

December 7, 2001

Minutes of the 49th Meeting of the Tokyo Foreign Exchange Market Committee

Time and date of the meeting: 13:00-15:30 November 19, 2001
Venue: Bank of Japan
Chairperson: Mr. Tomomasa Sumida (Bank of Tokyo-Mitsubishi)
Vice-chairperson: Mr. Kazunari Kobayashi (State Street Bank)
Vice-chairperson: Mr. Takeshi Hanai (Industrial Bank of Japan)
Secretary: Mr. Hirochika Nishikawa (Bank of Japan)
Attending committee members: 16

<Activities of Sub-Committees>

(1) the Sub-committee on NDF

Mr. T. Inamura (Citi Bank), the chairperson of the Sub-committee, reported as follows.

- () Concerning the survey (questionnaire) on NDF's, 48 firms responded, out of 107 to which the survey sheets were sent. The number of firms that answered was more than expected, so that it seemed unnecessary to supplement the survey by visits. Though it was not possible to send the results to each responding firm because of anonymity, summary results would be posted on the Committee's web site.
- () The results of the survey pointed to the following,
- (a) NDF's were comparatively well-known, by up 84% of all firms. Thus, no educational efforts to introduce NDF seemed to be necessary, except for information on regulations in each country.
- (b) 60% firms of those who knew NDF 's but hadn't used it, replied they wouldn't use them in the future. They pointed out its unnegligible cost, no standardized documentation at banks, and no application of hedge accounting, as reasons. On the other hand, the objectives of users were trading (40%), hedging investments (40%), and speculation (20%). In view of these results, detailed effects of documentation and regulations were to be studied by contacting the fund trusts that hadn't used NDF's and banks that had dealt with them, taking account of examples overseas.
- (c) Concerning firms that had used NDF's, 70% of the trades were exercised in Tokyo, the rest in Singapore and South America but not in HK. Though there were various reference currencies, KRW, TWD, and CHY were the most popular by transacted currencies. At present, USD was mainly used as the settlement currency, but there seemed to be a strong desire to use JPY if possible. In order to encourage JPY settled

NDF trading in Tokyo, establishing accepted settlement rates would become necessary.

- (d) A survey on the status of NDF's concerning KRW, TWD, and CHY would be the first follow-up step.
- (e) If it becomes apparent, through the efforts of the Sub-Committee, that there were issues that needed to be resolved, such as improving the documentation or determining the reference rate for JPY settlement, the Committee would be asked give advice at future meetings.

(2) the Sub-Committee on Legal Matters

Mr. T. Kanagami (The Mitsubishi Trust and Banking Co.), the chairperson of the Sub-Committee, reported as follows.

- () The seminar for the users' guide for the "1998 FX and Currency Option Definitions" planned on November 26th was under preparation.
- () An article about the publication and the contents of the book was published in a magazine catering to financial law specialists.

(3) the Sub-Committee on E-Commerce

Mr. H. Note(Mitsui Sumitomo Bank) reported as follows concerning the Atriax(e-trading system).

- () Atriax was launched on 28th June with 20 firms.
- () Japanese firms weren't included in the above 20 firms.
- () Customers could choose one offer from several displayed within certain time(about 10 sec.).
- () In case customers' "done" and bank's "change" occurred at the same time, the instruction that reached the host computer earlier would be recognized.
- () Password input was necessary only once at the point of entrance into the transaction field. It wasn't necessary to input password for each trade.

Following this report, Mr. Imura (Bank of Tokyo-Mitsubishi) reported that some Japanese corporates had almost completed preparing for e-trading using Fxall, following the first example in August. Views expressed on this topic were as follows.

- (a) Overseas corporates and banks were now using the systems extensively so that trades of \$100 mio in one shot had become possible.
- (b) While the prime motives behind the growing use of e-trading were increasing operational efficiency and cost cutting through STP, Japanese customers and banks seemed to be satisfied with their current already established operational procedures by manpower where skillful but relatively low-cost back-office staffs seldom made operational mistakes. This resulted in weak incentives for investments

on STP, because they did not make economic sense.

