

ADVISORY ROLE OF THE COMMITTEE

The Committee recognizes the importance of strong leadership in achieving an efficient global foreign exchange market. To fulfill its leadership responsibilities, the Committee works to convey a theoretical and practical understanding of the foreign exchange market by issuing papers, best practice recommendations, letters, and survey findings. It carries out its advisory role through skillful communication with other international bodies, market participants, and its own sponsor organization, the Federal Reserve Bank of New York.

Market issues requiring Committee attention often emerge at the group's regular meetings. The Committee sets an agenda for each meeting that encourages extensive discussion of both market and industry developments. Members air their views of recent events and may point out problems that could benefit from Committee consideration. Federal Reserve Bank of New York representatives frequently ask members for opinions on specific events or developments.

In 1999, the Committee began each meeting with a discussion of the conditions and outlook for the major currencies, including the euro, the dollar, and the yen. The euro elicited particular attention early in the year. At midyear, however, attention shifted to the Latin American currencies, particularly the Brazilian real. The outlook for the Asian economies was highlighted at the Committee's joint meeting with the Singapore Foreign Exchange Market Committee.

A discussion of industry developments usually followed the review of market-related developments. Members identified some industry developments that warranted special study by an ad hoc group and eventually, perhaps, a best practice recommendation. Members also noted developments that required monitoring. Industry issues that generated particular interest at the 1999 meetings are described below.

- **REGULATORY ISSUES**

Throughout the year, the Committee received updates from the Financial Markets Lawyers Group (FMLG) on developments in Washington that might have an impact on the over-the-counter foreign exchange market. In response, the Committee provided letters and commentary to Congress and the Commodity Futures Trading Commission that explained the importance of excluding the foreign exchange market from unnecessary regulatory burden.

- **STEPS TO REDUCE SETTLEMENT RISK**

At the regular February meeting and a special December meeting, representatives from CLS (Continuous Linked Settlement) Services briefed the Committee on their continuing progress in setting up a global multicurrency settlement bank. The Committee supported

CLS efforts to provide better communication about their efforts within the industry. The Committee also monitored the developments surrounding the introduction of the contract for differences (CFD), a forward foreign exchange contract that settles differences in the contract value rather than principal amounts.

- **DISRUPTION EVENTS AND FORCE MAJEURE**

At both the June and September meetings, the Committee reviewed the FMLG's proposals on force majeure. Committee members reached an agreement to publish best practice recommendations that limited the duration of waiting periods, clarified events covered by the force majeure provisions, and specified more precisely the party entitled to liquidate transactions.