

August 28, 2003

Minutes of the 61st Meeting
of the Tokyo Foreign Exchange Market Committee (TFXMC)

Time and date of the meeting:	13:00-15:30, 2003 February 26
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:	14

. Election of the Chairperson

Mr. T. Ogino (Bank of Tokyo-Mitsubishi), Chairperson of the Committee, reported that his term as chairperson would shortly expire. He expressed his wish to serve for another term and was reelected unanimously.

. Revision of the Code of Conduct

Concerning the draft of the revised Code of Conduct, Mr. N. Nakajima (Standard Chartered Bank), Chairperson of the Sub-Committee, reported some changes in the particular wording of a part of the text, which had been entrusted to the Sub-Committee at the previous Committee meeting, and these revisions were approved.

Discussions ensued on the following new items and the points below were generally approved in principle. It was decided that a draft that would be distributed in due course would be adopted as the final version unless comments were submitted by March 14.

- 1) Concerning Article 22 (“ELECTRONIC TRANSACTIONS”), sections will be reorganized and a new Section 4 (“prohibition of manipulating electronic broking systems for obtaining personal gains”) would be inserted.
- 2) Concerning Article 31 (“STANDARD TRANSACTION VALUE”), Section 1 would be modified to include cross-yen transactions and Section 4 will be revised to refer specifically to euro transactions.
- 3) Concerning Article 26 (“OFF-MARKET RATE”), Section 2 will be modified to

specify that appropriateness of dealing at the use of off-market rates should be determined cautiously in view of credit extension and preserving market integrity and that market participants should take into consideration cash flow in pricing transactions when using off-market rates.

- 4) Concerning the Appendix of Article 31, the Sub-Committee plans to prepare a draft which includes an example of value dates and which provides an explanation of exceptional cases.

. Activities of Sub-Committees

(1) the Sub-Committee on CLS

Mr. T. Ichikawa (Mizuho Bank), Chairperson of the Sub-Committee, reported that the London FX Joint Standing Committee (FXJSC) had contacted the Committee about the following sentences of the minutes from the 57th meeting of TFXMC, and had offered to raise the issue with the brokers in London.

“Some overseas brokers (especially in London) were not clarifying whether a transaction is CLS settled or not in their confirmations and were only providing SSI information. This was causing delays in settlement.”

Mr. Y. Noguchi (Money Brokers Association) reported that the number of those cases was decreasing as awareness of CLS improved.

Mr. Ichikawa expressed his wish to send a letter containing the following contents, and was approved.

1. The overall situation has improved in recent months and fewer cases of mismatches in settlement instructions were being experienced.
2. Support by the FXJSC to increase awareness on this issue in the London market would be appreciated.
3. The phrase in the minutes, "delays in settlement" should have read "delays in matching settlement instructions".

(2) the Sub-Committee on Public Relations

Mr. N. Kanda (Reuters Japan), Chairperson of the Sub-committee, reported that members of the Sub-Committee met with Mr. Anthony Yuen, Chairperson of the Sub-Committee on Public Relations of the Hong Kong Foreign Exchange and Money Market Practices Committee (MPC).

- (a) There was agreement that the joint meeting of the MPC, TFXMC and Singapore Foreign Exchange Market Committee held in Kuala Lumpur had been very useful.
- (b) Mr. Yuen explained about the structure and activities of MPC.
- (c) Mr Yuen noted that discussions regarding the introduction of CLS in Tokyo market could become useful when the Hong Kong Dollar is introduced as a CLS currency.

(3) the Sub-Committee on Market Research

Mr. A. Kashima (Mizuho-Corporate Bank), Chairperson of the Sub-Committee, reported as follows, based on the Sub-Committee meeting held on 13th February.

(a) Mr. T. Okura (FX platform) conducted a presentation on the current situation regarding retail FX margin trading.

Size of the market is estimated to be at least 2% (\$200 million per day) of daily turnover in the Tokyo interbank market (\$8-12 billion per day) and could reach 10% of total turnover in Tokyo market in the future. The number of companies that provide services for individual investors was over 80 as of last November.

There was no public-sector oversight over this market and limited regulation. Some retail investors had been victims of fraud regarding posted margins. In order to develop a healthy market, there are plans to establish an association of service providers.

(b) The following discussions ensued.

Japanese banks are hesitant about entering this business because:

- they are waiting for the market to develop, and
- it is forbidden under current Banking Act for banks to directly enter this business.

When a trade association is established, TFXMC may discuss the relationship between the Committee and the association on how to support the sound development of the retail FX market.

(4) the Sub-Committee on NDF

Mr. H. Inamura (Citibank), Chairperson of the Sub-Committee, reported on the questionnaire regarding NDF transaction.

(a) Answers from Japanese banks

About a half of the respondents have not started NDF transactions. But 90 % of the banks that deal in NDFs reported that the turnover of NDF transactions was increasing. In terms of turnover, KRW and TWD dominate.

40% of the banks that do not deal in NDFs plan to enter the market. Most of the banks that trade NDFs plan to increase the turnover. 90% of banks reported that turnover of customer transaction has increased, and most of the participants have a positive view regarding the future of the NDF market.

Most of the banks which trade NDFs not only through brokers but also directly with other banks.

90% of the banks only send letters to confirm NDF transactions. 60% of the banks receive only letters from counterparts and 30% of the banks reply to these letters.

More than 80% of respondents support the idea for standardizing NDF confirmations.

(b) Questionnaire to overseas banks

The Sub-Committee sent the questionnaire to 15 banks in Asian countries and to the foreign exchange market committees in Singapore and Hong Kong.

The questionnaire had been posted on the Committee's website.

(c) Course of action

Send results of the survey to all respondents and the foreign exchange market committees in Singapore, Hong Kong and Seoul.

If possible, endorse the template for NDF confirmations with support from Japanese and overseas banks.

Contact the above-mentioned FX market committees in order to further discuss NDF market.

. Other issues

Mr. T. Ogino, Chairperson of the Committee, reported on his meeting with the Chairperson of the Singapore Foreign Exchange Market Committee (SFEMC) and on the exchange of contact lists with the ECB FX Contact Group.

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List of Tokyo Foreign Exchange Market Committee Members
(26 February, 2003)

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* (Bank of Tokyo-Mitsubishi)

Mr. Koichi Takenaka* (Mizuho Corporate Bank)

*Attended the meeting.