(c) For dealers, as the introduction of e-trading systems could lead the loss of their jobs, they were not necessarily positive for promotion.

After these discussions, it was decided that the Committee would continue to monitor topics about e-trading generally.

(4) the Sub-committee on T+1

Mr. K. Kobayashi(State Street Bank), the chairperson of the Sub-committee, reported and proposed as follows.

() JSC requested the Sub-Committee's minutes for reference. The Sub-Committee sent the minutes accordingly.

() The Sub-Committee asked NYFXC how they would authorize the white paper on T+1 by SIA. They answered that they would endorse it when it would be available publicly. Of course, it was assumed that SIA and NYFXC would have agreed on the contents of the paper prior to the publication through continuing exchanges of views with each other.

() Concerning a schedule of the study paper by the Sub-Committee, the aim was to develop a draft by the year-end.

(5) the Sub-Committee on Model Code

Concerning the revision of Model Code, Mr. N. Nakajima (Standard Chartered Bank), the chairperson of the Sub-Committee, reported that the interim report would be presented at the next Committee meeting to be held in January 2002.

(6) the Sub-Committee on Committee Steering

<Contingency Planning>

Mr. H. Kato (Nomura Securities), the chairperson of the Sub-committee, proposed that a Contingency Action Task Force would be established, and the Sub-Committee would draft the contingency plan for the task force. The proposal was approved.

(a) The task force would be composed of the Chairperson, the Vice-chairpersons, and the Secretary of the full Committee, and the chairpersons of the Sub-Committee on Committee Steering and Public Relations.

(b) The draft of the contingency plan would be developed by the Committee meeting in January.

(c) The mission of the action Committee would cover, for example, the collecting of information, the discussion of official statements, cooperation with the overseas foreign exchange committees (including the making joint announcements), and supplying the information through the Committee's web site.

At the same time, the following measures were also adopted.

- (1) The revision of the contact list.
- (2) Exchanging contact lists with overseas foreign exchange committees.
- (3) "Disaster Recovery Plan" received from NYFXC would be translated by the Sub-Committee on Education, and made available through the web-site of the Committee and Japan Forex Club(exchanging of views by market participants could be effected through the BBS service provided by the Forex Club site).

<The Joint Meeting of FX Market Committee in HK>

Concerning the joint FX Market Committee planned on 22nd November, Mr. T. Sumida (Tokyo Mitsubishi Bank), the chairperson of the Committee, reported and proposed as follows.

<The contents of Mr.Sumida's presentation>

- () Overview of recent developments in the Tokyo FX Market following the BIS Survey
- () Report of Tokyo FX Market Committee Meeting's activities
- () Discussion on Contingency Planning at the Tokyo FX Market Committee

<Topics that could be raised at the joint meeting>

- () Exchanges of views concerning the consolidation of trading bases taking account of the BIS Survey
- () Examination of the feasibility of joint statements in contingencies
- () Exchanging views on the current situation of the e-commerce

List of Tokyo Foreign Exchange Market Committee Members
(November 19, 2001)

Members

Chairperson:

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

Vice-chairpersons:

Mr. Takeshi Hanai* (Industrial Bank of Japan)

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

Secretary:

Mr. Hirochika Nishikawa* (Bank of Japan)

Chairperson of the Sub-committee on Committee Steering

Mr. Hiromitsu Kato* (Nomura Securities)

Chairperson of the Public Relations

Mr. Yutaka Kawazoe* (Barclays 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 CLS:

Mr. Toru Ichikawa* (Fuji Bank)

Chairperson of the Sub-committee on NDF/CFD:

Mr. Hidehiko Inamura* (Citibank)

Chairperson of the Sub-committee on the Model Code

Mr. Nao Nakajima* (Standard Chartered Bank)

Mr. Eiichi Ishikawa* (EBS Dealing Resources Japan)

Mr. Noriaki Kanda* (Reuters Japan)

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

Mr. Shuji Kawanabe (The JP Morgan Chase Bank)

Observers

Mr. Yoshihiko Noguchi* (Money Brokers Association)

Mr. Satoshi Kawazoe* (Bank of Japan)

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

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

*Attended the meeting.