

**THE  
FOREIGN EXCHANGE COMMITTEE**

**ANNUAL REPORT**

**1981**



---

## CONTENTS

|                                                                                                                      | PAGE       |
|----------------------------------------------------------------------------------------------------------------------|------------|
| <b>Chairman's Report</b>                                                                                             | <b>3</b>   |
| <b>The Committee's Advisory Role to the<br/>Federal Reserve Bank of New York and<br/>Other Official Institutions</b> | <b>4-5</b> |
| <i>(a) Comments on IBFs</i>                                                                                          |            |
| <i>(b) Comments on Performance of the<br/>Foreign Exchange Markets</i>                                               |            |
| <i>(c) Comments on Financial Futures<br/>Markets</i>                                                                 |            |
| <i>(d) Comments on Non-Bank Participants<br/>in the Exchange Market</i>                                              |            |
| <i>(e) Comments on Foreign Exchange<br/>Contract Standards</i>                                                       |            |
| <b>The Committee's Role in Conversion<br/>of Chips to Same-Day Settlement</b>                                        | <b>6</b>   |
| <b>Procedural Matters on the Foreign<br/>Exchange Committee</b>                                                      | <b>7</b>   |
| <b>Meetings of the Foreign Exchange<br/>Committee in 1980-1981</b>                                                   | <b>7</b>   |
| <b>Document of Organization</b>                                                                                      | <b>8</b>   |
| <b>Foreign Exchange Committee Members<br/>and Alternates</b>                                                         | <b>9</b>   |

---

---

## CHAIRMAN'S REPORT

Nineteen hundred eighty-one was another productive year for the Foreign Exchange Committee, although that product was perhaps less visible than in prior years

Early in the year the Committee circulated the document on Management of Foreign Exchange Activity which it had been working on through 1980 and which was discussed in the 1980 Annual report. No additional documents were prepared or circulated by the Committee during 1981. This did not mean the Committee was not actively engaged, but rather reflected the fact that during its first two years of operation the Committee had devoted substantial attention to clearing away a number of outstanding issues it felt required the preparation of papers for the general interest of the foreign exchange community.

With that task accomplished, the Committee was able to turn its attention more fully to its primary role as a forum for discussion of current market issues among major participants, and as a communications link to the Federal Reserve.

In these respects the Committee is indeed functioning and performing a useful role, and I continue to urge participants in the foreign exchange markets to bring to the Committee any problems of which they become aware, and which they think the Committee could usefully discuss.


The Committee devoted a substantial amount of time to the discussion of potential problems of the transition of the New York

Clearing House Interbank Payments System to same-day settlement, and we believe played a significant role in helping to insure the transition went as smoothly as in fact it did. The Committee was also extensively involved in discussions of the introduction of the International Banking Facilities in New York and in helping to resolve some of the questions arising from establishment of those new institutions.

As is indicated in the 1981 Annual Report, the Committee continued throughout the year to fulfill its role in providing the Federal Reserve with current market information and discussing major issues affecting the exchange markets and their performance during the course of the year. In addition, the Committee proved to be a useful forum for reviewing a variety of issues arising in transactions between banks and foreign exchange brokers and in attempting to smooth some of those difficulties.

This is my final letter as chairman of the Committee. The three years I have served as the Committee's chairman have been very exciting, and work on the Committee has been personally very rewarding.

I want to thank the other members, present and past, for their generous support and assistance throughout the three years and, in particular, the Federal Reserve Bank of New York staff and its president, Anthony Solomon, for their continuing effort to help make the work of the Committee meaningful.

  
David E. Bodner

# THE COMMITTEE'S ADVISORY ROLE TO THE FEDERAL RESERVE BANK OF NEW YORK AND OTHER OFFICIAL INSTITUTIONS

A major part of the Foreign Exchange Committee's work this year was to serve in an advisory capacity and as a channel of communication from the market to the Federal Reserve on a number of market-related and supervisory issues. Considerable attention was focused on the complex issues arising from changes within the

Clearing House Interbank Payment System (Chips) to a same-day settlement system, as is discussed on page 6 of this report

In addition, the Committee took a continuing interest in a number of the changes taking place in the structure of the foreign exchange and related markets in the United States

