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**From:** AGNEW Rosita  
**Sent:** 18 May 2016 16:54  
**To:** 'Herzberg, Valerie'  
**Subject:** BN - Coeure Upset One Year On Sees ECB Transparency Risking Confusion

Hi Valerie,

See below the Bloomberg article, as promised.

Kind regards,

Rosita



### European Ombudsman

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### **\*BN - Coeure Upset One Year On Sees ECB Transparency Risking Confusion\***

Wire: Bloomberg News (BN) Date: May 13 2016 6:00:01

By Alessandro Speciale and Piotr Skolimowski

(Bloomberg) -- The European Central Bank's year-long drive for more transparent communication hasn't made it any easier for people trying to decipher its intentions.

Since May 2015, when Executive Board member Benoit Coeure inadvertently gave market-moving information to diners at London's luxury Berkeley hotel, the ECB has reined in meetings with financiers and adopted new guidelines intended to increase accountability. The risk is that the central bank's competence to take the market's pulse is weakened just as its unconventional stimulus policies become targeted to specific assets.

"The measures have increased the attention the market pays to all ECB speeches, in fear of missing out on some nugget of market-moving information," said Peter Chatwell, head of rates strategy at Mizuho International Plc. "I suspect concerns over a lack of market transparency from central-bank communication in general will persist as long as markets remain in the regime of non-standard monetary policy measures."

There's a lot at stake for both sides. Investors' white-hot attention to official utterances raises the risk of misplaced expectations before policy decisions, and that in turn could undermine the ECB's credibility and its capacity to revive the euro-area economy.

ECB officials have historically relied on mingling with

financial-industry professionals to take the temperature in markets before or after policy changes. Board members' diaries to be published on Friday, one of multiple recent steps taken to show the central bank's new openness, are likely to make clear that those gatherings less frequent.

It's become more difficult to organize meetings with ECB policy makers, according to three people at financial institutions who have previously engaged with the central bank. When they do occur, officials tend to be more guarded and scripted in their remarks, the people said, asking not to be named because such meetings are private.

ECB officials insist their new approach hasn't hampered the collection of information from market participants and that they aren't becoming disconnected. A spokesman for the central bank declined to comment.

One of the core ways the ECB listens to and communicates with markets remains the same -- a set of "market contact groups" for bonds, money markets, foreign exchange and operations. Those gatherings also publish agendas and minutes, with a delay.

### No Comment

Still, things have clearly changed since May 18, when Coeure addressed dinner guests in Knightsbridge after an invitation-only conference organized by research groups, including one financed by hedge fund Brevan Howard Asset Management. He told the room of bankers and investment managers that the ECB would front load its asset-buying program before a summer lull. When the speech was published the next day, the euro dropped and bonds and stocks rallied.

The ECB said the delay was the result of an "internal procedural error." Even so, investors were irked, and the incident prompted a letter to President Mario Draghi by the European Union Ombudsman, Emily O'Reilly.

The ripples were felt within the central bank's walls in Frankfurt. Coeure himself, who doesn't stand accused of any wrongdoing, said in August that he "will no longer speak at events organized by banks."

In October, the ECB adopted guidelines under which board members never meet with market participants without another staffer in attendance and that they avoid speaking at events which could bestow a "prestige advantage" on the organizer or that offer exclusive insight into policy.

The ECB also began releasing policy makers' speeches without delay, reaffirming its seven-day quiet period before policy meetings, and publishing the appointment scheduled of its Executive Board members -- with a three-month delay. The diaries for February will be published on Friday.

"It's as clear now as it was then that it was an honest mistake, pure and simple," said Richard Barwell, senior economist at BNP Paribas Investment Partners in London. "There was such righteous indignation that it put them under pressure to change some of the things they do, but frankly -- has it made a lot of difference? I'm not entirely convinced."

### Pulling Back

While the communications changes at the ECB have been almost revolutionary by central-bank standards, its peers have also been adjusting. In 2015, the Bank of England increased the number of press announcements it released from secure lockups.

In a report released last month, the Federal Reserve's inspector general urged the U.S. central bank's Board to beef up its safeguards for publishing market-sensitive economic data and

policy-related press releases following a series of communication mishaps.

The ECB's change in approach, almost immediately highlighted the risk of a disconnect. On Dec. 3, the euro and bond yields surged after Draghi announced stimulus plans that fell short of those investors had anticipated.

One problem was that during the quiet period before that meeting, "the markets exaggerated the situation again," Executive Board member Peter Praet said in an interview with Handelsblatt on Dec. 10. "We could not respond to it because we are obliged to remain silent."

#### Quiet Period

That just goes to show that shutting down communication channels in the run-up to a policy meeting can easily backfire, according to Frederik Ducrozet, senior economist at Banque Pictet & Cie SA in Geneva.

"In the current environment there is large uncertainty about the outlook for inflation and the outcome of the debate within the Governing Council," he said. "Somewhat counter-intuitively, the lack of policy hints in the quiet period may add to market volatility."

That view has backing from at least one Governing Council member.

"This has become way too exaggerated" and the new rules sometimes demand "absurd things," said Ewald Nowotny on Tuesday. "The ECB takes this incredibly seriously."

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