FOOTNOTES

- 1. Estimates of dealer turnover in "non-traditional" OTC products and in exchange-traded products are not reported in the same way as the "traditional" OTC products, and it is difficult to compare the two in a meaningful way.

- 2. IMF. *International Capital Markets*, September 1996. Washington, D.C. , p. 122.

- 3. As noted in Chapter 8, one of the approaches being explored for dealing with "settlement risk"—the risk that one bank pays out currency to settle a trade, but the counterparty bank does not pay out the other currency—is *netting +*, a technique for rolling settlement forward from day to day by using tom-next swaps.

- 4. Bank for International Settlements, *66th Annual Report*, June 1996, p. 160.

- 5. For example, on July 1, two netting + counterparties determine that on July 2, Party A owes CHF 300 million (Swiss francs) to Party B, and B owes $200 million to A. Under netting +, a tom-next swap would be executed under which A buys CHF 300 million from B for value July 2 and sells CHF 300 million to B for value July 3, at current market rates. The CHF cash flows for July 2 are thus netted down to zero (no CHF delivery) and the residual U.S. dollar cash flow remains to be paid by one party to the other. (Thus, if the July 2 leg of the tom-next swap was done at $1 = CHF 1.5152, i.e. for $198 million, B would pay A $2 million.) Payments related to the "next" part of the tom-next swap would be combined with other cash flows due July 3, which, in turn, would be offset by a new tom-next swap, and so on. (New York Foreign Exchange Committee, *Guidelines for Foreign Exchange Settlement Netting*.)

- 6. For a discussion of fundamental and technical models of exchange rate determination, see Rosenberg, M.R., *Currency Forecasting*, Irwin, 1996.

- 7. IMF, Washington D.C., 1998. "Exchange Rate Assessment: Extensions of the Macroeconomic Balance Approach." Occasional Paper 167. Edited by Peter Isard and Hamid Faruqee.

- 8. Bank for International Settlements, *68th Annual Report*, June 1998, pp. 103-105.