

Report of Works in Progress

IN 2002, THE COMMITTEE FOCUSED ON EFFORTS TO IMPROVE THE efficiency and soundness of the marketplace and to eliminate the practice of trading on an unnamed basis. Many of the Committee's projects from last year will continue in 2003.

UPDATING OPERATIONAL GUIDANCE

As the foreign exchange industry changes, the Committee acknowledges the importance of keeping its guidance current and applicable. Consequently, the Operations Managers Working Group, in association with the Committee, is updating the Committee's guidance on operational practices, *Management of Operational Risks in Foreign Exchange*, a document first published in 1996. Changes, such as the introduction of electronic dealing and prime brokerage, will be incorporated in the revision, which is due to be released in March 2003. Following its release, the Committee intends to offer a number of symposia to discuss best practices for operations with market participants in New York, Europe, and Asia. A schedule of these events will be available on the Committee's public web site <www.newyorkfed.org/fxc> in the first quarter of the year.

TRADING ON AN UNNAMED BASIS

In 2002, the Committee discussed the risks associated with trading on an unnamed basis and the threat that such trading poses to the broader financial market. In 2003, the Committee will make further efforts to communicate these risks to the marketplace and encourage broker/dealers to find ways to maintain the confidentiality of their counterparties and still perform credit evaluations and checks against money-laundering. Toward that effort, the Committee will join other industry groups in foreign exchange and asset management to find solutions that preserve the confidentiality of customers and meet the legal requirements of banks and dealers.

CLS BANK

As CLS Bank, a facility for continuous linked settlement, begins its first year of operation, the Committee will continue to focus on specialized issues involving CLS and its integration into the marketplace. In 2003, the Committee will

invite CLS Bank to update the Committee on its operational ramp-up and the introduction of third-party services. In addition, the Committee's Operations Managers Working Group will continue its interaction with the CLS Bank's operations-related policy group—the North American User Group—to maintain a high level of expertise in CLS.

E-COMMERCE

Through the years, the Committee has monitored the expansion of electronic dealing in the foreign exchange market. The Committee continues to observe the adoption of electronic trading systems in the dealer-to-customer arena, which has increased notably during

2002. In 2003, the Committee will explore the scope for supplemental guidance on operational practices related to electronic trading. Specifically, the Operations Managers Working Group will examine new means of confirming trades conducted over electronic dealing platforms and offer guidance on these practices. In addition, the Chief Dealers Working Group will continue to monitor the broad implications of electronic trading for the condition and functioning of the marketplace.

NON-DELIVERABLE FORWARDS

The Committee will continue to support the efforts of the Emerging Markets Traders Association (EMTA) to improve the

documentation of non-deliverable forwards (NDFs). The Committee will continue to coordinate with EMTA on its effort to standardize NDF agreements, particularly as they relate to principles of settling non-deliverable contracts when local markets are unexpectedly closed. The Committee will work in partnership with the Singapore Foreign Exchange Committee and the Tokyo Foreign Exchange Market Practice Committee on these efforts.