Committee Relationships with Other Organizations

THE COMMITTEE CONTINUES TO HIGHLY VALUE COOPERATION WITH its affiliates and other industry groups in different regions. Following September 11, the Committee made it a priority to strengthen communications with other organizations and to coordinate with them on initiatives across the industry. The Committee recognizes that good working relationships become crucial in 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. The Committee works closely with the Financial Markets Lawyers Group (FMLG), specifically on legal issues. The FMLG, in turn, often coordinates 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, which provides continuous linked settlement, throughout the start-up of its new system in the fall of 2002 and will continue working with CLS Bank as it prepares to offer third-party services in early 2003.

SUPPORTING EMTA'S EFFORTS

In 1998, the Committee embarked on a joint initiative with the Emerging Markets Traders Association (EMTA) and ISDA to standardize trading documentation for non-deliverable forwards (NDFs) and related emerging-market transactions. EMTA has spearheaded the efforts to improve NDF documentation in recent years. In 2002, EMTA established a working group to determine a new methodology for Argentine peso NDFs after an unexpected market closure that began on December 21, 2001, and lasted for twenty days. In January 2003, Argentine authorities replaced the peso-dollar convertibility regime with a partial floating rate regime. During this period, market participants looked to

EMTA and the Committee for guidance on trade and settlement conventions for Argentine peso NDFs.

The Committee continued to liaise with EMTA for the remainder of 2002. EMTA developed a new architecture for NDF master agreement templates at that time, and introduced two new fallback polling mechanisms in the event of future market disruptions (see page 35). In December 2002, EMTA, ISDA, and the Committee jointly released an update to Annex A of the *1998 Foreign Exchange and Currency Options Definitions* reflecting this new architecture. The Committee also worked closely with EMTA on several other initiatives to encourage standardization of NDF contracts throughout the marketplace. The Committee sought EMTA's guidance as it developed the *NDF Master Agreement Supplement*, published by the Committee in December 2002. This master agreement supplement allows counterparties to agree on the common terms of an NDF contract prior to trading, eliminating the need for counterparties to exchange faxes that outline the contract terms for each individual trade. In the future, the Committee will continue to work with EMTA to enhance contract standardization further by introducing the new NDF architecture designed for the Argentine peso into other NDF markets.

OFFERING FOREIGN EXCHANGE EXPERTISE TO THE SIA

For the last two years, the Securities Industry Association (SIA) has led an investigation into the "T+1 project," a proposal 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 Foreign Exchange Committee to offer a foreign exchange perspective on the Subcommittee's work. Committee members, as well as members of the Operations Managers Working Group, participated in the SIA's Foreign Exchange Subcommittee. The Subcommittee published a white paper in July 2002 articulating the operational and market implications of a shorter settlement cycle for U.S. securities. The white paper concluded that in general, investors based abroad, particularly in Asia, would be challenged to fund U.S. securities trade within a shortened settlement window because most FX spot transactions settle in two days.[1] Several other industry groups provided valuable feedback concerning T+1 settlement, including the Tokyo Foreign Exchange Market Committee and the Hong Kong Foreign Exchange and Money Market Practices Committee.

After the release of the *SIA Foreign Exchange T+1 White Paper*, the SIA announced in August 2002 that it would no longer pursue a marketwide change in the settlement cycle. The SIA shifted its efforts to encouraging straight-through processing (STP) to facilitate faster and more efficient trade and settlement for all market products. Toward this end, the SIA Foreign Exchange Subcommittee will continue to explore additional ways to publicize several of the recommendations made for improved STP in foreign exchange transactions.

COORDINATING WITH THE SINGAPORE FOREIGN EXCHANGE MARKET COMMITTEE

The Foreign Exchange Committee continues to develop a valuable and close relationship with the Singapore Foreign Exchange Market Committee. The groups share the objectives of improving market efficiencies, reducing global settlement risk, providing guidance to the foreign exchange marketplace, and disseminating information about market practices and issues. In particular, the Committee values this relationship because the Singapore Committee is uniquely able to provide key information about Asian financial developments given the proximity of Singapore to financial market centers such as Indonesia and Malaysia.

In November 2002, Foreign Exchange Committee members traveled to Singapore to attend the committees' annual joint meeting. At this meeting, participants shared views on NDF trading conventions in Latin America

[1] See <http://www.sia.com/stp/pdf/Foreign_Exchange_White_Paper_v6.0.pdf>.

and Asia, discussed the new launch of CLS Bank, and shared ideas about contingency planning following the destruction of the World Trade Center. In addition, participants discussed changes in the Committee's upcoming revision of a 1996 paper, *Management of Operational Risk in Foreign Exchange*. Lastly, the groups shared concerns regarding the practice of trading on an unnamed basis. Both committees will continue to investigate ways of discouraging this practice in various trading regions.

The Committee also routinely exchanges minutes and agendas with the Canadian Foreign Exchange Committee, the Bank of England's 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. Several industry groups have developed subcommittees to focus on operational matters that are similar to the Committee's Operations Managers Working Group. In 2002, the Committee made further strides toward establishing a network for such groups to enhance sharing market information regularly and especially when markets undergo stress.