

COMMITTEE LETTER

Commenting on the Foreign Exchange Joint Standing Committee's Proposal on Trading with Unnamed Counterparties

November 6, 2002

Paul Fisher
Chairman
Foreign Exchange Joint Standing Committee
Bank of England
Threadneedle Street
London, EC2R 8AH
England

Dear Mr. Fisher,

We write regarding the Foreign Exchange Joint Standing Committee's proposed changes to the Non-Investment Products (NIPs) code addressing trading on an unnamed basis. We commend your efforts to discourage wholesale market participants from seeking or accepting transactions on behalf of unnamed counterparties.

The Foreign Exchange Committee has become increasingly concerned about the risks associated with trading on an unnamed basis. Such practices constrain the ability of dealers to assess the creditworthiness of their counterparties and to perform adequate "know your customer" due diligence. These conditions expose dealers to clear legal, credit, and reputational risks.

In accord with the Joint Standing Committee, the Foreign Exchange Committee recommends that investment advisors and dealers alike begin to undertake measures that will ultimately eliminate trading on an unnamed basis. Specifically, intermediaries should put procedures in place to disclose client names to the credit and legal staffs of their clients' trading counterparties. Counterparties should also have procedures in place to guarantee that the

identity of the intermediary's clients remains strictly confidential and unknown to their trading staff.

Given London's status as the largest foreign exchange trading center, the Joint Standing Committee's action serves as a model for other market centers to emulate. We strongly recommend that other industry groups follow the lead of the Joint Standing Committee by actively discouraging trading on an unnamed basis in regional codes of conduct and best practices documents. To that end, the Foreign Exchange Committee is currently working on a paper outlining the risks of trading with unnamed counterparties in conjunction with the Financial Services Forum—a New York-based group that represents many of the largest asset-management firms.

We look forward to providing what assistance we can to the Joint Standing Committee's efforts to eventually eliminate trading on an unnamed basis. We will continue to seek ways to discourage the growth of the practice in global financial markets.

Very truly yours,

David Puth

Chairman

Foreign Exchange Committee