The Foreign Exchange Committee
33 Liberty Street, 9th Floor
New York, NY 10045

June 7, 2002

Mr. Sanjay Vatsa
Chairman
The SIA Foreign Exchange Subcommittee for T+1
The SIA
120 Broadway, 35th Floor
New York, NY 10271

Dear Mr. Vatsa,

The Operation Managers Working Group of the Foreign Exchange Committee has reviewed the SIA Foreign Exchange Subcommittee's Draft White Paper and prepared comments for your review. In general, our readers concur with the key finding of the paper. However, it is difficult to assess the financial impact of various funding options without further data on the relative costs associated with each measure. The Working Group would encourage the SIA to further study the relative costs associated with prefunding, Tom Next (t/n) FX trades, and lending as a means of funding U.S. securities transactions.

In addition, Working Group members expressed concern over the 2005 deadline for establishing T+1 settlement for U.S. securities. The Working Group acknowledges that adoption of STP among FX providers could lower the relative costs of funding U.S. securities trades on a T+1 basis. While uses of electronic platforms and the implementation of CLS may improve the automation of the FX industry, the implementation of full STP by 2005 is an aggressive objective given the wide scope of FX industry participation. In addition, the Working Group concurs with the paper's assertion that automation may not be sufficient to fully mitigate the operational complexities of trading in different time zones.

Several readers recommended further detail in sections of the paper. The list below summarizes comments from our readers:

Market Data and Costs

- The paper cites two measures of cross-boarder securities trades requiring FX trades. These data appear inconsistent. Further analysis of the data may be warranted given the relative importance of cross-boarder trades to the T+1 business case.

- The impact of T+1 would be significantly greater if other jurisdictions such as Canada and Japan implemented T+1 settlement as well. A U.S. dollar-centered solution to T+1 may underestimate the complexities of global T+1 initiatives.

- Readers expressed concern that T+1 would increase the reliance on custodians for FX trades constituting higher costs to buy-side participants who will not be able to "shop" for prices for FX trades. This may be further emphasized in the paper.

Tom Next market and liquidity

- The paper should clarify that t/n liquidity is significantly skewed towards the morning hours in the London market place, which may suggest that asset managers tapping t/n in alternative time periods may see higher prices.

- Some readers suggested that the relative costs of t/n trades may be over stated given that most securities trades require G7 currency transactions where t/n liquidity is greatest. Readers agree, however, that liquidity becomes more problematic for non-G7 currencies. Going forward, the SIA may want to further investigate the relative costs of trading on a t/n basis.

- It was noted that using the t/n market is a better alternative to either pre-funding or borrowing considering the "on balance sheet" treatment of borrowing and lending versus the "off balance sheet" nature of the t/n trading. Using t/n may have a lower economic cost.

Settlement

- Readers challenged the practicality of encouraging VMU's to provide matching/communication and settlement facilities for FX trades suggesting that it is "not practical" and that "large institutions that offer FX trading and custodian services are committed to use CLS for their customers FX settlements."

- The paper suggests a link-up between CLS and DTC for settlement of cross border trades on a DVP basis. Some readers questioned the practicality and likelihood of such a link, and suggested that further details should be included in the paper. Readers also expressed concern that mixing trade and settlement of FX and securities may compromise regulatory requirements for different market participant classes. Can the same standards for settlement be established for all participant classes? This warrant's further investigation.

Operations

- Readers agreed that process and behavioral changes will be necessary in order to facilitate T+1. Readers emphasized that there are still a number of banks that produce and send confirmations as part of their overnight batch processing or rely on phone confirmations. These should be mentioned specifically in the paper.

- Readers noted that hours of operation would likely need to be extended to support worldwide T+1. Readers felt that the relative costs of extended operation should be emphasized in the paper.

The Foreign Exchange Committee applauds your efforts to tackle this subject. Our readers found the paper informative and helpful. We look forward to reviewing a final draft of the White Paper following its completion.

Regards,

Mel Gunewardena
Chairman
Operations Managers Working Group
Foreign Exchange Committee