

COMMITTEE LETTER

Announcing Best Practice Recommendations for Foreign Exchange Prime Brokerage

December 19, 2005

Dear Market Participant,

In light of the significant increase in foreign exchange prime brokerage transaction volume and market participation, the Foreign Exchange Committee established a working group to explore the risks associated with the product.

The resulting document, *Foreign Exchange Prime Brokerage: Product Overview and Best Practice Recommendations*, reflects the working group's collective experience with the service. The document provides a description of the prime brokerage product, participants, value proposition, and legal framework. It also includes a collection of recommended best practices that clarify the relationship among the prime broker, executing dealer, and client in order to mitigate some of the credit, operational, and reputational risks associated with the prime brokerage service. The recommended best practices should be read in conjunction with the Committee's three primary documents—*Guidelines for Foreign Exchange Trading Activities*, *Management of Operational Risk in Foreign Exchange*, and *Foreign Exchange Transaction Processing: Execution-to-Settlement Recommendations for Nondealer Participants*.

Earlier this year, the Committee and the Financial Markets Lawyers Group published standard legal documentation for foreign exchange prime brokerage market participants. The Master FX Give-Up Agreement is a bilateral master agreement, to be entered into by the prime broker and an executing dealer. A Give-Up Agreement Notice supplements the Master Give-Up Agreement and sets forth the terms under which the dealer may enter into foreign exchange transactions with a particular designated party. The Master FX Give-Up Agreement may be accompanied by a Compensation Agreement, to be executed by the prime broker's designated party and a dealer. The Compensation Agreement provides for the compensation of losses in the event that the prime broker does not accept the give-up of a transaction.

The Committee first published recommended guidelines for the foreign exchange industry in 1979. As the market evolves and new instruments, participants, and services



are introduced, the Committee will continue to review its market guidance on an ongoing basis and address as needed other practices that affect the smooth and efficient functioning of the market. Together with all the Committee's publications, the prime brokerage materials are available online at <www.newyorkfed.org/fxc>.

Yours truly,

Mark Snyder
Chair
Foreign Exchange Committee

