

RBI for independent body to fix benchmark foreign exchange rate

The RBI on Wednesday suggested setting up of an independent body for recommending benchmark foreign exchange rate to avoid any possibility of manipulation by bankers.

The RBI on Wednesday suggested setting up of an independent body for recommending benchmark foreign exchange rate to avoid any possibility of manipulation by bankers.

The RBI has already advised the Fixed Income Money Market and Derivatives Association of India (FIMMDA) and Foreign Exchange Dealers' Association of India (FEDAI) to act as administrator of the Indian rupee interest rate and foreign exchange rate benchmarks respectively and to take necessary steps, RBI said in a notification.

"In order to overcome the possible conflicts of interest in the benchmark setting process arising out of the current governance structure of the FIMMDA and FEDAI, an independent body, either separately or jointly, may be formed by the FIMMDA and FEDAI for administration of the benchmarks," it said.

In case of benchmarks determined based on polled submissions, the FIMMDA and FEDAI may select the benchmark submitters on the basis of their standing, market-share in the benchmark/instrument linked to the benchmark, it said.

Benchmarks like Mumbai Inter-bank Forward Offered rate (MIBFOR), Mumbai Inter-bank Forward Offered rate (MIBOR) are being fixed by FIMMDA and FEDAI.

The benchmark submitters thus selected by the respective administrator have to necessarily participate in the polling process and comply with the various provisions specified in the Code of Conduct, it added.

The decision is based on the recommendations of the committee on financial benchmarks under chairmanship of P Vijaya Bhaskar, executive director of RBI.

The committee to strengthen governance related issues was set up after manipulation of Libor that came to light in June 2012. The probes conducted by regulators in various countries found governance related issues surrounding conflicts of interests as the major causes of manipulation of Libor and some other benchmark rates.

These cases of manipulation of financial benchmarks raised concerns about the appropriateness of the methodologies and processes followed in determination of such benchmarks and the overall credibility and reliability of the financial benchmarks. After examining issues, the panel recommended several measures to be adopted in respect of major Indian rupee interest rate and foreign exchange benchmarks to strengthen their quality, the methodology by which they are set and the governance framework.

(Financial Express)

