

January 30, 2004

**Minutes of the 67th Meeting
of the Tokyo Foreign Exchange Market Committee
(TFXMC)**

Time and date of the meeting: 13:00-15:30 September 29, 2003
Venue: Bank of Japan
Chairperson: Mr. Tetsuji Ogino (Bank of Tokyo-Mitsubishi)
Vice-chairperson: Mr. Akio Kashima (Mizuho Corporate Bank)
Vice-chairperson: Mr. Tadahiko Nashimoto (Barclays Bank)
Secretary: Mr. Satoshi Kawazoe (Bank of Japan)
Attending committee members: 16

. Election of officer

Mr. Ogino (Bank of Tokyo-Mitsubishi), Chairperson of the Committee, reported that the Sub-Committee on Committee Steering had recommended Mr. Nashimoto (Barclays Bank) for Vice-chairperson of the Committee as Mr. Kobayashi's successor.

Mr. Nashimoto was unanimously elected as Vice-chairperson of the Committee and it was also decided that he would participate in the Sub-Committee on Committee Steering.

. Global Operations Managers Conference

Mr. Inamura (Citibank) and Mr. Inoue (Bank of Japan) reported on "Global Operations Managers Conference" held in New York on 17th-18th September as follows.

1) Setup

Organizer: New York Foreign Exchange Market Committee

Object: to exchange views and information on common issues among members of major FX market committees and operations managers

Participants: representatives of FX market committees (New York, London, European continent, Canada, Tokyo), operations managers of major financial markets in Europe and U.S., and central bankers (Federal Reserve Bank of New York, Bank of England, Nederlandsche Bank, Bank of Japan)

2) Issues for Discussion

Contingency

- Lessons from the Terrorist attacks in New York on September 11, 2001 and the breakout of SARS
- Efforts of private banks and central banks toward business continuity
 - Mr. Inoue made a presentation on the developments of business continuity plans of both Japanese financial institutions and the Bank of Japan.

Prime Brokerage

- Introductions of volume limits and standard documentation
- Prospects for its expansion to derivatives etc.

Future of FX Business

- Expansion of prop trading after the introduction of Euro
- Changes in market structures
- Developments in e-commerce and introduction of CLS etc.

Ideas for Better Management of the Future

- Current issues of respective FX market committees
 - Mr. Inamura explained that TFXMC had organized an expanded meeting of Sub-Committee on CLS, and it had also sent to financial institutions a questionnaire on Asian NDF.

Regulation

- The Sarbanes & Oxley Act in the U.S.
- Treatment of operational risks under the Basel Accord

Derivatives and Operations

- Crisis in Argentina in 2000 and involvement of central banks in contingencies
- Current activities at EMTA

Straight Through Processing

- Recent development related to CLS and other commercial vendors

3) Overall Impressions and Implications

Close relationships among operations managers in U.S. and European markets seem to be effective to solve problems in various fields like accounting, law, market practices and corporate governance.

We recommend that TFXMC regularly participate in such meeting in order to share the views.

We also recommend to discuss what would be the best way to deal with operational issues. In New York and London, for example, Operations Managers Group independent from FX market committee covers the issues and reports their decisions to FX market committee. We have at least two feasible options:

- Inviting the experts as members of TFXMC
- Organizing Sub-Committee on operational issues and inviting its chairperson as a member of TFXMC.

After their report, Mr. Ogino, Chairperson of the Committee, proposed that the Sub-Committee on Committee Steering would discuss the recommendations, taking into account overseas developments. The proposal was approved.

. Activities of Sub-Committees

(1) The Sub-Committee on CLS

Mr. Ichikawa (Mizuho Bank), Chairperson of the Sub-Committee, reported on the briefing given by Mr. Tsuchiya (CLS) at the Sub-Committee meeting held on 30th July concerning the measures for preventing the troubles.

1) CLS had improved procedures and educational programs against human errors. They had also taken measures against systems related troubles (ex. troubles during upgrading of the software or replacement of the hardware etc.).

2) CLS had taken or had planned to take several contingency measures.

CLS established a procedure to make a decision to invoke SNBH(Short Notice Banking Holiday) and circulate such information to users. They also tested their systems on the assumption that SNBH was invoked.

Users Group of CLS had agreed that participants would work closely with each other on liquidity implications of SNBH, while Operation and Implementation Committee of CLS provided a framework in which SNBH is invoked.

CLS improved its operation in case of unsettlement trades. The Compensation Working Group in CLS is working on a revision to best practices on interest accrued during system failures.

