

May 16, 2001

Minutes of the 41st Meeting of the Tokyo Foreign Exchange Market Committee

Time and date of the meeting: 13:00-15:30 February 20, 2001
Venue: Bank of Japan
Chairperson: Mr. Tomomasa Sumida (Bank of Tokyo-Mitsubishi)
Vice-chairperson: Mr. Takashi Okura (Barclays Bank)
Vice-chairperson: Mr. Takeshi Hanai (Industrial Bank of Japan)
Secretary: Mr. Hirochika Nishikawa (Bank of Japan)
Attending committee members: 15

1. Matters Related to the Functioning of the Committee (Steering Sub-committee)

Mr. H. Kato, chairperson of the Steering Sub-committee, reported on the Sub-committee's consideration on enhancing the functioning of the Committee and on strengthening the relations between other FX market committees and the Tokyo Committee.

(1) Review of the Functioning of the Committee

(i) Completion of M&A/Consolidation

The Sub-committee discussed how to define the completion of M&A/Consolidation in order to determine when the Committee members should be regarded as belonging to the same institution. The Sub-committee concluded as follows.

The completion of M&A or consolidation between firms should be recognized when such an event was objectively established, such as formation of one legal entity. If it was not apparent, completion should be recognized on the basis of report from Members.

(ii) Representation of Various Market Segments

In recruiting members, the Committee should not condition any application on the type of firm employing applicants or on the primary location of business activities of that firm.

Considering the necessity of reflecting the views of the widest range of market participants, it was noted that the business lines of firms and their primary location of business activities were relevant factors to be taken into account. However, as each member serves

the committee in a private capacity, the election of members should be primarily based on the personal ability of applicants.

(iii) Sub-committee Activity

The Committee would establish sub-committees for specific subjects as necessary. Each sub-committee would report on its activity at every meeting of the Committee. If the Committee finds that a sub-committee has completed its task, or if no new activities are envisaged for a sub-committee, such a sub-committee should be abolished.

(2) Relations with other FX market Committees

- (i) The distribution of minutes of the Committee should be widened, especially to Committees in Asia and Pan-pacific areas.
- (ii) It was recommended that every Committee member should take the opportunity of the member's business trips abroad to meet with members of other FX committees, in order to increase points of contacts.
- (iii) The Committee should exchange contact lists of executive members with other FX market Committees.
- (iv) The Committee should continue to build on its present relations with New York FX Committee and Singapore FX Market Committee, including sending observers to meetings as appropriate.

(3) Public Relations

The Committee would ask the Japan Forex Club to send information via the Club's mailing list if there was an impending need to inform the participants of Tokyo FX market.

(4) Observer Status

The observer status of the Committee would be granted to (i) prospective members of the Committee member when there was no vacant seats, (ii) any member who had resigned because of transfers but was willing to re-apply for membership after joining a new firm. In addition, (iii) each executive member may nominate observer, who would support the executive member's activities in the Committee, with the approval of the Committee.

2. Euro-yen deposit rate calculation

Mr. Y. Noguchi drew the attention of the Committee to the fact that the existence of two distinct rounding practices in the Japan Offshore Market (JOM), concerning yen deposit rates, was resulting in some confusion among market

participants ¹. Several Members agreed that integrating practices was important. However, it was also noted that in view of the relations between the practice and an institution's general policy on rounding, which might be built into the programs of computerized accounting systems, it might be difficult to draw up quick and easy solutions. The Committee decided to consider this issue further.

3. Review of Sub-committee Activities (including Response to the NY FX Committee)

(1) Activities of Sub-Committees

Sub-committees reported their activities as follows.

(i) Sub-committee on Education and Public Relations (Mr. H. Watanabe)

As the Committee Web site manager, the Sub-committee was updating the information related to new regulations on Indonesia Rupiah. Also it was to begin planning for the next Forex Seminar.

(ii) Sub-committee on Market Operations (Mr. T. Sakoh)

After discussing matters related to electronic broking systems in February 1998, there had been no activity.

(iii) Sub-committee on Risk Management (Mr. T. Takamatsu)

The Sub-committee monitored the EMTA's consideration on NDF for Asian currencies until the middle of last year. After the Committee decided to conclude collective deliberations in favor of consideration by individual institutions, there had been no particular activity but for the chair reporting on overseas developments.

(iv) Sub-committee on Legal Matters (Mr. K. Kobayashi)

As for the commentary of the 1998 ISDA Definitions, the secretariat was adjusting the contents and expressions in consultation with the authors of individual sections.

(v) Sub-committee on CFD (Mr. K. Sugata)

The Sub-committee was monitoring the CFD experiment in London by Reuters and BBA, but there seemed to be no specific progress since the last meeting.

(vi) Sub-committee on the Model Code (Mr. N. Nakajima)

The Sub-committee was in the process of comparing the contents of the ACI Model Code and the Tokyo Code of Conduct (Orange Book), and was

¹ In general, rates are rounded down in domestic markets and rounded off in overseas market. In JOM, however, both practices exist and brokers are obliged to

considering the necessity of revising Orange Book. The whole process should end by September.

(2) Inquiry from the NY FX Committee

Mr. K. Kobayashi (BOJ) reported the inquiry from the New York FX Committee as follows.

