To the Foreign Exchange Trading Community:

Late last month, Federal authorities charged a large number of individuals working in New York-area foreign exchange trading firms with criminal behavior. The Foreign Exchange Committee is deeply concerned by these allegations.

Over the past 25 years the Committee, consisting of representatives from many of the world’s leading foreign exchange trading organizations, has had the objective of enhancing practices in—and the functioning of—the wholesale foreign exchange market.

The Committee wishes to remind foreign exchange market participants of its 2002 Guidelines for Foreign Exchange Trading Activities, which warn firms against possible abuses and questionable trading practices. The recent law enforcement actions highlight the need for market participants to conduct their operations in accordance with the highest ethical and managerial standards.

1. **The Committee’s Concerns Over Abuses in the Retail Foreign Exchange Market**

Many of the recent allegations concern market practices in the retail foreign exchange market, where investors are less able to protect themselves from fraud than institutional traders in the wholesale foreign exchange market. This alleged malfeasance has the capacity to undermine the reputation of all institutions and individuals who trade foreign exchange.

The Committee has long supported Federal regulatory enforcement authority to protect small, individual investors from abuse and will continue to do so in the future. Although the retail foreign exchange market is not a focus of our best practice efforts, the Committee is currently reviewing market developments in areas where there is a confluence of wholesale and retail foreign exchange trading.

2. **The Use of Points in Foreign Exchange Trading**

The behavior cited in last month’s charges involved the use of points or points-type compensation between individuals or firms. The Committee has for many years strongly discouraged the use of points in foreign exchange trading and has noted that points can obscure unethical behavior and have the potential to distort a firm’s financial records. As the Committee stated in a 1991 letter on points, “Any institution engaging in this practice undermines the integrity of the U.S. foreign exchange market and the stature and prestige of its own organization, its managers, and its employees.”

The Committee will examine what measures can be taken by both foreign exchange dealers and brokers to minimize potential abuses by targeting circumstances that lead to the use of points. Such measures might include enhanced controls, contemporaneous time-stamping of trades, and straight-through processing.
3. **Going Forward**

Committee members are assessing their own operations with a view toward strengthening internal controls and ethical standards where necessary; the Committee encourages other market participants to do the same. The Committee intends to update its market guidance as necessary. Any Committee efforts will be coordinated to the extent possible with other foreign exchange market advisory groups elsewhere in the Americas, Europe, and Asia, with which the Committee collaborates regularly.

Whether the issue be points, questionable behavior, or any other practices that adversely affect the integrity of the foreign exchange market, the Foreign Exchange Committee believes that all market participants need to take measures to preserve a fair, transparent, and efficient marketplace.

Very truly yours,
David Puth
Chairman
Foreign Exchange Committee