3) Other issues

Northern European currencies and Singapore Dollar are scheduled to be introduced to CLS in September. In the latter half of the next year, other new currencies will be introduced.

With upgrading of the system in September, CLS will add custody FX to its settlement services.

It was decided that the Sub-Committee would request for CLS to explain the details of their business of custody FX.

(2) The Sub-Committee on Education

Mr. Imai (UFJ bank), Chairperson of the Sub-Committee, reported that the Sub-Committee examined the results of a questionnaire on the next Forex Seminar, to be held in cooperation with ACI Japan, and would continue to discuss its contents.

(3) The Sub-Committee on Market Research

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

- 1) EBS answered the questions about its new service "Prime Broker" in the last Sub-Committee meeting.

The service is an expanded version of "Spot Dealing System", and EBS finds no legal issues.

EBS will enter into Prime Broker Agreement and Service Agreement with Prime Broker Bank (PBB) and Prime Broker Customer (PBC) respectively. And it will also require them to comply with "EBS Dealing Rule".

PBCs would be current EBS users or eligible EBS users. In transactions under the system, counterparties cannot recognize PBCs, but can only recognize names of PBBs.

- 2) The Sub-Committee would discuss the roles of EBS as the provider of the service, actions of PBBs and PBCs that are consistent with good market practices , and issues that deserve careful attention as counterparties of PBBs

(4) The Sub-Committee on the Code of Conduct

Mr. Nakajima (Standard Chartered Bank), Chairperson of the Sub-Committee, explained some modifications to Japanese version and those were approved. He also reported that English translation of Orange Book 2003 Edition was finished and the book would be published in October.

(5) The Sub-Committee on NDF

Mr. Inamura (Citibank), Chairperson of the Sub-Committee, reported on NDF Small Group Conference as follows.

- 1) Singapore Foreign Exchange Market Committee requested TFXMC to join the conference in August.
- 2) In this conference, we decided that offshore interbank rate would be used in case onshore rate could not be quoted. We also discussed details on rate providers, effective number of polling banks, term of the Disruption Events.

- 3) The Sub-Committee sent a recommendation list of "Active NDF bank in Tokyo Market" upon their request.
- 4) In September, TFXMC learned that New York and EMTA began their drafting of a NDF confirmation template.

(6) The Sub-Committee on Committee Steering

Mr. Note (Sumitomo Mitsui Banking Corporation), Chairperson of the Sub-Committee, reported as follows.

- 1) The Sub-Committee will close the application for a new Committee member as Mr. Kobayashi's successor on 30th September.
- 2) The Sub-Committee held an extended Sub-Committee meeting in order to support Mr. Inamura and Mr. Inoue for attending "Global Operations Managers Conference."

. Other Issues

Mr. Ogino, Chairperson of the Committee, reported that London Foreign Exchange Joint Standing Committee invited members of TFXMC to their 30th anniversary conference and Mr. Ogino and Mr. Kawazoe would attend it.

List of Tokyo Foreign Exchange Market Committee Members
(September 29, 2003)

Members

Chairperson:

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

Vice-chairperson and Chairperson on Market Research:

Mr. Akio Kashima* (Mizuho Corporate Bank)

Vice-chairperson:

Mr. Tadahiko Nashimoto* (Barclays Bank)

Secretary:

Mr. Satoshi Kawazoe* (Bank of Japan)

Chairperson of the Sub-committee on Committee Steering and E-commerce:

Mr. Hirokazu Note* (Sumitomo Mitsui Banking Corporation)

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. Keiichiro Takeda* (The Mitsubishi Trust and Banking Co.)

Chairperson of the Sub-committee on CLS:

Mr. Toru Ichikawa* (Mizuho Bank)

Chairperson of the Sub-committee on NDF:

Mr. Hidehiko Inamura* (Citibank)

Chairperson of the Sub-committee on the Code of Conduct

Mr. Nao Nakajima* (Standard Chartered Bank)

Mr. Fumihiko Kawano* (Nomura Securities)

Mr. Kosuke Hanao* (The Royal Bank of Scotland)

Mr. Masayoshi Takegawa (Merrill Lynch Japan Securities)

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

Mr. Kazuhiro Oki* (EBS Dealing Resources Japan)

Observers

Mr. Yoshihiko Noguchi* (Money Brokers Association)

Mr. Tetsuya Inoue* (Bank of Japan)

Mr. Mitsuhide Terasawa* (Bank of Tokyo-Mitsubishi)

Mr. Koichi Takenaka* (Mizuho Corporate Bank)

*Attended the meeting.