



Federal Financial Analytics, Inc.

**FOREIGN EXCHANGE TRADERS FACE SERIOUS REGULATORY RISK,  
FEDFIN FINDS**

“Forex could quickly follow all of Mr. Spitzer’s other targets into a most undesirable limelight, with costly regulatory and legislative consequences for which the industry is thoroughly ill prepared.”

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WASHINGTON, D. C. – In a report sent Monday to clients, Federal Financial Analytics (FedFin) warned that the new investigations into improper use of customer funds could quickly grow into a major strategic challenge to the foreign-exchange market in the U.S. “Financial firms – and even traders housed within them – are now subject to franchise-shaking reputational risk,” FedFin managing partner Karen Shaw Petrou said in releasing the client report. “When we told clients about their own risks when Enron broke, some said we were alarmist. We weren’t then, and we now think the pending investigations pose a major threat to this lucrative and as-yet unregulated industry.”

The FedFin analysis came in the wake of press reports that New York Attorney General Eliot Spitzer is investigating allegations that the Royal Bank of Canada kept for its own account over-payments from foreign-exchange trades executed on a customer’s behalf.

The client report notes, “The Royal Bank of Canada case...doesn’t directly fall under all the U.S. laws...or at least it didn’t until Mr. Spitzer got involved. The New York prosecutor will surely find a victim in his own backyard to defend, and he will likely also find numerous aspects of state law the alleged short-changing will violate. New York banking regulators eager to show the weaknesses of federal preemption could well chime in, with federal regulators – particularly the SEC – pushed in their turn to beat the state to the punch. Hearings in this crowded Congressional year now look unlikely, but one more headline or two and these will follow as well.”

The FedFin client report is attached.

*Federal Financial Analytics, Inc. has for the past eighteen years counseled large financial institutions and even their regulators on major legislative, regulatory and policy issues that pose strategic risk. It does not lobby on behalf of clients, but advises them on appropriate responses in light of identified policy challenges. The firm has lately been very engaged in reputational risk management, advising some of the world’s largest financial institutions on emerging events that require rapid board of directors attention.*

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