2002 Changes to the

Guidelines for Foreign Exchange Trading Activities

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The Foreign Exchange Committee (the Committee) published its first version of the *Guidelines for Foreign Exchange Trading Activities* in 1979. As the industry evolves and trading processes change, the Committee periodically updates this paper. The most recent version of the *Guidelines* can be found on the Foreign Exchange Committee's public web site <www.newyorkfed.org/fxc>. The changes below, indicated by boldface type, have been made in the 2002 update of the *Guidelines*.

1. INTRODUCTION

Amend the last paragraph of the Introduction to read: The Committee published its first version of the *Guidelines* in 1979. As the industry evolved and trading processes changed, the Committee periodically updated the paper. The latest version, the Committee's fifth, revises a 1996 document **and supersedes previous versions**.

2. TRADING

Be Aware of Confidentiality Requirements

Paragraph 2 shall read: Staff should not pass on confidential and nonpublic information outside of their institution. Such information includes discussions with unrelated parties concerning their trades, their trading positions, or the firm's position. **It is also inappropriate to disclose, or to request others to disclose, information relating to a counterparty's involvement in a transaction except to the extent required by law**. Institutions should develop policies and procedures governing the internal distribution of confidential information.

Electronic Trading with Brokers

Revise footnote 3 to read: For additional commentary and analysis on electronic trading, see the Committee paper, "A Survey Assessing the Impact of Electronic Broking in the Foreign Exchange Market," November 1997. **The Committee also addressed electronic brokerage in its 1991 and 1994 *Annual Reports***.

Stop-loss Orders

Revise footnote 5 to read: For detailed information on best practices and procedures for stop-loss orders, please visit the Committee's web site and view the *Guide to the International Currency Options Market Master Agreement*. This agreement was published in 1995 and followed by a February 2000 revision to the barrier options guidelines and a new stop-loss template posted on the Committee's web site in September 2000. **The Committee offered additional recommendations in its 1997 letter**, "Handling Stop-Loss Orders in an Electronic Trading Environment."

Resolution Section

Amend to read: Care must be taken that informal dispute resolutions are achieved through arm's-length negotiation in good faith. Differences should routinely be referred to senior management for resolution, a process that effectively shifts the dispute from the trading level to the institution. **In addition, maintaining records of trades conducted through automated dealing systems or executed over the telephone can aid in resolving disputed transactions**.

4. ETHICS

Entertainment and gifts

Revise the second paragraph to read: Management should make certain that the institution's general guidelines on entertaining and the exchange of gifts address the particular circumstances of their employees. Special attention should be given to the style, frequency, and cost of entertainment allowed trading desks. **The institution's general guidelines on entertaining and the exchange of gifts should also address the appropriate scope for offering gifts and entertainment to customers and recognize the risks associated with excessive giving**.

7. OPERATIONS

Trade Confirmations

Introduce a new paragraph before the section "The Risks of Third-Party Payments." **Trades with clients, counterparties, or intermediaries, whether spot, forward or derivative transactions, should be confirmed as soon as possible after the terms of the trade are agreed. Same-day telephone confirmations should be followed with written confirmations in a timely manner using SWIFT messaging, fax transmissions, or secure electronic means. Prompt and efficient confirmation procedures are a deterrent to unauthorized dealing. In addition, the sooner a trade problem is identified, the easier, and often the less expensive, it is to resolve.**

10. ADDENDUM A

Presettlement Risk

Add the following footnote: **Additional information on presettlement risk can be found in the Committee's 1992 paper, "Measuring Pre-Settlement Credit Exposures with 'Loan-Equivalent Risk.'"**