



## EUROPEAN COMMISSION

Directorate-General for Financial Stability, Financial Services and Capital Markets Union

FINANCIAL SURVEILLANCE AND CRISIS MANAGEMENT

### CONSULTATION DOCUMENT

## TARGETED CONSULTATION ON MARKET LIQUIDITY IN FOREIGN EXCHANGE MARKETS

#### **Disclaimer**

This document is a working document of the Commission services for consultation and does not prejudice the final decision that the Commission may take.

The views reflected on this consultation paper provide an indication on the approach the Commission services may take but do not constitute a final policy position or a formal proposal by the European Commission.

The responses to this consultation paper will provide important guidance to the Commission when preparing, if considered appropriate, a formal Commission proposal.

You are invited to reply **by 31 March 2019** at the latest to the **online questionnaire** available on the following webpage:

[https://ec.europa.eu/info/consultations/finance-2019-euro-foreign-exchange\\_en](https://ec.europa.eu/info/consultations/finance-2019-euro-foreign-exchange_en)

Please note that in order to ensure a fair and transparent consultation process **only responses received through the online questionnaire will be taken into account and included in the report summarising the responses.**

This consultation follows the normal rules of the European Commission for targeted consultations. Responses will be published unless respondents indicate otherwise in the online questionnaire.

Responses authorised for publication will be published on the following webpage:  
[https://ec.europa.eu/info/consultations/finance-2019-euro-foreign-exchange\\_en#contributions](https://ec.europa.eu/info/consultations/finance-2019-euro-foreign-exchange_en#contributions)

## CONTENT OF THE CONSULTATION DOCUMENT

### About this consultation

This targeted consultation is aimed at financial institutions and other key stakeholders with an in-depth understanding of foreign exchange markets. Its main aim is to assess the role of the euro in these markets, notably in comparison with other major currencies, and to determine whether trading the euro is conducted efficiently and on the basis of adequate market liquidity. It will also assess the role that euro area banks play in foreign exchange market making.

NB: This survey seeks your views on the functioning of foreign exchange markets in general (i.e. the spot market, outright forwards, futures, etc.). Should you wish to comment on aspects relating to particular instruments or contracts, please do so in the space provided at the end. Please skip any questions which are not relevant for you.

### Background

At the beginning of December 2018, the Commission adopted the [Communication “Towards a stronger international role of the euro”](#). The Euro Summit took note of the communication of and encouraged work to be taken forward to this end.

The Communication outlined the need to continue deepening the Economic and Monetary Union, in particular by completing the capital markets union and the banking union. Additional measures were proposed in the domains of financial services, and the international financial sector. Moreover, the Commission proposed actions in key strategic sectors; i.e. energy, raw materials, food commodities, and transport sector manufacturers, including targeted consultations of stakeholders. In the energy sector, the Commission issued a Recommendation on the greater use of the euro at the same time as the Communication.

The [targeted public consultations](#) are now launched in a coordinated way for different sectors: the financial sector, energy, transport manufacturing, food commodities and raw materials. The main objective is to further explore with stakeholders, how to increase the role of the euro in their respective areas. These consultations will be open for two months from end-January until end-March 2019.

In addition to the consultations, the Commission will also open discussions on the increased international role of the euro in different public fora. The Commission will report on progress by summer 2019.

## Key questions

### 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
- 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
- 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
- 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

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
- 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?