BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

DIVISION OF SUPERVISION
AND REGULATION

SR 13-24

December 23, 2013

Revised January 9, 2026

Revision History:

On January 9, 2026: This letter was revised to remove references to reputational risk.

**TO THE OFFICER IN CHARGE OF SUPERVISION
AT EACH FEDERAL RESERVE BANK**

SUBJECT: 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.

The Federal Reserve notes that the Basel Committee on Banking Supervision (Committee), with input from the Federal Reserve,[1] published the attached *Supervisory Guidance for Managing Risks Associated with the Settlement of Foreign Exchange Transactions* (guidance) 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 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.

[1] The Federal Reserve Board and Federal Reserve Bank of New York are members of the Committee.

The Federal Reserve is aligned with these principles as part of its continuing effort to promote the global financial system's ability to withstand severe market disruptions, and has determined the institutions subject to this SR letter (covered institutions)[2] should apply the seven guidelines, which are summarized below and described in sections 3.1 through 3.7 of the guidance, to their foreign exchange activities, with the following clarifications regarding application of the guidance in the United States.[3,4]

- *Guideline 1 - Governance: A bank should have strong governance arrangements over its foreign exchange settlement-related risks, including a comprehensive risk management process and active engagement by the board of directors.*

  Paragraph 3.1.8 of the guidance states that the board of directors of a covered institution should oversee the management of the compliance function associated with settling foreign exchange transactions. For purposes of the application of the guidelines by covered institutions, senior management should routinely communicate significant compliance matters to the board of directors. The board of directors may choose to delegate regular oversight to a single board member or a committee of the board.

- *Guideline 2 - Principal risk: A bank should use financial market infrastructures that provide payment-versus-payment settlement to eliminate principal risk when settling foreign exchange transactions. Where payment-versus-payment settlement is not practicable, a bank should properly identify, measure, control, and reduce the size and duration of its remaining principal risk.*

- *Guideline 3 - Replacement cost risk: A bank should employ prudent risk mitigation regimes to properly identify, measure, monitor, and control replacement cost risk for foreign exchange transactions until settlement has been confirmed and reconciled.*

  Paragraph 3.3.7 of the guidance refers to transactions with affiliates. Covered institutions are encouraged to exchange variation margin for inter-affiliate transactions as a matter of sound business practice.

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[2] While the Committee's guidance uses the term "bank," for purposes of this SR letter, "covered institutions" are those defined in SR letter 12-17/CA letter 12-14 as Large Institution Supervision Coordinating Committee (LISCC) firms, large banking organizations (LBOs), and U.S operations of large foreign banking Organizations (large FBOs), as well as any other banking organization that engages in significant foreign exchange activities.

[3] The guidance applies to foreign exchange transactions that consist of two settlement payment flows. This includes spot transactions, forwards, swaps, deliverable options and currency swaps involving exchange of principal. It excludes instruments that involve one-way settlement payments, such as non-deliverable forwards, non-deliverable options and contracts for difference. The Federal Reserve expects that the guidance will be applied broadly by the covered institutions and notes that there may be limited instances in which an institution need not apply this guidance to an insignificant currency exposure.

[4] On June 23, 2025, the Board announced that reputational risk will no longer be a component of examination programs in its supervision of banks. *See* Federal Reserve Board, Press Release (June 23, 2025), https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250623a.htm.

- *Guideline 4 - Liquidity risk: A bank should properly identify, measure, monitor, and control its liquidity needs and risks in each currency when settling foreign exchange transactions.*

- *Guideline 5 - Operational risk: A bank should properly identify, assess, monitor, and control its operational risks. A bank should ensure that its systems support appropriate risk management controls, and have sufficient capacity, scalability, and resiliency to handle foreign exchange volumes under normal and stressed conditions.*

- *Guideline 6 - Legal risk: A bank should ensure that agreements and contracts are legally enforceable for each aspect of its activities in all relevant jurisdictions.*

  Paragraph 3.6.2 of the guidance states that institutions conducting business in multiple jurisdictions should identify, measure, monitor, and control for the risks arising from conflicts of laws across jurisdictions and suggests accomplishing these objectives by obtaining legal opinions from qualified internal or external counsel. The Federal Reserve does not expect a covered institution to obtain a legal opinion for every transaction; rather, management should seek legal advice that addresses standardized terms, master netting and other significant agreements, and individual transactions as appropriate.

- *Guideline 7 - Capital for foreign exchange transactions: When analyzing capital needs, a bank should consider all foreign exchange settlement-related risks, including principal risk and replacement cost risk. A bank should ensure that sufficient capital is held against these potential exposures, as appropriate.*

  While the Federal Reserve acknowledges the principles set forth in Section 3.7 of the guidance, and in particular that all risks related to the settlement of foreign exchange transactions should be considered in determining capital needs under the applicable capital framework, the guidance does not and is not intended to modify the calculation of regulatory capital requirements for covered institutions.

Reserve Banks are asked to distribute this letter and attachment to LISCC firms, LBOs, and large FBOs supervised by the Federal Reserve in their districts, as well as to appropriate supervisory and examination staff. Questions regarding the attached guidance should be addressed to Mary Ann Betsch, Professional Accounting Fellow, at (202) 872-4986; or David Emmel, Manager, at (202) 912-4612. In addition, questions may be sent via the Board's public website.[5]

Barbara J. Bouchard
Acting Director

[5] See http://www.federalreserve.gov/apps/contactus/feedback.aspx.

Attachments:

- Basel Committee on Banking Supervision, *Supervisory Guidance for Managing Risks Associated with the Settlement of Foreign Exchange Transactions* (February 2013)

Cross References:

- SR letter 12-17/ CA letter 12-14, “Consolidated Supervision Framework for Large Financial Institutions”