---

## Comments On IBFs

The Committee held discussions on several occasions concerning international banking facilities (IBFs), centering on the questions and problems depository institutions were encountering in planning for and establishing these new entities. Several questions, including the precise nature of tax treatment of foreign exchange transactions done by IBFs in New York State and the appropriateness of a Federal Deposit Insurance Corp. (FDIC) assessment on IBF liabilities, were still under discussion on December 3, 1981, the opening date for IBFs

Not all depository institutions represented on the Committee had such facilities already in operation, but those with IBFs indicated considerable business was contracted that day. The prices paid for funds by IBFs were reported to be about the same as those paid by those institution's London branches. A number of depositors were anxious to place funds with IBFs on the opening day. Most members indicated they saw little impact on the Eurodollar market of trading by IBFs.

## Comments On Performance Of The Exchange Markets

At various meetings during the second half of 1981, Committee members reported to the Federal Reserve their concern about the current performance of the exchange markets

Among other issues, the Committee reviewed the factors likely to determine how rapidly activity in IBFs will expand and discussed Federal Reserve proposals for the data to be collected from IBFs.

Although there was agreement the markets still function and business was being conducted, some members expressed frustration with the volatility of rate movements and the lack of depth and liquidity in the markets. Some Committee members attributed these developments to various factors, including uncertainty about economic and political events, greater volatility of interest rates in several countries, and the lack of central bank intervention in the United States. They pointed to a dilution of the level of trading experience in the market, with many new entrants to the market bidding away talented and experienced dealers. They also said that more rapid international communications had eliminated lags in the spreading of news and had increased the potential for "bandwagon" effects and "one-way" markets

A number of Committee members suggested that uncertainties surrounding legal, data reporting and administrative issues might retard growth of the IBFs in the early stages. In addition, Committee members indicated the administrative approach taken by depository institutions to the transfer of assets and liabilities from the books of their Caribbean branches to their IBFs would greatly influence the pace at which IBFs would expand initially. Not all depository institutions indicated a desire to transfer these items in bulk, thinking it would be administratively easier to wait until existing items came to maturity and then to put rollovers or new business on the IBF books

Committee members reported that, in this environment, many depository institutions are less willing to take positions in foreign exchange, and this reluctance to position reduces the liquidity of the market.

Within the Committee there was a consensus that the major portion by far of the business allocated to IBFs in the first months of operation would be dollar-denominated. With respect to the medium-term, however, there was more divergence of opinion about the potential for developing foreign-currency deposit activity in the United States within the framework of the IBFs

They also expressed concern these conditions make the markets more vulnerable to manipulation. Moreover, they indicated, the volatility of spot rates and of interest rates, together with growing

The Committee took advantage of its December 4, 1981 meeting to share experiences about the first day of IBF operations

---

concern about credit considerations, are making depository institutions cautious about dealing in outright forwards for maturities longer than six months.

#### **Comments On Financial Futures Markets**

The greater volatility of interest and exchange rates generated considerable interest among Committee members in recent developments in the financial futures markets.

Members noted with interest the progress being made outside the U.S.—notably the United Kingdom, Bermuda, and Hong Kong—in developing organized futures exchanges.

Some Committee members reported to the Federal Reserve that, in their view, commercial bank money desks would soon engage heavily in trading futures contracts. In this way banks could hedge their own exposed positions, cover customer exposure, or execute speculative orders without inflating their balance sheets or exhausting existing credit lines.

In this connection, several members indicated considerable interest in the proposed (and subsequently implemented) Eurodollar futures contracts

#### **Comments On Non-Bank Participants In The Exchange Market**

Throughout the year, a number of Committee members reported on the growing activity non-banks are bringing to the foreign exchange market in the United States. One member broker indicated that in January 1981 several corporations had asked the firm about a foreign-exchange service, and by year-end a number of brokers were prepared to offer such a service.

In view of these changes in market structure, some members of the Committee expressed the view it would be unfortunate if the U.S. Treasury or the Federal Reserve were to terminate its practice of collecting foreign-exchange position data from non-banks

In the Committee's view, figures which did not include coverage of non-bank firms would be seriously distorted. A view was expressed it also would be useful to capture the activities of firms on the International Money Market (IMM) and on other futures markets.

Moreover, some expressed the opinion that non-bank financial institutions are likely to play a growing role in the exchange markets in the future.

