

February 28, 2003

Minutes of the 59th Meeting of the Tokyo Foreign Exchange Market Committee

Time and date of the meeting:	13:00-16:15 November 26, 2002
Venue:	Bank of Japan
Chairperson:	Mr. Tetsuji Ogino (Bank of Tokyo-Mitsubishi)
Vice-chairperson:	Mr. Kazunari Kobayashi (State Street Bank)
Vice-chairperson:	Mr. Akio Kashima (Mizuho Corporate Bank)
Secretary:	Mr. Satoshi Kawazoe (Bank of Japan)
Attending committee members:	17

. Election of the Members

Mr. T. Ogino (Bank of Tokyo-Mitsubishi), Chairperson of the Committee, reported that Mr. K. Oda (Mizuho Corporate Bank), Vice-Chairperson of the Committee, had expressed his wish to resign from the Committee and that he had also received an application from Mr. A. Kashima (Mizuho Corporate Bank).

After reviewing the application and presentations by the candidate, a vote was taken, and the candidate was elected unanimously as a new member of the Committee. Concerning the vacancy of the Vice-Chairperson, and of the Chairperson of the Sub-Committee on Market Research, resulting from the resignation of Mr. Oda, it was decided that Mr. Kashima would take up these positions.

. Revision of Code of Conduct

Concerning the draft of the revised Code of Conduct, Mr. N. Nakajima (Standard Chartered Bank), Chairperson of the Sub-Committee, reported as follows based on the Sub-Committee meetings held on 7th and 25th November.

- (a) The definition of the words “management” and “supervisor” had been clarified.
- (b) The sentences which had assumed the use of voice brokers in article 18 (“Quotation of prices and Concluding of a Deal”) have been mostly omitted.
- (c) The preamble for article 19 (“Foreign Exchange Transaction Dealt through Electronic Trading Platforms”) had been deleted for consistency purposes.
- (d) Work was being conducted to simplify article 21 (“Methods of Funds Delivery”). In that process the Sub-Committee would gather the views of brokers through Mr. Y. Noguchi (Money Brokers Association).

Concerning the glossary, with regard the section for NDFs the Sub-Committee would examine the contents of the draft written by the Sub-Committee on NDF. It was also reported and approved that an example of a NDF transaction would

be added to Article 2 (“Basic Trading Operations and Important Points on Market Etiquette”).

It was agreed that the Committee would concentrate on the Code at the next meeting on 29th January in order to bring it close to completion.

. Market Opening Time on Mondays (5AM Sydney-time)

Mr. M. Imai (UFJ Bank) reported that some market participants suggested that it would be favorable if the current market opening time on Monday set at 5am Sydney time could be reviewed. In the early hours the number of participants as well as market liquidity were quite limited according to these institutions.

The primary comments from the members were the following: “Market practice is to review rates for barrier options at 5am Sydney time. Perhaps this could be modified through discussions with overseas market committees.” “Since liquidity between 5 to 6am Sydney-time is limited, we sometimes notice strange rate movements in connection with fixing stop loss points and with orders for barrier options.” “The ACI Model Code also stipulates the opening time for Monday as 5am Sydney-time.”

It was decided that as a first step the Committee would look into previous discussions on this issue in overseas markets since this was something which could not be decided just by Tokyo market participants.

. Activities of Sub-Committees

(1) the Sub-Committee on Education

Mr. Imai, Chairperson of Sub-Committee, informed members that he has received 76 applications concerning the Forex Seminar planned for 28th November.

(2) the Sub-Committee on Public Relations

Mr. N. Kanda (Reuters Japan), Chairperson of Sub-Committee, proposed that the Committee should look into the possibility of acquiring its own e-mail address in order to, for example, manage work in the Sub-Committees more efficiently in their contacts with outside parties. He also proposed to request the Bank of Japan to obtain an address within the BoJ’s e-mail system. Both points were approved.

(3) the Sub-Committee on Market Research

Based on the Sub-Committee meeting held on 13th November, Mr. Oda (Mizuho-Corporate Bank), Chairperson of the Sub-Committee reported as follows.

- (a) Reflecting on the ultimate aim of “revitalizing the Tokyo FX market”, the name of the Sub-Committee would be “the Sub-Committee on Market Research”.
- (b) With regard to the direction of work, the Sub-Committee will first gather and analyze information on the current conditions of the Tokyo market and consider topics which could be feasible. The output from such work can be summarized in a report to the main Committee.

With regard to the division of labor with the Steering Sub-Committee, the Steering Sub-Committee will consider if specific issues should be taken up by the various Sub-Committees. On the other hand, the Sub-Committee on Market research will work to shed light on the current conditions of the market.

