

# Works in Progress for 2007

In 2006, the Committee continued to identify risks associated with the evolution of the foreign exchange market, issuing a set of best practice recommendations for dealers and prime brokers operating in the autodealing environment. The Committee also continued its efforts, in conjunction with the International Swaps and Derivatives Association, Inc., and EMTA, Inc., to publish documentation and guidance on non-deliverable forward FX transactions and to provide updated documentation on FX and currency option definitions.

Technological developments are transforming the marketplace. Looking ahead, the Committee in 2007 will assess the effect of these developments on market conditions and practices. It will continue to work with industry members to ensure that emerging risks are properly identified, measured, and managed in order to promote the ongoing smooth functioning of the market.

## **Technology**

Advances in information technology—in particular, the prevalence of electronic trading platforms—are facilitating the entry of new participants into the foreign exchange market. Within this context, the liquidity landscape of the marketplace is being altered as nonbank institutions are increasingly providing liquidity on electronic trading platforms, whereas previously the interbank market traditionally had been the primary source of liquidity. In 2007, the Committee will explore issues surrounding the effect of rapidly developing technology on liquidity provision, market structure, and market resilience.

## **Retail Foreign Exchange Trading**

Retail foreign exchange is one of the fastest-growing segments of the FX market. Two years ago, the Committee published a document addressing potential risks arising in retail foreign exchange trading. With this segment of the market continuing to expand globally, the Committee in 2007 will collect new data and update the information on market practices presented in its December 2005 document.

## **Best Execution**

The market expansion fueled by new technology will affect financial market supervision and regulation. In various locales and asset classes, this has led to a discussion of risk, responsibility, and execution standards. The Committee in 2007 will closely monitor developments in various financial markets, with a view toward assessing the possible effects on foreign exchange.

## **Updating Trading Guidance**

The Committee recognizes the value of revising its guidance to address emerging issues in an evolving industry. In 2007, the Committee plans to revise the *Guidelines for Foreign Exchange Trading Activities* to reflect more accurately developments in the market and incorporate best practices to address changes in market behavior.

## **Efforts of the Working Groups**

The Chief Dealers Working Group in 2007 will continue 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* and to examine the liquidity implications of technological developments and electronic trading.

The agenda of the Operations Managers Working Group includes continuing its efforts to develop, in conjunction with the Financial Markets Lawyers Group and EMTA, Inc., a Master Confirmation Agreement for Non-Deliverable Forward FX Transactions; to explore the changing nature of the confirmation process and the implications of advances in technology and electronic trading; and to update the Committee's guidance on managing operational risk in foreign exchange, as needed.