Supplementary Guidance

During Periods of Significant Market Volatility

The *Guidelines for Foreign Exchange Trading Activities* have been amended to include the following addendum:

This addendum offers supplemental guidance to market participants in order to promote sound business and fair dealing practices during periods of significant market volatility. The *Guidelines* and other work of the Committee promote such practices in all trading conditions, although certain practices can be particularly relevant, and take on increased importance, during periods of significant market volatility. The following guidance highlights these provisions and also finds support in the *Trading Principles* drafted by a group of leading foreign exchange intermediaries in response to a recommendation made by the Financial Stability Forum Working Group of Highly Leveraged Institutions published in April 2000.

ADDENDUM C

Effective Risk Management

The Committee recognizes that, as part of effective risk management, all trading parties need to heighten their awareness of and sensitivity to market risk and credit management issues during periods of significant market volatility. When an individual currency is experiencing high volatility, intermediaries should use particular care when they extend credit to counterparties in such markets. (For further information on best practices for effective risk management, refer to the Risk Management section of the *Guidelines*.)

Dealings with Market Participants

Given the increased potential for confusion and disputes in volatile markets, it is essential that market participants pay close attention to the general expectation (applicable at all times) that they act honestly and in good faith when marketing, entering into, executing, and administering trade orders. Market participants should always act in a manner that promotes public confidence in the wholesale financial markets.

Counterparties should satisfy themselves that they have the capability (internally or through independent professional advice) to understand the risks of trading at volatile times and to make independent trading decisions. A salesperson at an intermediary has the right, but not the obligation, to convey economic or market information, trading parameters, the institution's views, and personal views, as well as to discuss with the counterparty market conditions and any potentially applicable restrictions relating to transactions. The counterparty should understand that such communications will not constitute investment advice and therefore should not be relied upon, unless that service is specifically contracted for or stipulated in writing. Intermediaries should remain aware that, unless otherwise agreed, an intermediary is not obligated to enter into a transaction with a counterparty under any circumstances.

Stop-Loss Orders and Barrier Options

Intermediaries should ensure that there is mutual agreement with counterparties on the basis of which orders—in particular stop-loss orders and barrier options—are undertaken so as to avoid disputes that may arise in connection with the execution of such orders as market liquidity fluctuates. In addition, it would be prudent for a counterparty to take steps to ensure that it independently understands market developments and individual trigger levels if an intermediary has not contractually agreed to be an investment advisor to the counterparty.

Execution of Counterparty Orders

Handling of counterparty orders requires standards that promote best execution for the counterparty in accordance with such orders, subject to market conditions. Intermediaries should exercise caution in ensuring that internal guidelines are followed at all times and particularly during periods of significant market volatility. (For further information, refer to the Ethics section of these *Guidelines*.)

Publication of Market Research

Intermediaries should be attentive to the independence and integrity of any market-related research that they publish. Any views expressed in market research constitute the intermediary's understanding of prevailing markets.

Communication of Information

Market participants are encouraged to communicate information regarding market developments with each other during times of volatility, with the understanding that each participant providing and receiving information should view it with particular scrutiny—given the potential for information to be false or misleading during periods of significant market volatility. Market participants should also pay special attention to internal guidelines concerning handling false or misleading information, particularly during periods of significant market volatility.

Trading Practices

It is important for market participants to adhere to the general standard (applicable at all times) that they not engage in trading practices that constitute fraudulent, deceptive, or manipulative acts or practices under applicable laws and regulations, or in practices that violate their institution's ethical rules or any rules of electronic trading systems.