

The Foreign Exchange Committee and The Singapore Foreign Exchange Market Committee

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Singapore 079117

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Dear Foreign Exchange Professional:

Year 2000 compliance is a costly and difficult undertaking for the foreign exchange community. The market is a complicated structure, relying heavily on automation to manage and exchange information and having numerous linkages and interdependencies with correspondents, customers, third-party service providers and vendors all over the world.

In the interest of advancing market readiness for the century date change, the Foreign Exchange Committee and the Singapore Foreign Exchange Market Committee discussed, at a joint meeting held on November 5, 1998, the benefits of adapting measures to reduce transaction volume and payments in the first days of 2000.

Reducing the volume of transactions in the first trading week would give institutions more time and resources to respond to any problems that might arise with the century date change. It would also create a more stable environment for testing systems at the start of the year. In short, the measures that the Committees reviewed at their meeting, and are now recommending to the foreign exchange community, are meant to ease stress on a system that is in transition. These measures include the following:

- Encouraging counter-parties to settle all foreign exchange (spot, forward and options) transactions on days other than January 3 to 7 in the year 2000, choosing, when appropriate, to settle transactions either prior to the turn of the century, or on days scattered beyond Monday, January 10.
- Suggesting that traders explain this alternative to counter-parties who are negotiating forward contracts that will settle in early January 2000.
- Offering this option to both inter-bank and corporate counter-parties. Although we assume that most businesses are limited in the ability to determine settlement dates for trade-based transactions, some corporations may be able to reschedule

transactions to avoid the possibility of Y2K problems. As a group, banks should have greater flexibility in scheduling transactions with other banks.

- Opting to decrease discretionary inter-bank trades, including spot transactions, in the first week of January 2000.

We expect that without any staggering of settlement dates, Tuesday, January 4 and Thursday, January 6, 2000, may be large transaction volume days. The observance of a bank holiday in both the United Kingdom and Japan on January 3, 2000 may cause a pile up of settlements on January 4 and increase spot trading settlement on January 6. If settlement problems do occur, particularly on these days, solutions may take longer to work out and could be accompanied by higher overall costs than would be the case if settlement volume had been lower.

If you have any questions or comments regarding this proposal, please feel free to contact either of us, or the Executive Assistants of the Foreign Exchange Committee (212 720-8262) and the Singapore Foreign Exchange Market Committee (65-2299168). Copies of this letter are available online at www.ny.frb.org/fxc.

Sincerely,

John J. Finigan
Chairman
The Foreign Exchange Committee

Victor C. S. Liew
Chairman
The Singapore Foreign Exchange
Market Committee