

# The Foreign Exchange Committee

33 Liberty Street, 9<sup>th</sup> Floor  
New York, NY 10045

November 6, 2002

Mr. Paul Fisher  
Chairman  
The Foreign Exchange Joint Standing Committee  
Bank of England  
Threadneedle Street  
London EC2R8AH

Dear Mr. Fisher,

We are writing in connection with the Joint Standing Committee's proposed changes to the Non-Investment Products Code (NIPS code) addressing trading on an unnamed basis. We commend your efforts to discourage wholesale market participants from seeking or accepting transactions on behalf of unnamed counterparties.

The Foreign Exchange Committee (FXC) has become increasingly concerned about the risks associated with trading on an unnamed basis. Such practices constrain the ability of dealers to assess the creditworthiness of their counterparties and to perform adequate "know your customer" due diligence. These conditions expose dealers to clear legal, credit, and reputational risks.

Like the Joint Standing Committee, the FXC recommends that investment advisors and dealers alike begin to undertake measures that will ultimately eliminate the current practice of trading on an unnamed basis. Specifically, intermediaries should put in place procedures that provide for the disclosure of client names to the credit and legal staffs of their clients' trading counterparties. Counterparties should, as well, have procedures in place to guarantee that the identity of the intermediary's clients remains strictly confidential and is not revealed to their trading staff.

Given London's status as the largest foreign exchange trading center, the JSC's action serves as a model for other market centers to emulate. We strongly recommend that other industry groups follow the lead of the Joint Standing Committee by actively discouraging this practice in regional codes of conduct and best practices documents. Towards that end, the FXC is currently working on a paper outlining the risks of trading with unnamed counterparties in conjunction with the Financial Services Forum—a New York based industry group representing many largest asset management firms.

We look forward to providing what assistance we can in connection with the JSC's efforts to work towards eliminating trading on an unnamed basis. We will continue to seek ways to discourage its development in global financial markets.

Very truly yours,  
David Puth  
Chairman  
Foreign Exchange Committee