

June 30, 2001

Minutes of the 44th Meeting of the Tokyo Foreign Exchange Market Committee

Time and date of the meeting: 13:00-15:30 May 31, 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: 16

1. Election of Members

Mr. T. Sumida, chairperson of the Committee, reported that Mr. N. Kanda's term had expired and that he applied for another term. After a review of the application and presentation, a vote was taken, and Mr. N. Kanda was elected as a member of the Committee.

Next, Mr. T. Sumida reported that the term as a vice-chairperson for Mr. T. Hanai would expire and therefore would invite election for the post. Mr. T. Hanai applied for the post for another term and was approved by the Committee.

Third, Mr. T. Hanai, vice-chairperson of the Committee, asked to appoint Mr. T. Kabe as an observer in place of Mr. Y. Kawazoe, and it was so approved by the Committee.

2. Activities of Sub-committees

(1) the Sub-committee on T+1

Mr. K. Kobayashi, the chairperson of the Sub-committee, reported as follows.

- (i) The Sub-committee is in the process of establishing a working relationship between the Japanese SIA, for example, to exchange information.
- (ii) In view of speculations that Japanese institutional investors would transfer their foreign exchange asset management operations from Tokyo to abroad, where supporting infrastructure is more developed, the Sub-committee is planning to send a questionnaire to fund managers.

Concerning the questionnaire, one member pointed out that "fund managers might not be aware of the issues". Nevertheless, taking into account the view that the questionnaire would be valuable in highlighting such a situation and to raise awareness of relevant issues among fund managers, the Committee approved the proposal. The Sub-committee was tasked to develop the questionnaire.

(2) the Sub-committee on E-commerce

Mr. H. Note, the chairperson of the Sub-committee, reported as follows.

- (i) The sub committee confirmed its focus on the influence of electronic trading, on the FX market, in view of the potentially expansive mandate (“E-commerce”) of the Sub-committee. With this in mind, the Sub-committee compared the features of Fxall and Atriax.
- (ii) In case Japanese residents entered into FX transactions with non-residents through multi-portal electric trading systems, such transactions would be subject to reporting requirements. An issue was whether the Committee should recommend dealers to remind their clients of such requirements.
- (iii) The Sub-committee would exchange information with overseas FX market Committees.

(3) the Sub-committee on NDF/CFD

Mr. T. Ichikawa, the chairperson of the Sub-committee, reported as follows.

- (i) The Sub-committee has identified issues raised by CFD. However, considering the shifting of attention to the launch of CLS among the measures to reduce FX settlement risk, the Sub-committee would revisit these CFD issues when interest is revived.
- (ii) There could be several reasons for the thin NDF market in Tokyo. Taking into account the good market volume for NDF’s in Korean won and Taiwan dollars, it should be useful to survey the demands of Japanese clients. Meanwhile, considering that market participants are concerned over strengthening of regulations on currency trading, acquiescence by or encouragement from central banks might contribute to boosting turnover.
- (iii) The Sub-committee seeks guidance from the Committee on its mandate, i-e, whether (a) it should research and consider business practices related to NDF or (b) to formulate initiative for enhancing activities in the NFD market.

On (ii), one member noted, “The trading in Korean won NDF expanded after the local banks had been permitted to trade in the NDF market. In Japan, potential demand could be substantial.” On the other hand, it was noted that “The potential demand would only expand if Japanese institutional investors begin to actively invest in Asian markets, and that central banks’ attitudes differs from supportive to negative in view of the perceived size of speculative trading volume.”

As for (iii), it was commented that “The Committee should be involved in enhancing the activities in the Japanese NDF markets.” The Committee decided that the Sub-committee should identify issues that need to be agreed among dealers for that purpose.

(4) the Sub-committee on the Model Code

Mr. T. Kanagami reported that the working group held a meeting to review Chapter 5 of the ACI Model Code and the relevant sections of the Tokyo Code of Conduct (Orange Book). On divergences found and on the Sub-committee's examination of each item if it was necessary to revise the Orange Book, the report was as follows.

- (i) In order to encourage the usage of the "Terms and conditions for financial instruments", listed in Appendix 3 of the Model Code, explicit provisions should be added to the Orange Book. Regarding the identification of such terms and documentation, and producing a brief overview, the Sub-committee would like to ask for the assistance of Sub-committee on Legal Matters.
- (ii) As for the contents of predetermined conditions between dealers and brokers, the necessity of each point would be examined when considering Chapter 6 of the Model Code.

