

May 14, 2001

Minutes of the 42nd Meeting of the Tokyo Foreign Exchange Market Committee

Time and date of the meeting: 13:00-15:30 March 29, 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: 17

1. Resignation and Election of Members

Mr. T. Sumida, chairperson of the Committee, reported that Mr. T. Takamatsu and Mr. K. Sugata had resigned from the Committee (They attended the 42nd Meeting as observers). Meanwhile, Mr. M. Bunno announced that he would resign from the Committee at the end of March, as a result of the merger between Sakura Bank and Sumitomo Bank.

Next, Mr. T. Sumida reported that, in accordance with the decision taken at the 40th meeting, the Committee had publicly invited applications for membership, and had received four applications. After a review of the applications and presentations by each candidate, a vote was taken. All applicants, listed below, were elected as new members of the Committee.

Eiichi Ishikawa (EBS Dealing Resources Japan)
Toru Ichikawa (The Fuji Bank)
Shuji Kawanabe (The Chase Manhattan Bank)
Daisuke Kono (Citibank)

Concerning rules for election of the Members, Mr. T. Sumida pointed a potential problem and proposed a solution as follows. His proposal was approved.

(Pointed problem) If the Committee began the process of recruiting new Members after Members' term had expired, the Committee's activities might be hampered when the terms of not a few Members expired simultaneously.

(Proposed solution) In order to avoid such situations, the term of each Member should be disclosed on the Committee's Web-site, and the Committee would accept applications for membership, beginning one month before the expiry dates.

2. Reorganization of Sub-committees

Mr. H. Kato, Chairperson of the Steering Sub-committee, reported the proposal from the Sub-committee as follows.

(i) There should be standing sub-committees and special sub-committees that deal with ad-hoc issues.

(ii) The responsibilities of the present Sub-committee on Education and Public Relations should be divided to the Sub-committee on Education and the Sub-committee on Public Relations. These two and the Steering Sub-committee and the Sub-committee on Legal Matters should be the permanent Sub-committees.

(iii) As to special Sub-committees, under the current market environment, E-commerce, T+1, NDF/CFD and the Model Code were regarded as appropriate issues to be taken up. At the same time, the present Sub-committees on Market Operation and on Risk Management, which do not have any issues to tackle in the foreseeable future, should be abolished.

The proposals were approved by the Committee. Chairpersons were appointed as follows. The Members of the Sub-committee will be appointed by the Chairpersons of each Sub-committee with the Committee's approval.

The Steering Sub-committee:

Mr. H. Kato

The Sub-committee on Public Relations:

Mr. H. Watanabe

The Sub-committee on Education:

Mr. M. Imai

The Sub-committee on Legal Matters:

Mr. T. Kanagami

The Sub-committee on E-commerce:

Mr. H. Note

The Sub-committee on T+1

Mr. K. Kobayashi

The Sub-committee on NDF/CFD:

Mr. T. Ichikawa

The Sub-committee on the Model Code:

Mr. N. Nakajima

3. Relationship between other FX market Committees

(1) New York FX Committee

Mr. T. Imura reported that the chairperson had explained the Tokyo FX Market Committee's recent activities to the NY FX Committee in his response to the inquiry from the Committee, which was reported at the 42nd Meeting.

(i) The activities to date of the Tokyo FX Market Committee on E-commerce, NDF and T+1, and its plan to establish Sub-committees for each issue.

(ii) Activities related to the monitoring of restrictions on foreign exchange

transactions, including the recent meeting with the Deputy Governor of Bank of Indonesia on IDR regulations.

Next, it was reported that the Securities Industry Association in U.S.A., with the NY FX Committee's support, was planning to establish a sub-committee dealing with foreign exchange settlement in a T+1 environment. The NY FX Committee had asked the Tokyo FX Market Committee whether it had an intention to participate in the process. The points raised from the members were as follows. "In order to tackle this topic, consultation with Japanese securities industry would be needed. Even if the Japanese securities industry does not regard it as an urgent issue, it might be appropriate to get in touch with it now and to start exchanging information." "Although regular attendance of the sub-committee held in NY would be difficult, we should take measures to establish channels for information exchanges between both committee."

It was decided that the Sub-committee on T+1 should contact the Sub-committee under the SIA. Also the Committee decided to send Members as needed.

