

October 13, 1999

Minutes of the 27th Meeting of the Tokyo Foreign Exchange Market Committee

Time and Date of the meeting: September 22, 1999 12:30-15:15
Meeting place: Bank of Japan
Chairperson: Mr. Toshiyuki Morioka (The Bank of Tokyo-Mitsubishi)
Vice-chairpersons: Mr. Takashi Okura (The Bank One)
Mr. Takeshi Hanai (The Industrial Bank of Japan)
Secretary: Mr. Masaru Tanaka (Bank of Japan)
The number of the attending committee members: 17

1. Preparation for Y2K

Mr. Takamatsu, chairperson of the Sub-committee on Risk Management, reported the conclusion of the discussion at the meeting of the Sub-committee held on August 30 as follows.

- (1) The Tokyo Foreign Exchange Market Committee (TFEMC) should call market participants' attention to those countries that designated bank holidays near the millenium change.¹
- (2) TFEMC should consult with overseas FX committees in order to cope with the treatment of settlement failures caused by Y2K related system trouble.
- (3) TFEMC should not support the idea of changing the convention of value dates regarding transactions near the millenium change.
- (4) TFEMC should give market participants and customers a warning that the market liquidities of value today or value tomorrow transactions on December 29 or 30 would be expected to be very low, because market participants are expected to reduce the volume of spot transactions on these days.
- (5) As a contingency plan, TFEMC should make a contact list within the committee for any case of emergency near the millenium change.

These conclusions were approved by the TFEMC.

Concerning point (2), Mr. Kobayashi, chairperson of the Sub-committee on

¹ Please refer the web site of the Global 2000 Co-ordinating Group (<http://www.global2k.com/>).

Legal Matters, reported that the Foreign Exchange Committee of New York (FXC) was planning to announce the Y2K Best Practice in order to deal with settlement failure caused either by a central bank or clearing bank's Y2K related system trouble, and the FXC asked TFEMC, the Singapore Foreign Exchange Market Committee (SFEMC), and the British Bankers' Association either to join in promulgating or endorsing it. TFEMC decided to continue examining it.²

Concerning point (3), TFEMC agreed that changes to the market practice of value date would probably cause more confusion near the millenium change.

Regarding point (4), because market participants are expected to reduce transactions that are to be settled in the 1st week of January, TFEMC recognized that, the liquidity in the spot market would decrease substantially on December 29 and 30. The low liquidity would arouse various problems including wider spreads between bids and offers, or higher volatility in the exchange rate prices. As a result, the liquidity of value today or value tomorrow on December 29 and 30 would also probably decrease substantially, leading to distort the prices or fluctuate the prices to a great extent. Therefore, TFEMC decided to warn market participants in the minutes about the potential problem, and recommended to notify it to their customers accordingly. In addition, a member pointed out devastating effects, large price fluctuation would bring to barrier option transactions on these days.

2. The report from the Sub-committee on Education and Public Relations

Mr. Watanabe, chairperson of the Sub-committee on Education and Public Relations, reported that the Sub-committee was selecting speakers for the 2nd Forex Seminar to be held in December 1999.

3. Global Code of Conduct

Mr. Nakajima reported that ACI had sent the draft of "Global Code of Conduct" to the TFEMC, requesting TFEMC to examine it, and to translate the "Code" into Japanese in the near future. TFEMC decided to create a group composed of Mr. Nakajima and the members of the Sub-committee on Market Operation would examine the draft.

4. The report from the Sub-committee on Legal Matters

TFEMC approved the proposal made by Mr. Kobayashi, chairperson of the Sub-committee on Legal Matters, on procedures and cost-shares with ISDA Japan

² TFEMC decided to endorse the Best Practice (Please refer p.5).

in producing a commentary on “1998 FX and Currency Option Definitions” jointly with ISDA Japan.

5. EBS

A member indicated that there were rumors that some banks transmitted EBS Dealing Terminal’s voice to their customers. Mr. Ishikawa reported that EBS had not detected the fact yet, but the agreement between EBS and users of EBS Dealing System prohibits such transmission, and if EBS identified such breach, it would take an appropriate action accordingly.

