

COMMITTEE LETTER

Commenting on the Use of Points to Resolve Disputes

July 13, 2004

To the Foreign Exchange Trading Community:

Events last year raised concerns that points remain in use in some quarters of the foreign exchange market. In a statement last December, the Foreign Exchange Committee reminded market participants of the need to ensure that their operations be conducted in accordance with the highest ethical and managerial standards. The Committee also committed to review its current guidance with respect to the issue of the use of points to resolve disputes and to update its market guidance as necessary.

Following a thorough assessment of the Committee's market guidance, the Committee has revised its *Guidelines for Foreign Exchange Trading Activities* to incorporate a specific reference to points and their use. This new language in the *Guidelines* iterates the prior guidance that points are not an appropriate method of dispute resolution and refers readers to the Committee's earlier guidance on points, which we continue to believe reflects best practice in the foreign exchange marketplace. While some jurisdictions may permit the use of points in a regulated environment, the Committee notes as well that the use of points is contrary to bank supervisory guidance in the United States.

The Committee recognizes that trade discrepancies are inevitable. Market participants are encouraged to develop and implement clear policies and procedures for dispute resolution; for example, in many markets difference checks are exchanged. Differences should be referred to senior management for resolution, shifting the dispute from the trading to the institutional level. In the absence of senior management awareness and involvement and a formal resolution process, there is heightened risk that the use of informal mechanisms subject to abuse—such as points—may arise.

The Committee published its first version of the *Guidelines* in 1979 and has modified it frequently since that time. As the industry evolves and trade processes change, the Committee will continue to review the *Guidelines* and its other market guidance on an ongoing basis and will address as needed other practices that potentially adversely



affect the integrity of the foreign exchange market. The revised *Guidelines* will be published today and are available on the Committee's website at <www.newyorkfed.org/fxc>.

In addition, the Committee's earlier guidance on points can be found in previous annual reports, also available online.

Very truly yours,

Mark Snyder
Chair
Foreign Exchange Committee

