

## **The Foreign Exchange Committee**

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

## **The Singapore Foreign Exchange Market Committee**

10 Shenton Way  
Singapore 079117

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Dear Market Participant,

The Foreign Exchange Committee and the Singapore Foreign Exchange Market Committee believe that the practice of trading foreign exchange on an unnamed basis, also referred to as undisclosed principal trading, presents an adverse risk to both individual foreign exchange market participants and the broader financial market.

Trading foreign exchange on an unnamed basis refers to the practice whereby an investment manager trades on behalf of a client without revealing its identity to the dealer in order to maintain client anonymity. Such practices constrain a dealer's ability to assess the creditworthiness of their counterparties and comply with "know your customer" and anti-money laundering rules and regulations. These conditions expose dealers to clear and significant legal, compliance, credit, and reputational risks, as well as heighten the risk of fraud.

While the Committees recognize fund managers' commercial interest in maintaining client confidentiality, they jointly recommend that investment advisors and dealers alike implement measures to eliminate the practice of trading on an unnamed basis. Specifically, investment advisors and foreign exchange intermediaries should develop a process to disclose client names to a dealer's credit, legal, and compliance functions prior to the execution of foreign exchange trades. In turn, dealers should establish procedures to ensure the strict confidentiality of the intermediary's clients and restrict the disclosure of this information to the front office except in the event of default. This is a commonly achieved practice in other markets through the use of identification codes or similar identifier systems.

Given the high and increasing level of market integration, the Committees recognize the global nature of this issue. Following a joint meeting held in New York on November 6, 2003, the Committees agreed that a collective letter addressing this issue would underscore the importance of eliminating the risks to the financial system posed by unnamed principal trading. The two Committees appreciate and endorse the efforts of the Bank of England's Joint Standing Committee which revised their Non-Investment Products Code, a reference source used for regulatory review of financial institutions and investment managers in the United Kingdom, to include best practices similar to those outlined above. To the extent that this practice exists in other over-the-counter markets, we strongly urge other industry groups associated with these markets to discourage the practice of trading on an unnamed basis going forward.

The Committees appreciate your interest in and support of this issue. Additional information on trading on an unnamed basis, as well as other efforts of the Committees, is publicly available at [www.newyorkfed.org/fxc](http://www.newyorkfed.org/fxc) or [www.sfemc.org](http://www.sfemc.org).

Very truly yours,

Mark Snyder  
Chairman  
The Foreign Exchange Committee

Loh Boon Chye  
Chairman  
The Singapore Foreign Exchange  
Market Committee