ADVISORY ROLE OF THE FOREIGN EXCHANGE COMMITTEE

According to its Document of Organization, a principal function of the Foreign Exchange Committee is to advise the Federal Reserve Bank of New York on issues related to the foreign exchange market. Accordingly, each meeting of the Committee usually starts with a lengthy discussion of market conditions. The discussion offers members the opportunity to give their assessment of recent market developments and trading conditions. Such conversations are particularly important during periods of market turmoil or transition.

Throughout 1998, much of the discussion on market developments concerned conditions in the Asian markets, focusing specifically on events in Japan, China, Korea, Indonesia, and Malaysia. In the second half of the year, attention broadened to include Europe's impending introduction of the euro and related topics. At several of the meetings held later in the year, members expressed concern about the dollar and its liquidity. The last meeting of the year—a joint session held by the Committee and the Singapore Foreign Exchange Market Committee in November—allowed participants to share opinions on developments in Asia, Europe, and the Americas.

In addition to commenting on market developments, members also highlight industry developments and issues that they believe may warrant more attention and possibly action by the Committee. Policy papers, best practice recommendations, or seminars may result from members' efforts. Over 1998, the industry topics brought to the attention of the Committee included:

- European Economic and Monetary Union
  The Committee's members recognized a need in the community for more information and guidance on issues related to the euro. Supported by its members' efforts, a public symposium was held on June 12. The Committee also published a report that focused on operational issues surrounding the euro.

- Commodity Futures Trading Commission (CFTC)
  The Committee was briefed by the Financial Markets Lawyers Group at various meetings throughout the year on issues related to CFTC action that could affect the over-the-counter foreign exchange market. The Committee sent letters to Congress and the CFTC and gave written congressional testimony concerning the importance of the Treasury Amendment to the foreign exchange market.

- Measures to Reduce Settlement Risk
  In prior years, the Committee closely monitored and encouraged industry efforts to reduce settlement risk. At the February 1998 meeting, CLS representatives briefed members on their progress in setting up a system designed to minimize settlement risk. A number of members worked on contract for differences issues, which were later reviewed at Committee meetings.

- The Committee's Role in Event Disruption
  At several meetings, the Committee reviewed possible industry actions following market disruptions. Notably, in September, the Committee recommended the closeout of the Malaysian ringgit.

- Y2K
  At a number of meetings, the Committee discussed the benefits of taking measures to reduce transaction volume and payments during the first week of the year 2000. A letter recommending such measures was subsequently sent to the foreign exchange community.