It was decided that The Sub-committee on Legal Matters would consider Appendix 3 and if it was necessary to add it in the Orange Book.

The Committee appointed Mr. H. Kato as a provisional chairperson of the Sub-committee on Public Relations after Mr. H. Watanabe's resignation.

Next, the Committee established the Sub-committee on CLS and appointed Mr. T. Ichikawa as the chairperson.

3. Joint Meeting in Singapore

The participants* of the Joint Meeting with Singapore, Hong Kong and Tokyo's market committee, reported as follows.

(i) Experts from CLS member banks explained the outline, the current progress and the schedule, and took questions. The Japanese delegation reported that the Committee had started to consider CLS issues and was planning to establish a sub-committee.

(ii) Singapore FX Market Committee reported on NDF during Asian time as follows; The Korean won market, which had been made available to local banks since April 1999, had the largest volume; the turnover in Philippine peso and Indonesia rupiah was declining.

(iii) Singapore FX Market Committee reported on the proposed change to the Official market opening time, which it had proposed. The result of the questionnaire clearly showed that most market participants in Australia and New Zealand support the present arrangements. Therefore the Singapore Committee decided to maintain the status quo.

(iv) Singapore FX market committee proposed to enhance the network of contacts between committees. The joint meeting confirmed that the contact list of each committee would be exchanged, so as to facilitate communications in case of market emergencies and also confirmed that each committee would enhance

the regular exchanges of information.

*Mr. H. Kato, Mr. N. Nakajima, Mr. E. Ishikawa and Mr. H. Nishikawa participated the meeting.

4. CLS

The experts from the Tokyo user group Continuous Linked Settlement (CLS) Bank raised issues concerning CLS influence on Treasury business. The resulting discussion was as follows.

(i) The Committee should pay close attention to whether the prices may differ between CLS members and Non CLS members, even if electronic brokerage systems do not offer facilities for dual pricing.

(ii) If any account was not settled, the shortfall must be funded after 17:00 JST through the money markets or using foreign exchange swaps to adjust the balance between currencies. It might be necessary to promote market trading after 17:00 JST.

(iii) Reportedly, the CLS Confirmation Exchange Committee (CEC) was promoting the abolition of the MT 300 Confirmation for CLS settled trading. Concern was shown that "It would be difficult to accept such practice as confirmation formats used among CLS Banks are lacking in necessary details."

Several members commented on the Committee's role, such as "It might be necessary for us to consider guidelines for the front office relevant to CLS so as to prevent confusion arising from its introduction" or "Topics relevant to front office operations should be judiciously selected as the impact of CLS would be wide spread". These matters would be decided in the Sub-committee on CLS.

5. Other Issues

(1) Overseas committee

Mr. M. Imura reported that Hong Kong FX Money Market Committee asked the Tokyo Committee to participate in the international conference scheduled on November 22nd inviting members of overseas FX market committees.

Next he reported that the Committee received the minutes of the London FX Joint Market Committee's meeting on April 20th.

(2) Name switch in the voice brokerage trading

Mr. K. Itou from Tokyo Forex & Ueda Harlow reported on the situation of name switching referred to at the 43rd meeting.

(a) Credit lines of banks have been tightened and the number of trades, which needs name switches, is on an increase, while the number of banks accepting switches is declining.

(b) Name switch is irregular and the brokers are trying to avoid it. However if banks that can accept name switch are further reduced, it would seriously damage the voice broker market. Brokers would appreciate it if banks were understanding.

(3) Payment name on confirmation letter

Mr. Y. Noguchi raised the point.

In case of domestic trading, many banks are now requesting voice brokers to clearly name the dealing in the JOM, the dollar call market or FX markets. However, such indication seems not necessary from the Orange Book.

The Sub-committee on Model Code was tasked to follow up the matter.

List of Tokyo Foreign Exchange Market Committee Members
(May 31, 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 Mitsui Banking Corporation)

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. Yoshihiko Noguchi* (Money Brokers Association)

Mr. Takashi Kawazoe* (Bank of Japan)

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

Mr. T. Kabe* (Industrial Bank of Japan)

*Attended the meeting.