- (i) The NY FX Committee was planning to establish sub-committees on E-commerce, NDF and matters related to restrictions on capital flows. In addition, the NY FX Committee was interested in knowing what overseas Committees are deliberating on T+1 for FX settlement.
- (ii) It was deemed appropriate for the Committee to inform the NY FX Committee immediately after a new work program was established.

(3) New Work Program and Revising the Structure of Sub-committees

The Committee discussed new issues to take up and the appropriate structure of Sub-committees for such purpose. It was approved that the Sub-committees not currently active should be reorganized to redirect resources to deal with new issues. Issues and appropriate structure would be discussed in the Steering sub-committee.

4. New regulations on Indonesia Rupiah (IDR)

Mr. K. Kobayashi (BOJ) reported that the Committee had scheduled a meeting to review new regulations on Indonesia Rupiah on 22nd February, and raised several points related to the meeting. From the Bank of Indonesia (BI), Ms. M. Goeltom, the Deputy Governor, and Mr. M. Sukada, the Director of Foreign Exchange Department, would attend and explain the regulations. The Committee decided to report the proceedings of the meeting on the Committee Web site and to refer to the meeting in the newspaper interview to the Chair of the Committee scheduled for Feb.22.

5. Model Code

Mr. N. Nakajima, chairperson of the Sub-committee on the Model Code, reported that the working group held a meeting to review Chapter 2 of the ACI Model Code and the Tokyo Code of Conduct (Orange Book). Divergences were found, and for each item, the Sub-committee examined if it was necessary to

avoid matching the institutions employing different practices.

revise the Orange Book.

There seemed to be no need for adding new articles. However, for “Dealing for personal account”, where the Model Code covers “the dealer’s family and other members of personnel”, the Orange Book covers only the dealer. Therefore some notes should be added to the Orange Book on this issue.

The Committee approved the proposal. Also the Sub-committee on Legal Matters would check whether the names of regulations and notices referred in Article 13 of the Orange Book had not been revised.

6. Other Matters

(1) FX Guidelines

Mr. K. Kobayashi (BOJ) reported that a voluntary Working Group composed of leading forex dealers in major forex markets from the private sector, which drafted the FX Guidelines, was going to release the Guidelines in London on 22nd February. After discussion, the Committee decided to officially endorse the Guidelines.

(2) Reporting Requirements for the Thai Baht (THB)

Mr. T. Takamatsu reported that the Central Bank of Thailand strengthened the reporting requirements on THB transactions.

- (i) According to the Central Bank’s explanation on 16th February, the measure merely strengthened the existing reporting requirements and did not intend to tighten restrictions on transactions as the IDR’s as rumored.
- (ii) However, from 1st March, detailed reporting had been required if there were transactions between onshore and offshore, inquiring such information as the counterparty name, purposes of transactions, reasons for taking positions, and the amount and duration of positions.
- (iii) Documents on this measure were written in Thai and were sent only to the back offices.

Some of the concerns expressed by the Members were as follows. “Although the report was going to be provided to the Central Bank, considering the possible breach of confidentiality, it might be needed to require customers’ written permission for such reporting.” “Amounts and numbers of transactions involving THB are significantly larger than those of IDR, and if the same kinds of restrictions are introduced, the impact on our business would be much more serious.”

The Members agreed that the announcement raises serious concerns and there was a strong need to carefully follow developments.

(3) Observers

Mr. T. Sumida and Mr. H. Nishikawa asked for approval for changing observers nominated by them as follows and it was so approved.

(i) Current observers

Mr. M. Yasuda (Bank of Tokyo-Mitsubishi)

Mr. K. Kobayashi (Bank of Japan)

(ii) New observers

Mr. M. Imura (Bank of Tokyo-Mitsubishi)

Mr. T. Kawazoe (Bank of Japan)

List of Tokyo Foreign Exchange Market Committee Members
(February 20, 2001)

Members

Chairperson:

Mr. Tomomasa Sumida* (Bank of Tokyo-Mitsubishi)

Vice-chairpersons:

Mr. Takeshi Hanai* (Industrial Bank of Japan)

Mr. Takashi Okura* (Barclays Bank)

Secretary:

Mr. Hirochika Nishikawa* (Bank of Japan)

Chairperson of the Sub-committee on Committee Steering:

Mr. Hiromitsu Kato* (Nomura Securities)

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

Mr. Hidenori Watanabe* (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* (Chase Manhattan Bank)

Chairperson of the Sub-committee on the Model Code

Mr. Nao Nakajima* (Standard Chartered Bank)

Chairperson of the Sub-committee on CFD

Mr. Katsuhiko Sugata* (Fuji Bank)

Mr. Hirokazu Note* (Sumitomo Bank)

Mr. Eiichi Ishikawa (EBS Dealing Resources Japan)

Mr. Noriaki Kanda (Reuters Japan)

Mr. Kazuo Itoh (Tokyo Forex & Ueda Harlow)

Mr. Masato Imai* (The Sanwa Bank)

Mr. Takeshi Kanagami* (The Mitsubishi Trust and Banking Co.)

Mr. Kazunari Kobayashi* (State Street Bank and Trust Company)

Mr. Masakazu Bunno* (The Sakura Bank)

Observers

Mr. Yoshihiko Noguchi* (Money Brokers Association)

Chairperson of the Sub-committee on Legal Matters:

Mr. Kazuo Kobayashi* (Bank of Japan)

Mr. Masamichi Yasuda* (The Bank of Tokyo-Mitsubishi)

*Attended the meeting.