6. The report from the Sub-committee on Committee Steering

Mr. Kato, chairperson of the Sub-committee on Committee Steering, reported that the Sub-committee studied the possible future structure of TFEMC in the meeting held on September 10, and would continue the study.

In addition, TFEMC approved that some members would be observing the joint meeting of the SFEMC and the FXC to be held in Singapore on November 4.

The Tokyo Foreign Exchange Market Committee Members' List
(September 22, 1999)

Members

Chairperson:

Mr. Toshiyuki Morioka* (The Bank of Tokyo-Mitsubishi)

Vice-chairperson:

Mr. Takeshi Hanai* (The Industrial Bank of Japan)

Mr. Takashi Okura* (The Bank One)

Secretary:

Mr. Masaru Tanaka* (Bank of Japan)

Chairperson of the Sub-committee on Committee Steering:

Mr. Hiromitsu Kato* (The Nomura Trust and Banking Co.)

Chairperson of the Sub-committee on Education and Public Relations:

Mr. Hidenori Watanabe* (The Dai-ichi Kangyo Bank)

Chairperson of the Sub-committee on Market Operation:

Mr. Takao Sakoh* (UBS)

Chairperson of the Sub-committee on Risk Management:

Mr. Tsutomu Takamatsu* (The Chase Manhattan Bank)

Chairperson of the Sub-committee on CFD:

Mr. Hiroshi Mishima* (The Sakura Bank)

Mr. Hiroshi Kikuchi* (The Sanwa Bank)

Mr. Hirokazu Note* (The Sumitomo Bank)

Mr. Katsuhiko Sugata* (The Fuji Bank)

Mr. Hiroshi Saito (The Mitsubishi Trust and Banking Co.)

Mr. Satoshi Matsuda* (Commonwealth Bank of Australia)

Mr. Nao Nakajima* (Standard Chartered Bank)

Mr. Takahiko Takemoto (Deutsche Bank)

Mr. Eiichi Ishikawa* (EBS Dealing Resources Japan)

Mr. Shinichiro Ozaki* (Ueda Harlow)

Mr. Noriaki Kanda* (Reuters Japan)

Observers

Mr. Yoshihiko Noguchi* (Money Brokers Association)

Chairperson of the Sub-committee on Legal Matters:

Mr. Kazuo Kobayashi* (Bank of Japan)

Note: * tells those that attended the meeting.

Conclusion and notes about “Y2K Best Practice for the FX market”

1. Conclusion

TFEMC consulted all of its members if or not TFEMC should join in issuing “Y2K Best Practice” drafted by Foreign Exchange Committee of New York (FXC), or endorsing it. Many members had no reservations that TFEMC should join in issue or endorse the Best Practice, because it embodies conditions and procedures for close-out in the case of settlement failure caused by Y2K computer problem in a clearing bank or central bank. However, few members had some reservations on supporting the Best Practice to its full extent, considering the undetectable influence to the domestic yen cash transaction. Then, through further discussion, TFEMC decided to endorse, not to join in issue, the Best Practice and informed the conclusion to the FXC.

2. Notes

The Best Practice has neither legal nor other compelling power, and whether adopting it or not is determined by the negotiation parties concerned. In addition, parties subject to the Best Practice should be aware of following notes.

- (1) If the Y2K Events happen in European or NY time, Asian market participants should pay attention to the fact that the actual Waiting Period becomes two Business Days and not three due to the time difference.

Furthermore, when Asian market participants discover the failure in settlement of European or U.S. currencies on T+0 day without any notice from the payer, it takes one business day to confirm whether it is Y2K Events or not, therefore if the Waiting Period starts T-1 day (namely, the day which the failure in settlement happened in Europe or America), Asian market participants have only one Business Day left of the three Business Day Waiting Period.

- (2) Some members consider that it may be better to change the close of Business Day from 5:00 p.m. to the cut-off time of major clearing systems in each country in order to avoid possible dispute over payment.
- (3) Some members say they prefer compensating the deferral to terminating transactions in cases of transactions which have various cash flows including currency swaps.