[FMLG LETTERHEAD]

[Joint] Statement by the [New York Foreign Exchange Committee and the] Financial Markets Lawyers Group Regarding Foreign Exchange Regulations Effective January 1, 2019

In 2017, the Federal Reserve Board of Governors, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation (together, the "Banking Agencies") issued final rules regarding restrictions on qualified financial contracts, including spot and forward foreign exchange transactions, currency options and other derivatives ("QFCs") for systemically important U.S. banking organizations and their affiliates and the U.S. operations of systemically important foreign banking organizations (the "QFC Rules").

The QFC Rules are designed to facilitate the orderly liquidation of such systemically important banking organizations and their affiliates (the "G-SIBs") by requiring: (1) recognition of the stay-and-transfer provisions of the Federal Deposit Insurance Act and Orderly Liquidation Authority (the "Recognition Requirement"); and (2)(a) contractual stays of "default rights" related to an affiliate's insolvency and (b) contractual override of any transfer restriction with respect to a guarantee or other credit support or property securing such credit support provided by an affiliate of the G-SIB upon the insolvency of the affiliate (the "Contractual Requirements").

The QFC Rules apply to all QFCs entered into with the G-SIBs and requires market participants to amend their existing QFCs to ensure that their QFCs comply with the Recognition Requirement and Contractual Requirements. Such QFCs may permit the immediate exercise of a direct default right if the G-SIB entity that is party to the QFC fails to pay or perform or itself enters an insolvency proceeding (though such direct default right may nonetheless be stayed under the Federal Deposit Insurance Act or Orderly Liquidation Authority, if invoked).

The QFC Rules take effect on January 1, 2019. In order for the G-SIBs to comply with the QFC rule, both they and their counterparties must remediate their QFC contracts to recognize the provisions of the QFC Rules. While the Banking Agencies have provided for a phased-in compliance schedule up to January 1, 2020 depending on the type of entity facing the G-SIB (the "Compliance Date"), if any QFC transactions are executed with a G-SIB on or after January 1, 2019, then all QFC transactions entered into by a counterparty and any of its affiliates with that G-SIB and its covered affiliates must be unwound if not remediated by the specified Compliance Date. After the specified Compliance Date, if a QFC with a counterparty or any of its affiliates has not been amended, the G-SIB and its affiliates will be prohibited from trading under the QFC.

While the rule allows several paths to remediation for market participants, compliance can be achieved most efficiently through an ISDA-developed protocol (the "**ISDA U.S. Protocol**"), which includes creditor protections that are not otherwise available under the QFC Rules through bilateral amendments to the QFCs.

The private sector members of the Financial Market Lawyers Group ("**FMLG**") [and the New York Foreign Exchange Committee ("**FXC**")], which [are] sponsored by the Federal Reserve Bank of New York, have issued this Joint Statement to highlight the need for timely compliance with the QFC Rules in order to ensure the continued smooth operation of the foreign exchange and other financial markets, and endorse the ISDA U.S. Protocol as their preferred path to compliance.

* * * * *

The Financial Markets Lawyers Group comprises lawyers who support foreign exchange and other financial markets trading in leading worldwide financial institutions. It is sponsored by, but is not part of, the Federal Reserve Bank of New York. Any views expressed by the Financial Markets Lawyers Group are the views of its private sector members, and do not necessarily represent the views of the Federal Reserve Bank of New York or the Federal Reserve System.

[FXC rider]