exchanges and/or market makers are efficiently promoting euro currency pairs versus exotic currencies?

- Yes
- No
- Don't know / no opinion / not relevant

Role of the euro in foreign exchange markets

7. In your view, to what extent does the euro play a role in foreign exchange markets that is commensurate with the size of the euro area in the global economy?

- It plays a role that is commensurate with the size of the euro area economy
- It plays a role that is less than would be expected given the size of the euro area economy
- It plays a role that is more than would be expected given the size of the euro area economy
- Don't know / no opinion / not relevant

8. What influence does the relevance of euro area banks in foreign exchange trading have on the liquidity of euro foreign exchange markets?

- It is not relevant
- It is relevant and euro area banks play a sufficiently strong role
- It is relevant and euro area banks do not play a sufficiently strong role
- Don't know / no opinion / not relevant

9. a) How does the market liquidity of particular currency pairs involving the euro compare with currency pairs involving the US dollar?

- It is typically the same
- The market liquidity of most currency pairs involving the euro is typically higher in comparison with currency pairs involving the US dollar
- The market liquidity of most currency pairs involving the euro is typically lower in comparison with currency pairs involving the US dollar
- Don't know / no opinion / not relevant

9. b) How does the market liquidity of particular currency pairs involving the euro compare with currency pairs involving the major currencies other than the US dollar (*i.e.* JPY, GBP, CHF)?

- It is typically the same
- The market liquidity of most currency pairs involving the euro is typically higher in comparison with currency pairs involving major currencies other than the US dollar
- The market liquidity of most currency pairs involving the euro is typically lower in comparison with currency pairs involving major currencies other than the US dollar
- Don't know / no opinion / not relevant

10. Which factors do you consider to be important in order for the euro to play a greater role in foreign exchange markets?

Triangulation on foreign exchange markets

11. In your view, what is the extent of "triangulation" (trading via the US dollar) in the trading of particular currency pairs involving the euro, and how does this compare with currency pairs involving other major currencies?

- Triangulation involving the euro is used extensively compared to other major currencies
- Triangulation involving the euro is used about the same compared to other major currencies
- Triangulation involving the euro is used less than for other major currencies
- Don't know / no opinion / not relevant

12. In your view, how are major companies in the euro area affected by triangulation (does it raise costs for them)?

- Triangulation does significantly raise costs for affected companies
- Triangulation only raises costs modestly for affected companies
- Triangulation does not really raise costs for affected companies
- Don't know / no opinion / not relevant

13. In your view, do major companies in the euro area have easy access to exchange rate prices for converting to and from euros? Please explain your answer

- Yes
- No
- Don't know / no opinion / not relevant

Please explain your answer.

14. In your view, do major companies in the euro area have adequate access to hedging instruments to cover their currency and interest rate risks?

- Yes
- No
- Don't know / no opinion / not relevant

Please explain your answer.

15. Are there any other factors that you consider to be important in relation to the euro and foreign exchange markets, or do you wish to comment about particular foreign exchange instruments/contracts?

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endnotes

[1] European Commission, "Targeted consultation on the euro and market liquidity in foreign exchange markets" (25 January 2019), *available at* https://ec.europa.eu/info/consultations/finance-2019-euro-foreign-exchange_en.

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