As for the market impact of the T+1 in FX trading, the members' concerns were as follows. "Even if the settlement of all the FX trading are not changed to T+1, business practices should be established to accommodate FX trading related to T+1 securities transactions." "If T+1 FX trading was done in NY market, it would essentially be T+0 for Asian markets. As a result, market participants might consider transactions settled with the delivery of foreign currency." "An increased volume of T+1 trading could pose a serious problem due to the not very much liquid T/N market."

(2) Singapore FX Market Committee

Mr. M. Imura introduced that the Committee was sounded from Singapore FX Market Committee to hold a joint meeting with Tokyo and Hong Kong committees during the World Forex Seminar in May. Mr. H. Kato, Mr. T. Sakoh, Mr. N. Nakajima and Mr. H. Nishikawa expressed their intention to participate in the joint meeting.

(3) London FX Market Joint Committee

MR. M. Imura reported that the Committee received an annual report from the London FX Market Joint Committee. In response, the Tokyo Committee in the name of chairperson sent a letter reporting its current activities.

The committee welcomed the London FX Market Joint Committee's information, and decided to keep in touch with the London Committee.

4. 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 3 of the ACI Model Code and the Tokyo Code of Conduct (Orange Book). On divergences found and the Sub-committee's examination on each item whether it was necessary to revise the Orange Book, the report was as follows.

(i) The Model Code stresses the importance of "segregation of duties and reporting lines" between front and back office, while Article 15 of the Orange Book only mentioning the independence of the back office. Therefore an article should be added to deal with this issue.

(ii) The confirmation procedures of the Orange Book appears out of date and there seems to be strong necessity to revise the whole article. The Sub-committee would give a further consideration on this article with some back office staff involved. As for descriptions related to brokers, the Sub-committee asked Mr. K. Itoh to update the contents.

(iii) There should be some up-dating of the wording related to settlement, such as deleting "Bill Clearing" and adding "RTGS".

5. Other Issues

(1) Contacts with BBA

Mr. H. Nishikawa reported that he had a meeting with Mr. S. Hills (BBA) and was informed of present situation in CFD, that although the fixing rates had become available on Reuters, no deal had been conducted so far.

(2) Euro-yen deposit rate calculation

Mr. Y. Noguchi provisionally reported on the two distinct rounding practices in the Japan Offshore Market (JOM), which was addressed in the 40th Meeting¹.

According to the report, most institutions seem to use "round off", while several local banks are using "round down" based on the "Interbank Market Trading Practice".

After discussion, it became apparent that the issue did not seem to have caused serious problems so far. Therefore, the Committee agreed not to consider the matter further.

¹ Generally in domestic markets rates are rounded down and in overseas market rates are rounded off. In JOM, both of practices exist and voice brokers avoid matching institutions adopting different customs.

List of Tokyo Foreign Exchange Market Committee Members
(March 29, 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 Public Relations:

Mr. Hidenori Watanabe (Dai-Ichi Kangyo Bank)

Chairperson of the Sub-committee on Education

Mr. Masato Imai* (The Sanwa Bank)

Chairperson of the Sub-committee on Legal Matters:

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

Chairperson of the Sub-committee on E-commerce:

Mr. Hirokazu Note* (Sumitomo Bank)

Chairperson of the Sub-committee on T+1:

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

Chairperson of the Sub-committee on NDF/CFD:

Mr. Toru Ichikawa* (Fuji Bank)

Chairperson of the Sub-committee on the Model Code

Mr. Nao Nakajima* (Standard Chartered Bank)

Mr. Takao Sakoh* (UBS)

Mr. Eiichi Ishikawa* (EBS Dealing Resources Japan)

Mr. Noriaki Kanda* (Reuters Japan)

Mr. Kazuo Itoh* (Tokyo Forex & Ueda Harlow)

Mr. Masakazu Bunno* (The Sakura Bank)

Mr. Shuji Kawanabe* (The Chase Manhattan Bank)

Mr. Daisuke Kono* (Citibank)

Observers

Mr. Tsutomu Takamatsu* (Chase Manhattan Bank)

Mr. Katsuhiko Sugata* (Fuji Bank)

Mr. Yoshihiko Noguchi* (Money Brokers Association)

Mr. Takashi Kawazoe* (Bank of Japan)

Mr. Motoshi Imura* (The Bank of Tokyo-Mitsubishi)

*Attended the meeting.