Insights

Are we too dependent on this FX benchmark?

The hidden risk in your favorite FX rate

WMR, a part of LSEG's FTSE Russell division, began publishing intraday and end-of-day foreign exchange (FX or currency) benchmark prices in 1994. Useful for portfolio valuation, reporting and trading, the benchmark rates became, in the modest words of FTSE Russell, "the de facto standard for closing spot rates on a global basis."

Banks noted the increasing use of the end-of-day benchmark rates for trading and, between 2008 and 2013, colluded to cheat their clients out of billions of dollars. In April 2025, a WMR system failure delayed release of end-of-day rates, raising concerns — once again — about the FX industry's dependence on a firm for critical data.

Background on benchmark FX rates

The FX market is huge, trading about $7.5 trillion dollars a day, dwarfing equities. But unlike equities, most currencies aren't traded on exchanges; instead, foreign exchange deals are typically between two parties, often a large bank and its client. The absence of an exchange stymied the development of benchmark FX rates until WMR created its methodology and published rates. The rates allow users to compare portfolios or indices performance without contending with differences caused by exchange rates.

WMR provides spot and forward FX prices. Spot FX are transactions that settle, meaning the parties exchange the currencies they bought and sold, in two days or less. Forward FX transactions agree on a price today for settlement longer than spot, often 30 days or more. A popular FX benchmark rate is the London 4 pm closing spot rate, known as the London 4 pm fix or the fix.

FX benchmark prices are critical for global commerce, investments and trading. Accountants use WMR closing prices to translate foreign profits and assets to the home country currency. Investment managers calculate the net asset value of their mutual fund or unit investment trust at the end of the business day and then convert the NAVs using WMR's benchmark prices. Currency traders use the London 4 pm fix prices as part of purchases and sales of foreign securities and to hedge currency risk.

Doubts about the WMR rates

Some events have WMR customers questioning whether its benchmark rates are independent and representative of market rates. In 2014, several large global banks agreed to pay billions of dollars in fines for conspiring to manipulate the WMR London 4 pm spot rates between 2008 and 2013. The banks colluded before the London 4 pm fix, sharing information about their customers' intentions and trading ahead of their clients' orders.

In response to the scandal, WMR changed the length of the window in which the fix was calculated from 60 seconds to five minutes. Additionally, the Financial Conduct Authority, a UK regulatory agency, required trading firms to review and revise their controls and policies to prevent and detect manipulation of benchmark rates. The FX Global Code, the industry's ethics standards, requires several things from market participants (mostly large banks) that handle fixing orders. The Code's demands can be summarized easily: banks must treat their customers fairly.

Those steps haven't stopped industry rumbling. Some say that, despite the lengthened trading window, volatility persists and suggest that the trading window needs to be widened to 20 minutes or longer. Others question whether trading at the fix meets best execution requirements.

And then April 3rd happened

Criticism of the WMR process got a boost on April 3, 2025 when a WMR system malfunctioned, interrupting WMR's calculation of its London 3:30 pm and 4 pm rates. WMR followed its disaster recovery protocols, fixed the problem and published the rates about 4 hours later. No system is foolproof, but the incident indicated that the WMR process is exposed to operational risk resulting from a failed system, process, external event or human action.

Institutional trading firms and their customers took steps to manage trading without WMR's rates. Kory Kirshenbaum, Managing Director and Head of Trading at Mesirow, said his trading desk agreed with its trading counterparties to keep trades unbooked, waiting for WMR to publish closing prices. "Waiting for a short period for WMR to recover is part of our overall trading contingency plan", Kirshenbaum said. "Having that plan made it easy to know exactly what to do when the problem arose. Everything worked as we anticipated. Next step is to review the contingency plan and ensure its ready for the next event."

In its after-action report, WMR described the problem and the repair. WMR promised to review disaster recovery processes to ensure best practices and to speak with customers to evaluate improvements in incident communications and support. But is that enough?

WMR and benchmark rate review

Criticizing WMR is easy for journalists looking for a story or competitors angling to steal WMR customers. But the trading scandal occurred over a decade ago, and the April 3rd malfunction could happen to any system. WMR can point to substantial benefits, rare interruptions and a large customer base as indicators of the usefulness of the WMR process.

Recognizing the importance of their rate service, in 2023 WMR asked the industry for input on the length of the fixing window, especially the month-end fixing window. The company also asked for comments about adding more pricing sources and thoughts on aggregated hourly fixings, meaning calculating rates from a broad swath of trades and quotes in the previous hour.

In November 2024, the United Kingdom categorized the WMR Closing Spot Rate Benchmarks as Critical Benchmarks under UK law and subject to Financial Conduct Authority oversight. The critical designation highlights the importance of the WMR rates, and the FCA monitoring suggests that WMR has processes and procedures to reduce the likelihood of future disruptions.

It’s clear WMR takes its benchmark responsibility seriously. Still, the trading scandal and system malfunction suggest that the industry cannot depend exclusively on WMR for benchmark rates.

What else can be done?

For a firm depending on the rates, top of the list is having a contingency plan. Whether that’s waiting, like Mesirow, for the WMR system to come back online, getting closing rates from a back-up rate provider, using a trading strategy to simulate closing rates or some other solution will depend on the user and its benchmark requirements.

The FX industry might benefit from a broad evaluation of the role of benchmark rates in global commerce and investment management. If the rates are needed for accounting or evaluating investment performance, then WMR could continue its role but under the guidance — or direction — of an industry board such as the Code’s Global Foreign Exchange Committee.

Traders could continue using benchmark rates if their deals can settle on time and achieve best execution. But settlement cycles are getting shorter, and it could be difficult to wait until the end of the business day to execute FX trades to help settle security transactions. North American equity settlement is one day after trading and approaching same day; immediate settlement might not be far behind. Short settlement could mean currency traders will have to use best execution strategies to guide their trading at non-benchmark times. That will introduce tracking error, the difference between portfolio performance and its index, but that may be the necessary trade-off.

For now, WMR prevails but its claim of being ‘the de facto standard’ faces scrutiny. Staying ahead of critics — and failures — will be crucial for keeping trust in FX benchmarks.

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