The Foreign Exchange Committee

33 Liberty Street, 9th Floor
New York, NY 10045

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Dear Market Participant,

The Foreign Exchange Committee has become increasingly concerned about the risks associated with the practice of trading foreign exchange on an unnamed basis. We believe that this practice presents a problematic risk to the foreign exchange marketplace and the broader financial sector particularly during times of financial market stress. Trading foreign exchange on an unnamed basis refers to the practice whereby an investment advisor engages a dealer to execute a foreign exchange trade with a client of that advisor whose identity is not revealed to the dealer in order to maintain the anonymity of that client. The dealer's counterparty is often a central bank, but may be an institutional fund or private investor. Such practices constrain the ability of dealers to assess the creditworthiness of their counterparties and complete their "know your customer" and anti-money-laundering review. These conditions expose dealers to clear legal, compliance, credit, and reputational risks. In addition, such practices pose a risk to the broader financial sector given the increased risk of fraud.

While the Committee understands the commercial interest of confidentiality on the part of investment managers, it 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, investment advisors and foreign exchange intermediaries should develop a process whereby client names are disclosed to the credit and legal/compliance staffs of dealers before the execution of foreign exchange trades. In turn, dealers should have procedures in place to ensure that the identity of the intermediary's clients remains strictly confidential and is not revealed to their trading staff. This is a practice commonly achieved in other marketplaces through the use of identification codes or similar identifier systems.

Given the integration of the financial marketplace, the Committee recognizes the global nature of this issue. Other industry groups are also actively discouraging this practice in regional codes of conduct and best practices. In the United Kingdom, for instance, the Bank of England's Joint Standing Committee, the FSA and several investment manager industry groups are working together to introduce Best Practices similar to those outlined above. These Best Practices will be included in the Non-Investment Products Code (NIPS code), a reference source used for regulatory review of financial institutions and investment managers in the United Kingdom. We commend and support the Joint Standing Committee's efforts. To the extent that this practice exists in other over-the-counter markets, we urge other industry groups associated with these markets to discourage the practice of trading on an unnamed basis going forward.

The Committee thanks you for your interest in this issue. If you are interested in additional information on trading on an unnamed basis and other interests of the Foreign Exchange Committee, please view our website, www.newyorkfed.org/fxc.

Sincerely,

Beau Cummins, *Bank of America*
Stephen Desalvo, *FleetBoston Financial*
Mark De Gennaro, *Lehman Bros*
Peter C. Gerhard, *Goldman, Sachs & Co.*
Jack Jeffery, *EBS Partnership*
James Kemp, *Citigroup*
Rob Loewy, *HSBC Bank plc*
Richard Mahoney, *The Bank of New York*
John Nelson, *ABN-AMRO*
Phil Newcomb, *Morgan Stanley*
David Puth, *JP Morgan Chase & Co.*
Ivan Ritossa, *Barclays Capital*
Richard Rua, *Mellon Bank, N.A.*
Mark Snyder, *State Street Corporation*
Susan Storey, *CIBC World Markets*
Jamie Thorsen, *Bank of Montreal*
Jim Turley, *Deutsche Bank*
Nobuyuki Uchida, *The Bank of Tokyo Mitsubishi*
John Wareham, *AIG International*
Robert White, *Standard Chartered Bank*