#### **Comments On Foreign Exchange Contract Standards**

As in previous years, the Committee provided technical advice in the ongoing project of the International Chamber of Commerce (ICC) to draft standards for foreign exchange contracts.

The ICC continued to face difficulties in suggesting a market convention to deal with the problems which would arise if a party to a foreign exchange contract were to become insolvent before completing all payments required by that contract. The problem is that such a convention would not supersede national bankruptcy laws in the United States as well as many other countries.

Within the Committee there was considerable sentiment in favor of promoting the best set of guidelines possible to help reduce uncertainty, and narrowing the possible range of legal problems which might arise with foreign exchange contracts.

But there also was considerable concern that a weak standard or set of guidelines might prove to be misleading by conveying the impression that there was a greater degree of certainty than in fact exists on how to proceed in the event of an insolvency.

For 1981, although the Committee made some technical suggestions, it decided that the ICC had not made sufficient progress on this difficult issue to warrant the attention required by the Committee to develop and suggest detailed recommendations to the ICC on its current draft.

## THE COMMITTEE'S ROLE IN CONVERSION OF CHIPS TO SAME-DAY SETTLEMENT

As reported in the 1980 Annual Report, the Committee has been actively following the New York Clearing House conversion on October 1, 1981, of Chips to a same-day settlement basis.

This year, the Committee sought to maintain close communication with the Clearing House, the Federal Reserve, and other market participants as the cutover date approached, and to review events after the changeover.

Early in the year, following discussions within the Committee, many members individually undertook to develop policies within their own institutions concerning the handling of customer and correspondent bank transactions on and after the cutover and broadly circulated the policy statements to their customers and correspondents. Many members included in their mailings the February 20, 1981 Federal Reserve Bank of New York circular (number 9021) on the subject and subsequently sent informational copies of their policy statements to the Federal Reserve. Similarly, the Federal Reserve sent copies of its February 20 circular to foreign central banks and official agencies, and held several meetings in New York with commercial bank representatives to keep abreast of preparations for the cutover.

The Committee closely monitored developments during the spring and summer. As the changeover approached, detailed technical information was widely disseminated between commercial banks and their customers. In many cases, corporate customers of commercial banks made special arrangements for overdrafts to be used if payment errors, or other unforeseen liquidity problems, arose after the cutover.

In turn, commercial banks held discussions with the Federal Reserve concerning the conditions in which depository institutions would be able to borrow from the discount window late in the day in case of unforeseen liquidity problems.

The October 1 changeover was accomplished without apparent difficulties. Particularly in the foreign exchange markets, transactions volume dropped sharply on the few days surrounding October 1, substantially easing transition pressures.

Apparently, the changeover neither produced undue liquidity pressures on customers or banks, nor did it lead to increased use of official or cashier's checks for settlement, as some had anticipated. Within a few days, transactions volume through the Chips network returned to normal levels.

## PROCEDURAL MATTERS OF THE FOREIGN EXCHANGE COMMITTEE

In view of the changing structure of the exchange market in the U.S., the Committee considered whether there should be any adjustment in the structure of its membership for 1982.

It was generally agreed that, for banks, the balance of representation between banks headquartered on the East Coast and elsewhere, and between U.S. and foreign-owned banks, appropriately reflects participation of these categories of institutions in the market generally. As a result, no change was recommended for bank membership. The representatives are shown on page 9.

There was concern, however, that representatives of the foreign exchange brokers had on occasion been unable to attend Committee meetings because of business commitments. A variety of approaches were discussed for insuring that at least one member of a foreign exchange brokerage firm would attend each meeting. The Committee decided to request the Federal Reserve Bank of New York to increase the size of the Committee so as to appoint an additional member and alternate from foreign exchange brokerage

firms. This change could be accommodated without amendment to the Documents of Organization of the Committee (page 8).

The Committee continued to generally schedule its formal meetings on the first Friday of every month. The meeting dates for 1981, and the scheduled dates for 1982, are shown below.

During 1981, the Committee circulated to all market participants its paper entitled "Management of Foreign Exchange Activity" as reported in the Annual Report of 1980. The paper generated considerable interest in the financial community, and the Federal Reserve Bank of New York subsequently received several requests for duplicate copies, as well as of copies of other documents referred to in this paper pertaining to the management and supervision of foreign exchange trading operations.

The Committee did not issue any further recommendations during 1981.

