

## ANNOUNCEMENT

September 2000

### Implied Volatility Rates for Foreign Exchange Options

The implied volatility rates for foreign exchange options, posted on the Federal Reserve Bank of New York's and the Foreign Exchange Committee's web sites—[www.newyorkfed.org](http://www.newyorkfed.org) and [www.newyorkfed.org/fxc](http://www.newyorkfed.org/fxc), respectively—are a month-end data series offered as a service to the foreign exchange community, auditors, and examiners.

The Foreign Exchange Committee—sponsored by the Federal Reserve Bank of New York and comprised of institutions representing the foreign exchange market in the United States—undertook the work on this series. The Committee believed that the auditing and management of options would be strengthened by supplemental and independently prepared information.

#### DETAILS ON THE VOLATILITY RATES

The web-posted implied volatility rates:

- ∞ are averages of mid-level rates on bid and ask "at-money quotations" on selected currencies,
- ∞ are provided voluntarily by approximately ten foreign exchange dealers,
- ∞ reflect quotes as of 11 a.m. New York time on the last business day of each month,
- ∞ exclude the extremes—"the highest and lowest quotes"—received from dealers,<sup>1</sup> and
- ∞ reflect rates on contracts of at least \$10 million made with a prime counterparty.

The contracts currently are the euro, the Japanese yen, the Swiss franc, the British pound, the Canadian dollar, and the Australian dollar. The euro/sterling

and the euro/yen cross rates are also used. The maturities are one-week; one-, two-, three-, six-, and twelve-month; and two-year.

### COMPILING THE VOLATILITY RANGES

On the final dealing day of each month, each participating institution completes an electronic worksheet sent to them by the Foreign Exchange Department of the Federal Reserve Bank of New York. The department, at the Committee's request, is the collector and publisher of this series.

The Federal Reserve Bank of New York treats all volatility quotes received as confidential and does not disclose the rates supplied by any individual survey participant. In the event that a minimum of five quotes is not submitted for a particular option, a volatility range is not published for that contract.

### PUBLISHING THE DATA

The survey results are released on the last business day of each month at approximately 4:30 p.m. New York time.

### USE OF THE DATA

The ranges of foreign currency implied volatility rates are intended solely for use by bank management, auditors, and examiners in their review of options portfolios. The publication of the data does not indicate Foreign Exchange Committee or Federal Reserve approval, or disapproval, of particular options activities. Furthermore, the data should in no way replace the proper risk analysis and management techniques necessary for managing an options position.

Although the volatility rates are collected from sources considered to be reliable, the ranges are provided only for informational purposes without guarantee of their accuracy, completeness, and correctness.

Comments and suggestions on the series are welcomed and may be sent to [fx.committee@ny.frb.org](mailto:fx.committee@ny.frb.org).

---

<sup>1</sup>The intent here is to not count outliers. A consequence of such an adjustment is that the indicated rates may not completely reflect the full range of market transactions.