foreign exchange committee
FXC
ANNOUNCEMENT

April 6, 2005

The Foreign Exchange Committee is pleased to announce the publication of a Master FX Give-Up Agreement, and invites market participants to use the Agreement in documenting foreign exchange 'give-up' relationships. In such relationships, which occur commonly in the foreign exchange markets, a party designated by a prime broker executes transactions with a dealer that are 'given up' to the prime broker. The result is one transaction between the dealer and the prime broker and an offsetting transaction between the prime broker and the designated party or funds or accounts for which that party executes foreign exchange trades.

The Master FX Give-Up Agreement is the product of in-depth discussions among market participants and contains generally accepted standard provisions addressing most aspects of the give-up relationship between a prime broker and a dealer. With respect to a few provisions, the Agreement permits the parties to choose which of several clearly defined alternatives they want to apply in their agreement by selecting them in a schedule that is part of the Agreement. The Committee believes that, as a result, this Agreement will greatly facilitate negotiation of give-up agreements and reduce the time and expense necessary to implement them.

In addition, the Foreign Exchange Committee recognizes that parties may always choose to draft and negotiate documentation in a manner that fits the needs of a particular relationship or product and may choose to use other agreements to document give-up arrangements.

The Master FX Give-Up Agreement is a bilateral master agreement, to be entered into by the prime broker and an executing dealer. A Give-Up Agreement Notice, between the prime broker and the dealer, supplements the Master Give-Up Agreement and sets forth the terms under which the dealer may enter into foreign exchange transactions with a particular designated party pursuant to the Master Agreement. The bilateral nature of the Master Agreement reflects the need for efficiency and standardization, and takes into account the fact that a prime broker may designate a number of parties to engage in foreign exchange give-up transactions on its behalf pursuant to a single Master Agreement.

The Master FX Give-Up Agreement is accompanied by a Compensation Agreement, designed to be executed by the prime broker's designated party and a dealer. The Compensation Agreement provides for the compensation of losses in the event that the give-up of a transaction is not accepted by the prime broker.

The Foreign Exchange Committee recommends that dealers evaluate the likelihood that prime brokers will reject transactions when they enter into Master FX Give-Up Agreements and assess the possibility that they will incur trading losses as a result. In so doing, dealers should evaluate the controls they have in place to reduce the chance of incurring such losses. Such controls can include internal procedures designed to reduce the possibility of executing trades that may be rejected, use of the Compensation Agreement or some combination of methods. While the risk of a trade being rejected by the prime broker has generally been considered by market participants to be minimal, the Committee believes that dealers should consider the execution of

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a Compensation Agreement as a means of addressing that risk. Parties asked to sign a Compensation Agreement should recognize and understand the reasons a dealer would ask them to do so.

The Committee believes the Master FX Give-Up Agreement and Compensation Agreement will significantly assist participants in the foreign exchange market in the documentation of give-up relationships.

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