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Information message on the results of the periodic review of FX Market Indicators

At the meeting on 28 February 2024, the Oversight Council for Ukrainian Money Market and FX Market Indicators (the Oversight Council) conducted the first periodic review of [FX market indicators \(official hryvnia exchange rate against foreign currencies, accounting prices of investment metals, and hryvnia reference exchange rate against the U.S. dollar\)](#).

During the review, the Oversight Council members emphasized that, despite the significant decline in activity on the Ukrainian FX market during the war compared to the pre-war period, the volume of trading was quite sufficient to allow for the calculation of reliable hryvnia/U.S. dollar exchange rate indicators (reference and official exchange rates) as a weighted average using the current methodology. At the same time, this activity is absolutely insufficient to consider a possible transition to calculating FX market indicators under the fixing methodology in the foreseeable future.

The currency composition of transactions in the Ukrainian FX market confirms the status of the U.S. dollar as the main currency shaping the exchange rate. At the same time, the share of transactions in euros in the total volume of banks' transactions with customers has been on the rise since the pre-war period. Specifically, the share of customers' transactions in euros to purchase cashless foreign currency has come close to 50%. This trend, if it persists, may in the near future raise the question of the feasibility of transition from the U.S. dollar to the euro as the main currency of the exchange rate peg, taking into account Ukraine's European integration aspirations. At the current stage, as noted by external members of the Oversight Council, market participants already feel the need to calculate the hryvnia/euro reference exchange rate indicator as of 12 p.m.

The calculations and statistical data presented during the review showed that the criteria for selecting transactions for the primary sample that is used to

calculate the official and reference hryvnia/U.S. dollar exchange rates remain relevant. This includes restrictions on the volume of a single transaction (from USD 0.1 million to USD 5 million) and the time of the transaction (until 12 p.m. for the reference exchange rate and until 3 p.m. for the official hryvnia/U.S. dollar exchange rate). In particular, the Oversight Council noted a decrease, in contrast to the pre-war period, in the share of transactions in the primary sample of the calculation of the official and reference values of the hryvnia/U.S. dollar exchange rate that are cut off as outliers according to the current methodology.

The Oversight Council also discussed the feasibility of maintaining two (daily and monthly) lists of currencies for setting the official hryvnia exchange rate. Specifically, it was noted that due the development of IT, operational restrictions on the daily calculation of official exchange rates for a larger list of currencies (if any) are no longer required. In addition, the existence of a list of currencies for which exchange rates are set on a monthly basis increases the risk of multiple currency practice, which could lead to violations of Ukraine's obligations to the IMF. Finally, the European practice shows that the vast majority of the European countries use only one (daily) currency basket for the official/reference exchange rate. In this regard, the Oversight Council considered it prudent to transition to a single (daily) list of currencies for setting the official exchange rate.

Additionally, the Oversight Council agreed to cancel the rule to send a separate notice of the official hryvnia exchange rate and a calculation of the accounting prices of investment metals to subscribers of the NBU's e-mail system. This rule, introduced before the widespread use of modern information channels, is now outdated and contrary to the principle of equal and simultaneous access to information on FX market indicators for all market participants.

The Oversight Council also took into consideration the new policy introduced by the IMF in February 2024 [to prevent multiple currency practices](#). In particular, this policy sometimes contains bias towards official/reference exchange rates the calculation methodology of which involves cutting off extreme values.

Based on the results of the review, the Oversight Council made the following conclusions:

The Ukrainian FX market indicators and the methodology for calculating them currently meet the conditions and needs of the market, but it is advisable to

supplement them with the calculation of the reference UAH/EUR exchange rate as of 12 p.m.

It is expedient to transition to a single (daily) list of currencies for setting the official hryvnia exchange rate, and abandon the practice of sending information about the official exchange rate to subscribers of the NBU e-mail system.

The NBU's relevant structural units will prepare proposals for the practical implementation of said initiatives.

The next regular review of Ukraine's FX market indicators will be conducted tentatively in August 2024.

For reference: a regular review of FX market indicators is a special procedure aimed at assessing the structural changes in the market and/or other grounds that may indicate the need to replace existing indicators, adjust their methodology, or consider other important aspects related to their calculation and publication (calculation time, publication procedure, etc.).

The regular review is conducted by [the Oversight Council for Ukrainian Money Market and FX Market Indicators](#). The first review was conducted in February 2024. In the future, this review will take place every six months: no later than February and August, respectively.

Money and FX market indicators are periodically reviewed to ensure that they comply with the principles set forth in the [IOSCO: Principles for Financial Benchmarks Final Report July 2013](#). Principle 10 "Periodic Review" of this document prescribes the following:

*"The Administrator should **periodically review the conditions in the underlying Interest** that the Benchmark measures to determine whether the Interest has undergone structural changes that might require changes to the design of the Methodology. The Administrator also should **periodically review whether the Interest has diminished or is non-functioning** such that it can no longer function as the basis for a credible Benchmark.*

*The Administrator should **Publish** or Make Available a **summary of such reviews** where material revisions have been made to a Benchmark, including the rationale for the revisions".*