

Evaluation of the revision of the Foreign Exchange Market Committee's Guidelines in New York

New York Foreign Exchange Committee (the Committee hereafter) has revised its Guidelines and issued its opinion letter dated July 13. It was to caution the market participants and financial institutions against possible fraudulent trade as well as to reaffirm the revision of codes of conduct as needed in order to maintain highest ethical and managerial standards in the market following the incident in New York and FX option related fraud in Australia.

As the Committee states in the opinion letter, while it recognizes that trade discrepancies are inevitable, there should hence be a clear process for preventing frauds, and management should be involved in the dispute resolution process at the institutional level. And it also states that 'the use of points' is one of the long criticized inappropriate practices as a cause of frauds, and therefore cash settlements are preferred for resolving discrepancies caused by "stuffing".

There is also the issue of foreign exchange trading with the unnamed counterparties in the form of trust accounts. This makes credit control and compliance with anti-money laundering rules and regulations difficult to perform and resultantly exposes traders to compliance, credit, and reputational risks, while increasing the chances of frauds. The Committee recommended that relevant traders should eliminate such deficient trade practices and that the investment advisors and foreign exchange intermediaries should develop a process to disclose the account information to foreign exchange banks' credit and legal departments, while these banks should establish procedures to ensure the strict confidentiality of this information and restrict the disclosure of it to the front office except in the event of default.

As the Committee points out, foreign exchange market is the most deregulated market while its importance in global capital markets and world trade is increasing day by day. Therefore it is critical that the market participants keep to the guidelines and maintain the transparency and credibility of the market.

Tokyo Foreign Exchange Committee while fully appreciates the New York Committee's initiatives, would like to remind that the Code of Conduct (Orange Book) revised September last year is based on almost the same frame of reference. And it would like to caution the market participants and financial institutions the importance of these codes for the further developments of the foreign exchange market.

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Tokyo Foreign Exchange Committee
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