### FORMAL MEETINGS OF THE FOREIGN EXCHANGE COMMITTEE

| Held In<br>1981  | Schedule For<br>1982 |
|------------------|----------------------|
| February 6, 1981 | February 5, 1982     |
| April 3, 1981    | April 2, 1982        |
| June 12, 1981    | June 4, 1982         |
| August 7, 1981   | August 6, 1982       |
| October 2, 1981  | October 1, 1982      |
| December 4, 1981 | December 3, 1982     |

## Document of Organization

### CONCLUSION OF FEASIBILITY STUDY TO ESTABLISH FOREIGN EXCHANGE COMMITTEE (June 1978)

It was generally agreed that any new forum for discussing matters of mutual concern in the foreign exchange market (and where appropriate off-shore deposit markets) should be organized as an independent body under sponsorship of the Federal Reserve Bank of New York. Such a Committee should:

1. be representative of institutions participating in the market rather than individuals,
2. be composed of individuals with a broad knowledge of the foreign exchange markets and in a position to speak for their respective institutions,
3. have sufficient stature in the market to engender respect for its views, even though the Committee would have no enforcement authority,
4. be constituted in such a manner as to ensure at all times fair presentation and consideration of all points of view and interests in the market, and
5. notwithstanding the need for representation of all interests, be small enough to deal effectively with issues that come before this group

The objectives of the Committee would be:

To provide a forum for discussing technical issues in the foreign exchange market, as well as the related international money markets

To serve as a channel of information between the market and the Federal Reserve and, possibly, other official institutions within the United States and abroad.

It is understood that the Committee would seek to work closely with the FOREX Association of North America (FANA)

The Committee may consider the possibility of formulating recommendations for uniform terminology and technical standards for use in the foreign exchange market. It will not concern itself with the evaluation of individual market participants, nor will it attempt to set requirements, qualifications, or terms for participation in the market

#### The Committee

In response to the results of the study, the Federal Reserve Bank of New York agreed to sponsor the establishment of a Foreign Exchange Committee. It was agreed that

1. The Committee should consist of no more than 14 members and an equal number of alternates. In addition, the President of FANA would be invited to participate.
2. Institutions participating in the Committee should be chosen in consideration of their participation in the exchange market here as well as of the size and general importance of the institution. Selection of participants should remain flexible to reflect changes as they occur in the foreign exchange market
3. Responsibility for choosing member institutions and alternates rests with the Federal Reserve

Bank of New York. The Federal Reserve may solicit the advice of current Committee members.

4. Initially, the terms of half of the members will be for two years and half for three. Thereafter, to provide for maximum participation in the Committee by institutions eligible for membership, the term of membership would be two years. It is envisaged that, at the expiration of each member's term, the alternate would succeed to full membership

The composition of the Committee should be as follows

- 5-6 East Coast banks (possibly including one New York Edge Act corporation)
- 2-3 regional banks
- 2-3 foreign banks
- 1-2 brokers (preferably to represent both foreign exchange and Euro-depositors)

the president of the FOREX Association of North America

the Federal Reserve Bank of New York

#### Committee Procedures

At the outset, there would be a meeting of the Committee—with a specified agenda of items—at least every alternate month (January, March, May, July, September, November). The format of the discussion, however, would be informal.

In the event that a member is unable to attend a meeting, his alternate may attend.

Any recommendation the Committee wishes to make on items coming to its attention can be discussed and decided upon only at its meetings. Any such recommendation would be distributed not only to member institutions and their alternates, but to every senior officer in charge of the international money desks of every participating institution in the United States.

The Committee may designate *ad hoc* working groups to focus on specific issues.

Depending on the agenda of items to be discussed, the Committee may choose to invite other institutions to participate in its discussions and deliberations

Summaries of discussions at each meeting would be prepared and distributed to market participants generally by the Federal Reserve Bank of New York on behalf of the Committee

Meetings of the Committee would be held at the Federal Reserve Bank of New York

In addition to the meetings provided for above, a meeting of the Committee may be requested at any time by two or more members.



