

Survey of North American **Foreign Exchange** Volume

October 2004

Explanatory Notes

Survey Terms and Methods

The Survey of North American Foreign Exchange Volume is designed to measure the level of turnover in the foreign exchange market. The survey defines foreign exchange transactions as spot transactions, forwards, swaps, and options that involve the exchange of two currencies. Turnover is defined as the gross value in U.S. dollars of purchases and sales entered into during the reporting period. The data cover a full one-month period to reduce the likelihood that very short-term variations in activity might distort the data.

Turnover is measured in terms of nominal or notional amount of the contracts. No distinction is made between sales and purchases (for example, a purchase of \$3 million against the U.S. dollar and a sale of \$2 million against the U.S. dollar would amount to a gross turnover of \$5 million). Nondollar amounts are converted using the prevailing exchange rate on the transaction date. Direct cross-currency transactions are counted as a single transaction. Transactions passing through a vehicle currency are counted as two separate transactions against the vehicle currency (for example, if a bank sells \$1 million against the euro and then uses the



euro to purchase Japanese yen, the reported turnover would be \$2 million). Transactions with variable nominal or notional principal amounts are reported using the principal amount on the transaction date.

The data collected for the survey reflect all transactions entered into during the reporting month, regardless of whether delivery or settlement is made during the month.

Average daily volume was obtained by dividing the total reported volume by twenty trading days in the United States in October 2004. There were thirty-one reporting dealers for the October 2004 survey.

Consolidation Rules

The survey covers all transactions that are priced or facilitated by traders in North America (the United States, Canada, and Mexico). Transactions concluded by dealers outside of North America are excluded even if they are booked to an office within North America. The survey also excludes transactions between branches, subsidiaries, affiliates, and trading desks of the same firm.

Instruments

The survey is divided into separate schedules by product type. If a transaction is composed of several component instruments, each part in principle is reported separately, if feasible.

- Spot transactions are single outright transactions that involve the exchange of two currencies at a rate agreed to on the date of the contract for value or delivery within two business days, including U.S. dollar-

Canadian dollar (USD-CAD) transactions delivered within one day.

- Outright forwards involve the exchange of two currencies at a rate agreed to on the date of the contract for value or delivery at some time in the future (more than one business day for USD-CAD transactions or more than two business days for all other transactions). This category also includes forward foreign exchange agreement transactions (FXA), non-deliverable forwards, and other forward contracts for differences.
- Foreign exchange swaps involve the exchange of two currencies on a specific date at a rate agreed to at the time of the conclusion of the contract, and a reverse exchange of the same two currencies at a date further in the future at a rate agreed to at the time of the contract. For measurement purposes, only the long leg of the swap is reported so that each transaction is recorded only once.
- Currency options are over-the-counter contracts that give the right or the obligation—the terms depend upon whether the reporter is the purchaser or the writer—to buy or sell a currency with another currency at a specified exchange rate during a specified time period. This category also includes exotic foreign exchange options such as average rate options and barrier options.

Counterparties

The survey covers four types of counterparties:

- reporting dealers participating in the survey,
- other foreign exchange dealers that do not participate in the survey,



- ⌘ other financial customers that are end-users in the foreign exchange market, and
- ⌘ nonfinancial customers for all other counterparties not defined above.

Transactions between two reporting dealers are reported twice, once by each dealer. The total figures are adjusted to avoid the double counting of such trades.

Maturities

Turnover reported in forwards and swaps is further broken down by original contractual maturity using the following three splits:

- ⌘ up to one month: comprises contracts having an original maturity of less than thirty-one calendar days,
- ⌘ one month to one year: comprises contracts having an original maturity of thirty-one calendar days but no more than one year, and
- ⌘ more than one year: comprises contracts with an original maturity of greater than one year.

Turnover reported for options is broken down by maturity using the following three splits:

- ⌘ up to one month: comprises options with an expiration date of less than thirty-one calendar days,
- ⌘ one to six months: comprises options with expirations of 31 to 180 calendar days, and
- ⌘ more than six months: comprises options with expirations of more than 180 calendar days.

Execution Method

All transactions are also reported according to the execution method used to settle the transaction. Execution method is broken down into the following five categories:

- ⌘ interbank direct transactions between two dealers in which both dealers participate in the semiannual survey and are not intermediated by a third party (for example, transactions executed via direct telephone communication or direct electronic dealing systems such as Reuters Conversational Dealing),
- ⌘ customer direct transactions between the reporting dealer and customers or non-reporting dealers that are not intermediated by a third party (for example, transactions executed via direct telephone communication or direct electronic dealing systems such as Reuters Conversational Dealing),
- ⌘ electronic broking systems transactions that are conducted via an automated order matching system for foreign exchange dealers (for example, EBS and Reuters Matching 2000/2),
- ⌘ electronic trading systems transactions that are conducted via multibank dealing systems and single-bank proprietary platforms that are generally geared toward customers (for example, FXall, Currenex, FXConnect, Globalink, and eSpeed), and
- ⌘ voice broker transactions that are conducted via telephone communication with a foreign exchange voice broker.

In addition, a separate item capturing the total number of trades is reported for each currency pair and instrument type.

