

Federal Reserve Bank of San Francisco
101 Market Street, San Francisco, California 94105

January 13, 2014

To State Member Banks, Bank
Holding Companies, Financial Holding
Companies, Savings and Loan Holding Companies,
and Foreign Banking Offices
in the Twelfth Federal Reserve District

Managing Foreign Exchange Settlement Risks for Physically Settled Transactions

Applicability: This guidance applies to large financial institutions supervised by the Federal Reserve, as defined in SR letter 12-17/ CA letter 12-14, “Consolidated Supervision Framework for Large Financial Institutions.” This guidance does not apply to community and regional banking organizations, defined as those with less than \$50 billion in total consolidated assets, unless the banking organization engages in significant foreign exchange activities.

On December 23, 2013, the Federal Reserve issued [SR letter 13-24, “Managing Foreign Exchange Settlement Risks for Physically Settled Transactions.”](#) This letter transmits the Basel Committee on Banking Supervision (Committee) “Supervisory Guidance for Managing Risks Associated with the Settlement of Foreign Exchange Transactions” (guidance), issued in February 2013. The guidance adapts and replaces previous supervisory guidance, issued by the Committee in 2000, to reflect developments in foreign exchange markets and industry practice by their participants. The guidance sets forth seven principles or guidelines for managing foreign exchange transaction settlement risks, and it provides additional discussion and definitional clarity in an Annex and Glossary, respectively. The Federal Reserve considers this guidance on foreign exchange settlement risks to be a component of its current, broad-based focus on banking institutions’ foreign exchange activities.

The Federal Reserve provided input on the Committee’s guidance and supports these principles as part of its continuing effort to promote the global financial system’s ability to withstand severe market disruptions. The Federal Reserve has determined the institutions subject to this SR letter should apply the seven guidelines, subject to clarifications regarding application of the guidance in the United States as discussed in the letter.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco’s website, at <http://www.frbsf.org/banking-supervision/publications/district-circular-letters/>.

For additional information, please contact:

Federal Reserve Bank of San Francisco
Banking Supervision and Regulation
415-974-2136

Attachment:

Basel Committee on Banking Supervision, [Supervisory Guidance for Managing Risks Associated with the Settlement of Foreign Exchange Transactions](#) (PDF) (February 2013)