

# Committee Relationships with Other Organizations

## **THE COMMITTEE HAS ALWAYS RECOGNIZED THE IMPORTANCE OF**

working with other industry bodies to foster greater communication and promote smooth functioning of financial markets. In the aftermath of September 11, collective problem-solving skills became essential when the industry relied on lines of communication established through years of collaboration to inform market participants about global trading and settlement conditions. Subsequently, the Committee has emphasized the need to maintain good working relationships with other industry groups at all times, and particularly during times of market stress.

## **COOPERATION AFTER SEPTEMBER 11**

In the days immediately following the attack on the World Trade Center, the Committee participated in daily conversations with industry groups such as the Canadian Foreign Exchange Committee and the Singapore Foreign Exchange Market Committee. The groups exchanged updates of trading and settlement conditions in New York City and other market centers. They also consulted one another on best practices. These conversations were critical in providing marketwide status reports and identifying emerging problems. When telephone lines in New York City were impaired, the Canadian Foreign Exchange Market Committee served as a communication hub, relaying information to market participants in other regions. In addition, the Committee and the Singapore Foreign Exchange Market Committee jointly conferred on market practices. The two committees agreed that market conditions generally remained orderly and prevailing trading and settlement practices were appropriate.

As the Committee reevaluated the ways to best support the market during uncertain times, it recognized the importance of working with other industry groups in creating its own contingency plans. The Committee has collaborated with other groups to establish multiple lines of communication between secretariats as safeguards and has emphasized the need to maintain regular contact with one another in ordinary times and even more frequent contact during times of market stress.

**JOINT EFFORTS DAILY**

The Committee collaborates with a variety of industry associations and advisory groups on a day-to-day basis, for example working closely with the Financial Markets Lawyers Group (FMLG) on legal issues. The FMLG, in turn, often coordinates work on its projects with other organizations, such as the Bond Market Association (BMA), the British Bankers' Association (BBA), the International Swaps and Derivatives Association (ISDA), and the European Financial Markets Lawyers Group (EFMLG).

The Foreign Exchange Committee also interacts with the Financial Markets Association-USA, whose president serves as an observer on the Committee. In addition, the Committee has continued its involvement with CLS Bank as it evolves.

**SUPPORTING EMTA'S EFFORTS**

In 1998, the Committee embarked on a joint initiative with the International Swaps and Derivatives Association (ISDA) and the Emerging Markets Traders Association (EMTA) to standardize trading documentation for non-deliverable forwards (NDF) and related emerging market transactions. In recent years, EMTA has spearheaded efforts to improve NDF documentation. In 2001, EMTA explored alternatives for settling NDF contracts when local markets close unexpectedly. In July, EMTA proposed new NDF documentation for Argentine peso NDFs, introducing a means of settlement in the event of a market closure.

The Committee endorsed the proposed changes, and together with ISDA and EMTA, integrated changes to Annex A of the *1998 Foreign Exchange and Currency Option Definitions*, a document that supplements the Committee's master agreements. (This document is available on the Committee's public web site at <<http://www.newyork-fed.org/fxc>>). The new documentation was particularly timely given that Argentine markets closed unexpectedly on December 21 for a twenty-day period.

The Committee also collaborated with EMTA on several other initiatives in 2001. Changes in currency spot rate definitions for the Korean won culminated in additional updates to Annex A of the *1998 Foreign Exchange and Currency Option Definitions*. The Committee will continue to support EMTA's work to further enhance NDF documentation and market certainty concerning trading in emerging market instruments.

**OFFERING FOREIGN EXCHANGE EXPERTISE TO THE SIA**

The Securities Industry Association (SIA) continues to spearhead efforts to shorten U.S. securities settlement from three days to one day. In 2001, the SIA established a Foreign Exchange Subcommittee to examine the cross-border implications of T+1 settlement. The SIA asked the Committee to offer a foreign exchange perspective on the SIA's work. Committee members, as well as members of the Operations Managers Working Group, participated in the SIA's Foreign Exchange Subcommittee.

The subcommittee will publish a white paper in 2002 that examines ways to enhance the automation and efficiency of cross-border securities trade.

Given that most foreign exchange spot transactions settle in two days, investors based abroad would be challenged to fund U.S. securities trades within a shortened settlement window. The subcommittee is researching possible funding alternatives and means of encouraging straight-through-processing (STP) to facilitate faster and more efficient trade and settlement of foreign exchange. In its work, the subcommittee has solicited feedback from other industry groups, including the Tokyo Foreign Exchange Market Committee and the Hong Kong Foreign Exchange and Money Market Practices Committee.

**COORDINATING WITH THE SINGAPORE FOREIGN EXCHANGE MARKET COMMITTEE**

The Foreign Exchange Committee values its close and ongoing relationship with the Singapore Foreign Exchange Market Committee. Both groups share common objectives of improving market efficiencies, reducing global settlement risk, providing guidance to the foreign exchange marketplace, and disseminating information about market practices and issues.

The Singapore Committee is uniquely able to provide key information on Asian financial developments given the proximity of Singapore to other financial market centers such as Indonesia and Malaysia. In 2001, the

Foreign Exchange Committee referenced guidance by the Singapore Committee for trading the Indonesian rupiah and Taiwan dollar.

In February, Bank Indonesia announced certain restrictions with regard to foreign exchange transactions involving the rupiah. The Singapore Committee coordinated with the Foreign Exchange Committee to seek clarification from Bank Indonesia on the scope of these restrictions to mitigate uncertainty in the marketplace. Subsequently, both groups advised counterparties affected by the restrictions to contact one another to determine jointly whether it was appropriate to terminate affected trades.

In September, the Singapore Committee issued a statement regarding the treatment of settlement dates for Taiwan dollar NDFs after questions arose regarding fixing rates. The Committee subsequently endorsed the Singapore Committee's recommendation regarding Taiwan dollar NDFs.

In most years, the two committees conduct a joint meeting in November to discuss issues of mutual interest. However, given travel restrictions in the fall of 2001, the meeting was postponed until November 2002. In place of the joint meeting, a conference call was held between the chairs of the two committees. The discussion included enhanced preparedness for contingency events, regional

model codes, the upcoming start of CLS Bank, and potential issues arising from the proposed T+1 settlement of U.S. securities.

The Committee also routinely exchanges minutes and agendas with the Canadian Foreign Exchange Committee, the Foreign Exchange Joint Standing Committee, the European Central Bank Foreign Exchange Market Contact Group, the Hong Kong Foreign Exchange and Money Market Practices Committee, and the Tokyo Foreign Exchange Market Practices Committee.