



## Chair's Letter

At the start of 2009, financial market conditions were fragile but recovering. The Foreign Exchange Committee's primary concerns continued to be funding and liquidity. In the first quarter, the Committee focused on capital and credit preservation as members closely monitored the effects of both on the global currency market. The Federal Reserve Bank of New York was proactive in communicating both the intent and the substance of the various policy initiatives it had undertaken. Trade volumes and risk appetite appeared low. Against this backdrop, the Committee chose to direct its efforts to three areas:

- *Post-crisis market structure*: Evaluating tools that exist within the foreign exchange market to help reduce systemic risk and considering changes to the market structure to further bolster the market's resilience and efficiency;
- *Risk measurement and management*: Addressing the risk that arises from the limitations of conventional statistical frameworks as well as broader credit, settlement, liquidity, and reputational risks; and
- *Foreign Exchange Committee products and communication*: Reexamining the composition and role of the Committee itself within the broader foreign exchange industry.

The global equity markets stabilized at the end of the first quarter of 2009, and the remainder of the year was characterized by equity rebounds, episodic signs of slow recovery, and an increasing focus on new proposed regulation. Globally, countries were at different stages of recovery; domestically, policy responses varied and reflected national concerns. The responses to quantitative easing, economic stimulus, extraordinary liquidity provision, and various regulatory agendas were difficult to assess.

The Foreign Exchange Committee took a 360-degree view of events—looking back to the crisis of 2007-08 to analyze root causes and market performance, and looking ahead to understand the challenges of large complex financial institutions, financial market interconnectedness, and systemic risk. Coincident with these initiatives, the Committee stepped up its dialogue with similar committees around the world. It hosted the Secretariat of the Bank of England's Foreign Exchange Joint Standing Committee (FXJSC) at its May and October meetings. In addition, the Committee participated in a meeting of eight global foreign exchange committees in Singapore toward the end of the year. Dialogue among the foreign exchange committees of the euro zone, the United Kingdom, Canada, Japan, Hong Kong, Singapore, Australia, and the United States is active and ongoing.

As the year progressed, Committee discussions addressed the role of the U.S. dollar as a reserve currency, the timing and process of the eventual normalization of monetary policy, and the potential changes in the regulatory environment. During the summer, the first drafts of proposed U.S. financial market legislation appeared. The Committee studied the language of this legislation and debated the prospective impact on the global foreign exchange market. The work of our task forces intensified, as did our dialogue with the FXJSC in London, with whom we share some members.

In September, the FXJSC published a working paper on the foreign exchange market. This paper dealt with foreign exchange market size, scope, and structure; performance during the crisis; and current market initiatives. The Committee, with its Buy-Side Subcommittee, decided to publish in November a similar U.S.-focused paper to educate readers about the market and to clarify technical issues raised by proposed regulatory reform efforts. Specifically, our intent was to provide a basic overview of the foreign exchange market for those who might be unfamiliar with its scope and function, to comment on its performance during the crisis, to underscore the global nature of the foreign exchange market and thus the importance of global regulatory communication, and to suggest further risk mitigation efforts for the industry. The Foreign Exchange Committee's *Overview of the OTC Foreign Exchange Market: 2009* was published in the autumn.



The Committee's conclusions are consistent with those of its FXJSC colleagues in the United Kingdom. The foreign exchange market is resilient, and the significant risk mitigation mechanisms developed over the years (many of which have been documented in past Committee publications) have served participants, end users, and the general public well. Opportunities to enhance transparency and risk mitigation remain, and the Committee and its working groups will continue to focus on these priorities in 2010.

Throughout 2009, the Foreign Exchange Committee used its position to enhance knowledge and understanding of the foreign exchange and related international financial markets. It will continue its work to promote the efficiency and transparency of the foreign exchange market, pursue greater standardization of documentation, improve its communication with both participants and those who regulate them, and sharpen its focus on crisis management. Although the financial and regulatory reform environment created by the recent crisis is uncertain, the Committee will continue to recommend best practices and educate market practitioners and the public on the function and challenges of the global foreign exchange market.

For thirty years, the Committee has served as a forum to discuss foreign exchange issues, a source of best practices, and a channel of communication for both regulators and the general public. I leave this noble work to my colleagues, as 2009 marks the end of my sixteen-year involvement with this group. These men and women graciously serve a variety of constituencies—clients, shareholders, other professionals in the foreign exchange industry, and the public interest. As this annual report and the ones that have preceded it demonstrate, their commitment is considerable. It has been an honor to serve with all my past and present colleagues.

**Rich Mahoney**