

THE FOREIGN EXCHANGE COMMITTEE

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WWW.NEWYORKFED.ORG/FXC

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Dear Foreign Exchange Market Participant,

As exemplified in its recommended *Sixty Best Practices*, the Foreign Exchange Committee ("FXC") has long sought to minimize settlement risk, enhance market efficiencies, and encourage greater contractual certainties for all parties active in foreign exchange.

In that regard, the FXC wishes to draw the attention of the foreign exchange community, particularly end users, to the recent CLS initiative regarding trade confirmation. The proposed CLS best practice recommends eliminating the need for members to receive SWIFT MT300 confirmation messages for those trades settling via CLS. The FXC has reviewed and supports this effort.

Notably, the FXC believes that the CLS initiative will reduce operational risk by allowing for the early identification and resolution of discrepancies through its real time matching process. The adoption of the best practice will also eliminate the need to send duplicate confirmation messages – reducing the potential for confusion and/or error while also lowering transaction costs. As a result, we encourage all institutions to consider implementing the best practice when it comes into effect on October 1, 2004.

We understand that adopting institutions should address several issues prior to implementation. Institutions participating in CLS should ensure that they have established key control processes to monitor the status of their instructions at CLS Bank and that these processes enable prompt identification of exceptions and unmatched trades on the trade date. Banks that are able to eliminate the MT300 confirmation match on a bilateral basis for trades settling via CLS should also ensure that their processing and confirmation systems can accommodate the potentially different requirements of their CLS eligible counterparties. Given the selective nature of match substitution with regard to counterparties and currency pairs, systems must continue to support settlement outside of CLS as needed.

Further information on this issue can be found on CLS Bank's public website at www.cls-group.com. In addition, if you would like more information about the FXC, its recent initiatives, or other previously published documents, I strongly encourage you to visit www.newyorkfed.org/fxc.

Very truly yours,
Mark Snyder
Chairman
Foreign Exchange Committee