



November 9, 2009

In early 2009, the Foreign Exchange Committee organized a working group to consider the effectiveness of the foreign exchange market over the recent period of financial market instability and to determine lessons that could be learned to improve the resiliency of the marketplace going forward. The group concluded that while the foreign exchange market continued to function well throughout the period—allowing investors to continue to execute necessary transactions and manage currency exposures—certain opportunities exist for additional improvement.

Accordingly, the working group prepared the accompanying paper to provide an overview of the foreign exchange marketplace and to describe some of the current tools available to mitigate foreign exchange risks. The paper also recommends priorities designed to further strengthen the marketplace. The Foreign Exchange Committee and its Buy-Side Subcommittee endorse the paper and would like to share it with you.

The document is organized as follows:

- I. Introduction**
- II. Brief Overview of FX Market**
 - a. Liquidity of the Global Foreign Exchange Market
 - b. Use of the Foreign Exchange Market by Corporations and Investors
 - c. The Role of the U.S. Dollar in the Global Foreign Exchange Market
- III. Selected Tools for Effective Risk Management in the Global Foreign Exchange Market**
 - a. Availability of Continuous Linked Settlement (CLS)
 - b. Important Factors Mitigating Counterparty Credit Risk in the OTC FX Market
 - c. Significant Efforts to Manage Operational Risk and Strengthen Legal Documentation Underpinning Foreign Exchange Transactions
- IV. Looking Ahead: Priorities for the Industry**
- V. Conclusion**

We hope that you find the paper helpful and informative.

Best,

Richard Mahoney
Chair
Foreign Exchange Committee

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Buy-Side Subcommittee Member Firms

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