# FOREIGN EXCHANGE COMMITTEE MEMBERS AND ALTERNATES

(As of December 31, 1981)

## MEMBERS

## ALTERNATES

## MEMBERS

## ALTERNATES

### I East Coast Banks

Heinz Riehl  
Senior Vice President  
Citibank N A  
399 Park Avenue  
New York NY 10043  
(212) 559-0864

Rolf G Sellge  
Senior Vice President  
Morgan Guaranty Trust Company  
23 Wall Street  
New York, NY 10015  
(212) 483-5025

James P Borden  
Senior Vice President  
The Chase Manhattan Bank, N A  
One Chase Manhattan Plaza  
New York NY 10081  
(212) 552-7543

Hans B Hunsch  
Senior Vice President  
Bankers Trust Company  
16 Wall Street  
New York, NY 10005  
(212) 775-4480

Thomas J Devine  
Vice President  
Manufacturers Hanover  
Trust Company  
44 Wall Street  
New York, NY 10005  
(212) 623-9006

Arthur H Meehan  
Senior Vice President  
New England Merchants  
National Bank  
28 State Street  
Boston, MA 02109  
(617) 742-4000  
ext 1620

### II Regional Banks

Robert Goetter  
Senior Vice President  
Harris Trust and Savings Bank  
111 West Monroe Street  
Chicago IL 60690  
(312) 461-3386

Robert LeBien  
Senior Vice President  
Security Pacific National Bank  
International Banking Group  
333 South Hope Street  
Los Angeles CA 90071  
(213) 613-5757

David E Bodner  
Senior Vice President  
Chemical Bank  
20 Pine Street  
New York NY 10005  
(212) 770-4146

Renaldo Levy  
Senior Vice President  
Marine Midland Bank  
140 Broadway  
New York, NY 10015  
(212) 440-5718

Horst Duseberg  
Executive Vice President  
European-American Bank  
and Trust Company  
77 Water Street  
New York, NY  
(212) 437-4300

Bryan Walsh  
Senior Vice President  
Irving Trust Company  
One Wall Street  
New York NY 10004  
(212) 487-7831

Robert A. Savage  
Executive Vice President  
American Express International  
Banking Corporation  
125 Broad Street  
New York, NY 10004  
(212) 323-5134

Thomas Downen  
Senior Vice President  
Continental Illinois National  
Bank and Trust Company  
231 LaSalle Street  
Chicago, IL 60693  
(312) 828-3660

Raymond R Peters  
Group Vice President  
Bank of America N T & S A  
Department No 3170  
P O Box 37000  
San Francisco CA 94137  
(415) 953-9574

### III. Foreign Banks

Christopher Pavlou  
Senior Vice President  
Barclays Bank International  
100 Water Street  
New York, NY 10005  
(212) 530-0103

Victor von Klemperer  
First Vice President  
Dresdner Bank AG  
60 Broad Street  
New York NY 10004  
(212) 344-5460

Kaoru Hayami  
Deputy General Manager  
The Bank of Tokyo, Ltd  
New York Agency  
100 Broadway  
New York, NY 10005  
(212) 766-3422

### IV. Brokers

Edward Baltas  
President  
Lasser Marshall Inc  
76 William Street  
New York, NY 10005  
(212) 943-5368

Alan Griffiths  
President  
Bierbaum Inc  
One Whitehall Street  
New York, NY  
(212) 363-8500

### V Forex Assn of North America President (observer)

John H Christopherson  
Vice President  
Chemical Bank  
20 Pine Street  
New York, NY 10005  
(212) 820-6087

### VI. Federal Reserve Bank of New York (ex officio)

Sam Y Cross  
Senior Vice President  
Federal Reserve Bank  
of New York  
33 Liberty Street  
New York NY 10045  
(212) 791-6180

Margaret L. Greene  
Vice President  
Federal Reserve Bank  
of New York  
33 Liberty Street  
New York NY 10045  
(212) 791-5688

Christine W Patton  
First Vice President  
Credit Lyonnais  
95 Wall Street  
New York NY  
(212) 344-0500 ext 254

Hans Neukomn  
Senior Vice President  
Credit Suisse  
100 Wall Street  
New York, NY  
(212) 442-1450

Terry Joyce  
Agent, Foreign Exchange  
The Toronto-Dominion Bank  
45 Wall Street  
New York, NY  
(212) 820-2000

Philip D'Angelo  
President  
Noonan, Astley and Pearce Inc  
Wall Street Plaza  
New York NY 10005  
(212) 483-8297

Paul Matthews  
Vice President  
Harlow, Meyer, & Savage, Inc  
11 Broadway  
New York NY  
(212) 422-7171