

Works in Progress for 2005

In 2004, the Committee focused on revising its market guidance to reflect industry developments and issued updated versions of the *Management of Operational Risk in Foreign Exchange*, *Guidelines for Foreign Exchange Trading Activities*, and *Foreign Exchange Transaction Processing: Execution-to-Settlement Recommendations for Nondealer Participants*. The updated publications incorporate recommendations on a variety of issues, including unnamed trading, foreign exchange (FX) derivatives, trade dispute resolution, and authorization letters. Many of the Committee's longer-term projects will continue into 2005.

UPDATING TRADING GUIDANCE

As the foreign exchange industry continues to evolve, the Committee acknowledges the importance of revising its guidance to remain relevant and to address emerging issues. As reflected in the Bank for International Settlements' *Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity 2004*, average daily global turnover in foreign currency options has surged in recent years, rising by 95 percent between 2001 and 2004. At the same time, foreign exchange losses such as those announced by the National Australia Bank early in 2004 underscore the challenges of engaging in these more complex instruments. In this context, the Committee

recently updated its *Management of Operational Risk in Foreign Exchange* to address more fully issues associated with foreign exchange derivatives. In 2005, the Committee plans to review and revise the *Guidelines for Foreign Exchange Trading Activities* to better reflect developments in this increasingly important market segment.

NON-DELIVERABLE FOREIGN EXCHANGE TRANSACTIONS

In 2004, the Foreign Exchange Committee, the Singapore Foreign Exchange Market Committee, and EMTA, acting as cosponsors, published updated documentation for non-deliverable foreign exchange transactions for six Asian currencies, with the Tokyo Foreign Exchange Market Committee and the Treasury Markets Forum of Hong Kong endorsing the effort. In 2005, the cosponsors expect to include other currencies under the new architecture, beginning with the Malaysian ringgit. The group has also discussed initiatives to promote the understanding and implementation of non-deliverable FX documentation and raised the possibility of a conference in Asia in 2005. More generally, the Committee will continue to support the efforts of EMTA to standardize non-deliverable FX agreements, particularly as they relate to principles of settling these transactions in the event of unexpected local market disruptions.



NONDEALER RECOMMENDATIONS

The Operations Managers Working Group, in association with the Committee, published an updated version of *Foreign Exchange Transaction Processing: Execution-to-Settlement Recommendations for Nondealer Participants* in 2004. The timeliness of this revision is highlighted by the preliminary results of the Bank for International Settlements' 2004 foreign exchange survey, which indicated that nondealers' average daily global trading volume rose by approximately 75 percent between 2001 and 2004 to account for 48 percent of total activity. The Committee also intends to follow up on the release of the 2004 updated document and offer a number of symposia to discuss the guidelines with market participants in New York and Europe in 2005.

RETAIL FOREIGN EXCHANGE DEVELOPMENTS

In 2004, the Committee established a working group to explore the trends and issues associated with increased retail participation in the foreign exchange market. In 2005, after working with the Financial Markets Lawyers Group to identify the legal implications of this development, the Committee will examine specific distribution channels, such as white labeling and retail aggregation, to determine whether market guidance on these products and services is required.

CLS BANK

As the Continuous Linked Settlement (CLS) Bank enters its second year of operation, the Committee will continue to focus on specialized issues involving CLS and its integration within the marketplace. In 2005, the Committee will invite CLS to present an update on its progress in providing third-party services and developing new products for fund managers. The Committee's efforts

on this front will be facilitated by the participation of a CLS Bank representative as a member of the Committee.

EFFORTS OF THE WORKING GROUPS

The Chief Dealers Working Group, in close association with London's Foreign Exchange Joint Standing Committee, will continue its efforts to publish the Survey of North American Foreign Exchange Volume. The group will also assist the Committee in its initiative to update the *Guidelines for Foreign Exchange Trading Activities* to better reflect best practices in foreign exchange derivatives trading.

The agenda of the Operations Managers Working Group includes

- ❖ continuing efforts to address, in coordination with the Financial Markets Lawyers Group and the International Swaps and Derivatives Association, widespread industry difficulties in matching and exchanging documentation for exotic option transactions;
- ❖ participating in and providing support for the Second Global Operational Managers meeting, scheduled for April in London with the Foreign Exchange Joint Standing Committee as host;
- ❖ exploring further the risks associated with authentication, particularly the emerging trend of participants forwarding to dealing firms documentation that includes a number of limitations and restrictions affecting the firms' ability to authorize settlement-related instructions; and
- ❖ encouraging further progress in the institutional implementation of the Master Agreement Addendum for non-deliverable forwards, first published in January 2003.

