Advisory Role of the Committee

A CORE FUNCTION OF THE FOREIGN EXCHANGE COMMITTEE IS TO advise its sponsor, the Federal Reserve Bank of New York, on issues related to the foreign exchange market. Committee meetings provide a forum for members to identify changing conditions in the marketplace and highlight industry developments that warrant attention. In these discussions, representatives from various types of institution have an opportunity to voice their assessment of recent market developments and trading conditions. These discussions cover a broad range of topics, including currency trends, trading practices, market structure, operations, and risk management.

Throughout 2002, much of the discussion on market developments concerned the outlook for major global currencies, including the U.S. dollar, the Japanese yen, and the euro. Many discussions centered on the outlook for the dollar against a backdrop of falling interest rates in the United States, growing geopolitical concerns, and the prospect of a protracted global economic recovery. Participants also took note of the euro's recent strength after it breached parity with the U.S. dollar for the first time since its introduction in 1998. Conditions in several emerging market currencies were also regularly discussed, including the devaluation of the Argentine peso and trends in the Mexican peso in light of a slowing U.S. economy and a weakening trend for the U.S. dollar. The Committee also had many conversations about volume and volatility trends as many foreign exchange customers began to trade over electronic front-end systems rather than over the telephone.

In addition to commenting on market developments, discussions highlighted industry developments and issues that may warrant the attention of the Committee, including:

- electronic trading platforms and the potential impact of electronic dealing on current best practices,
- the startup of CLS Bank and best practices associated with processing trades through that institution,
- possible solutions to problems caused by unscheduled holidays,

- means of improving the operational efficiency and contractual certainty of trading NDFs,
- the proposed T+1 settlement for U.S. securities and the potential impact on FX markets, and
- sound contingency planning and coordination efforts.