Draft 5/9/2006

Customer Information Project
Factual Scenarios for Analysis

1. A trader from Hedge Fund calls Dealer’s sales person seeking a two-way price on a EUR/USD spot trade for EUR 1 billion. The prevailing market bid/offer for EUR/USD is 1.2901/1.2903 for a trade size of $ 2 million. Dealer’s sales person calls out to his spot trader for a two-way price and also names Hedge Fund.

   a. Dealer’s spot trader knows that, one month ago, Hedge Fund put on a EUR 10 billion notional option position with Dealer. Spot trader believes that Hedge Fund is seeking to delta hedge this option position by purchasing Euro and, given its size, that Hedge Fund is likely to execute U.S. Dollar for Euro spot trades with multiple dealers in similar volumes simultaneous to its trade with Dealer. Dealer’s spot trader quotes a bid/offer of 1.2901/1.2905 EUR/USD, shading the offer price slightly because of the anticipated behavior of Hedge Fund and the size of the trade. In addition, before Hedge Fund has executed the trade, spot trader buys Euros in the market to hedge Dealer’s anticipated position of EUR 1 billion for U.S. Dollar for spot settlement. In addition, spot trader buys more Euros to take a position on expected appreciation of the Euro against the U.S. Dollar.

   b. Same facts as 1(a), but the spot trader first buys Euros and then provides Dealer’s sales person a bid/offer quote of 1.2901/1.2905 EUR/USD.

   c. Same facts as 1(a), but the spot trader buys Euros only after Hedge Fund has executed the trade.

   d. Same facts as 1(a), (b), and (c), except replace Euro with Thai Baht: Hedge Fund is seeking a two-way price to sell USD against THB for an equivalent lot size; the prevailing market bid/offer is 38.820/38.840; Hedge Fund has a THB option position; and the spot trader quotes a bid/offer of 38.800/38.840.

2. The Bank of Korea calls Dealer’s sales person to ask what has been happening with the Korean Won today and to provide market color for KRW. Dealer’s sales person consults with spot trader and names the central bank as the party asking the questions. Dealer’s spot trader suspects that a market-moving trade is imminent. KRW depreciated significantly over the last few months, and rumors have been circulating about the government’s intention to shore up the value of KRW through market intervention. The prevailing market bid/offer for KRW/USD is 975.40/975.60 for a size of KRW 1 million.

   a. The conversation ends without the Bank of Korea asking for a price. Dealer’s spot trader immediately goes into the market to sell dollars and build up inventory of KRW. In addition, the spot trader issues a market recommendation to clients to buy KRW, changing her previous recommendation to sell KRW based on her bearish views on KRW.

   b. The Bank of Korea asks for a price to sell dollars and buy KRW 10 billion for spot settlement. The spot trader provides Dealer’s sales person a bid price of 975.20 KRW/USD. Bank of Korea says that it will get back to the Dealer soon. Dealer’s spot trader immediately goes into the market to sell dollars and build up inventory of KRW.

   c. The Bank of Korea asks for a two-way price on a KRW/USD spot trade for KRW 10 billion. The Dealer quotes a bid/offer of 975.40/975.80 KRW/USD. The Bank of Korea says that it will get back to the Dealer soon. Dealer’s spot trader immediately goes into the market to build up inventory of KRW.

3. Fund Quanto calls Dealer’s spot trader in the morning to ask if he has heard a rumor that Fund Alpha, a major hedge fund, has a large short position in the New Zealand Dollar (NZD) and is looking to make several market-moving trades in NZD. The trader replies that he has not heard the rumor, and that his view on NZD is bearish. In fact, the research department of Dealer’s firm recently issued a piece with bearish views on the New Zealand markets.

   a. Fund Alpha has executed foreign exchange trades with Dealer over the years. Fund Alpha calls Dealer later in the day and purchases NZD 2 billion for U.S. Dollar for spot settlement. After Fund Alpha has executed the trade, Dealer’s spot trader goes into the market to hedge this position and build up an inventory of NZD. Fund Quanto calls the trader again in the afternoon to see if he has a view on NZD. The trader replies that he has seen activity in NZD and is bullish on NZD. Trader recommends that Fund Quanto buy NZD.

   b. Same facts as above, except the central bank in New Zealand also purchased NZD 5 billion for U.S. Dollar for spot settlement from Dealer prior to Fund Quanto calling the trader again in the afternoon. In addition, after the conversation with Fund Quanto, the trader sends a recommendation in an email blast to clients to buy NZD. Based on the recommendation, clients begin to buy NZD from Dealer.