(4) the Sub-Committee on NDF

Based on the Sub-Committee meeting held on 12th November, Mr. H. Inamura (Citibank), explained the items below:

- (a) Concerning the questionnaire, the objective of which is to seek why the exchange of NDF confirmations were limited, the following points had been decided: (1) the financial institution to whom the questionnaires will be sent, (2) target deadline for responses (20th December for domestic institutions and later for overseas institutions), and (3) the procedure for receiving responses.
- (b) The questionnaire would be posted on web-sites of the Committee and Japan Forex Club.
- (c) Concerning the contents of the questionnaire, it was decided that the following additional questions would be added.
 - the most widely traded currency
 - plans concerning future NDF business
 - present state of customer business
 - views on trading methods (i.e. through brokers or directly)
 - process for confirming NDF trades
- (d) Certain modifications would be made to the glossary in the Code of Conduct regarding NDFs.

All points above were approved and the contents of the glossary were left to the decisions by the Sub-Committee.

The Chairman also reported, based on information obtained by the Bank of Japan, on the steps taken by EMTA in dealing with problems related to settlement and Price Source Disruption, in connection with Argentina’s move to a floating exchange rate regime.

(5) the Sub-Committee on CLS

Mr. T. Ichikawa (Mizuho Bank), Chairperson of the Sub-Committee, reported as follows.

) As a basis for developing text for the Code of Conduct to cover CLS issues, the general direction of the discussions in the Sub-Committee were the following.

- (a) It is becoming best practice to use CLS for trades which are eligible for CLS.
- (b) In case CLS is not used for an eligible transaction, this must be made clear and confirmed by the counterparty in advance for each trade.
- (c) Though voice brokers would continue to provide SSI information in the same manner as they have done for other transactions, based on the above principle (a), trades eligible for CLS should be settled through CLS irrespective of settlement information provided by voice brokers.
- (d) It is not always necessary to clarify and exchange settlement information at the time of the trade by the front office, if the institutions have exchanged SSI information beforehand.

) Based on the above, the Sub-Committee would like to consider clarifying in the Code of Conduct special arrangements for CLS.

Following the above report, the Committee discussed the issues raised. The main view points expressed were: “Back offices were settling trades using CLS even when (1) settlement information was not being provided at the front office level, or (2) settlement information did not match with the information provided by front office, or (3) information did not match as a CLS settled trade under EBS. Up to now, these have not caused problems, but could lead to serious incidents once third-party participants take part in CLS.” “Such market practice were taking hold because some banks were not providing brokers information regarding CLS.” “It might be difficult to impose on brokers the obligation to notify settlement information including CLS, since in many cases they themselves may not have access to correct settlement information concerning CLS trades.”

It was decided that, concerning both) and), Committee members would seek the views of the back office and risk management sections in their institutions and Committee will also request feedback from the broker community. This information will be fed into the discussions in the Sub-Committee.

. Other Issues

<the Joint FX Committee meeting>

Mr. N. Nakajima informed members the results of the joint meeting held among the FX Committees of HK, Singapore and Tokyo in conjunction with the Asian Forex Meeting at Kuala Lumpur. He also reported on the topics discussed at the meeting which were the following items.

- (1) CLS
- (2) Non Deliverable Products
- (3) Code of Conduct/Money Laundering (know-your-customer and trading with the unidentified counterparties)
- (4) The impact of e-trading in Asia

List of Tokyo Foreign Exchange Market Committee Members
(26 November, 2002)

Members

Chairperson:

Mr. Tetsuji Ogino* (Bank of Tokyo-Mitsubishi)

Vice-chairpersons:

Mr. Akio Kashima* (Mizuho Corporate Bank)

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

Secretary:

Mr. Satoshi Kawazoe* (Bank of Japan)

Chairperson of the Sub-committee on Committee Steering

Mr. Hiromitsu Kato* (Nomura Securities)

Chairperson of the Public Relations

Mr. Noriaki Kanda* (Reuters Japan)

Chairperson of the Sub-committee on Education

Mr. Masato Imai* (UFJ 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 CLS:

Mr. Toru Ichikawa* (Mizuho Bank)

Chairperson of the Sub-committee on NDF/CFD:

Mr. Hidehiko Inamura* (Citibank)

Chairperson of the Sub-committee on the Code of Conduct

Mr. Nao Nakajima* (Standard Chartered Bank)

Mr. Kosuke Hanao (The Royal Bank of Scotland)

Mr. Eiichi Ishikawa* (EBS Dealing Resources Japan)

Mr. Tadahiko Nashimoto* (Barclays Bank)

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

Mr. Masayoshi Takegawa* (Merrill Lynch Japan Securities)

Observers

Mr. Yoshihiko Noguchi* (Money Brokers Association)

Mr. Yoshinori Nakata* (Bank of Japan)

Mr. Motoshi Imura*
Mr. Koichi Takenaka*

(Bank of Tokyo-Mitsubishi)
(Mizuho Corporate Bank)

*Attended the meeting.