

LEGAL INITIATIVES OF THE FOREIGN EXCHANGE COMMITTEE

The Foreign Exchange Committee's legal initiatives seek to promote greater understanding of the laws and statutes that govern foreign exchange trading and to enhance the integrity of the foreign exchange market by encouraging the adoption of sound trading practices. The Committee, with the assistance of the Financial Market Lawyers Group (FMLG), continues its commitment to these objectives through its work on a variety of projects, many of which aim to develop standard transaction documentation. The Committee's 1996 legal initiatives included:

- The FMLG, with the assistance of outside counsel, coordinated the Committee's responses to two legal cases dealing with the Treasury Amendment to the Commodities Exchange Act (CEA) by commissioning and filing amicus briefs on the Committee's behalf in: *William C. Dunn v. the Commodities Futures Trade Commission (CFTC)* (U.S. Court of Appeals for the Second Circuit), and *Frankwell Bullion Limited v. the CFTC* (U.S. Court of Appeals for the Ninth Circuit).
- As the debate about the inadequacies of the CEA developed and calls for a legislative solution reached Capitol Hill, the FMLG, along with outside counsel, worked to ensure that the Committee's views would be heard.
- Four groups—the FMLG, the British Bankers Association, the Canadian Foreign Exchange Committee, and the Tokyo Forex Committee—continued their joint efforts to update several master agreements, including the International Foreign Exchange Master Agreement (IFEMA), the International Foreign Currency Options Master Agreement (ICOM), and the Foreign Exchange and Options Master Agreement (FEOMA). These

agreements now reflect the latest thinking in foreign exchange and currency options transactions¹.

- The FMLG renewed its efforts to solicit opinions on Committee-sponsored master agreements, which will now include opinions on ICOM and FEOMA.
- At the Committee's request, the FMLG formed a working group with representatives from "buy-side" institutions to focus on the legal issues connected with intermediaries and undisclosed counterparties involved in financial market transactions. The FMLG distributed a paper highlighting the legal risks in these transactions in January 1996.
- The FMLG formed a working group with the International Swaps and Derivatives Association, Inc. (ISDA) and the Emerging Markets Traders Association (EMTA) to standardize trading documentation for Non-deliverable Forwards and related emerging market transactions. The documentation will support both IFEMA and ISDA master agreements as well as stand-alone trades.
- In addition, the FMLG organized two working groups to deal with issues related to electronic brokering and the effects of the Euro on certain market contracts.

Because of space limitations, the legal documents described above are not reprinted in this Annual Report. The Committee endorsed master agreements, however, can be viewed and downloaded from the Federal Reserve Bank of New York's World Wide Web site (<http://www.ny.frbny.org>). Copies may also be obtained by calling the Executive Assistant to the Foreign Exchange Committee at (212) 720-6651.

1. The Committee endorsed these new agreements at its February 1997 meeting.