

February 2, 2004

**Minutes of the 68th Meeting**  
**of the Tokyo Foreign Exchange Market Committee**  
**(TFXMC)**

Time and date of the meeting:	13:00-15:30 October 22, 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:	14

. Election of a committee member

Mr. Ogino (Bank of Tokyo-Mitsubishi), Chairperson of the Committee, reported that the term of Mr. Inamura (Citibank) as a member of the Committee had expired and he had expressed his wish to serve for another term.

After a review of the application by Committee members and presentation by the candidate, a vote was taken, and Mr. Inamura was unanimously reelected as a member of the Committee.

Mr. Inamura also announced his candidacy as Chairperson of the Sub-Committee on NDF and was unanimously elected.

. Activities of Sub-committees

1. The Sub-committee on Committee Steering

Mr. Note (Sumitomo Mitsui Banking Corporation), Chairperson of the Sub-committee, proposed to establish “the Sub-committee on Settlement” as follows and that was approved.

- 1 ) In view of the trend of major overseas FX market committees, TFXMC sees the need to expand its scope toward operational issues.
- 2) We will reorganize the Sub-committee on CLS into the Sub-committee on Settlement, and make it a permanent body. We recommend Mr. Ichikawa (Mizuho bank), Chairperson of the Sub-committee on CLS, as Chairperson of the Sub-committee.

It was also approved that the Sub-committee on Committee Steering would continue to examine the Charter of the Committee.

## 2 . The Sub-committee on Market Research

Mr. Takenaka (Mizuho Corporate Bank) reported on the discussion in the Sub-committee about “Prime Broker” service to be launched by EBS as follows.

- 1 ) EBS answered to our questions that EBS would not revise the existent “Dealing Rule ” but make an independent one for Prime Broker (hereafter PB) service. They also confirmed that the format of Prime Broker Bank (hereafter PBB) contact list was not standardized.
- 2 )The Committee would continue its discussion focusing on the following issues.
  - PBB’s responsibility for actions of their Prime Broker Customer (hereafter PBC)
  - criteria of eligibility for PBC
  - legal frameworks of PB
  - potential problems of a PBC’s transactions with multiple PBBs
  - the PBB contact list

## 3 . The Sub-committee on the Code of Conduct

Mr. Nakajima (Standard Chartered Bank), Chairperson of the Sub-committee, reported that English translation of Orange Book 2003 Edition was under the final review and would be published in November.

#### 4 . The Sub-committee on Education

Mr. Imai (UFJ bank), Chairperson of the Sub-committee, reported that the Sub-committee continued to discuss plans for the next Forex Seminar with ACI Japan.

#### 5 . The Sub-committee on NDF

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

- 1 ) The Committee received the following proposals from Singapore Foreign Exchange Market Committee (SFEMC) .

Polling Banks should consist of only off-shore banks since on-shore banks might be influenced by local authorities' policy actions.

Following polling rules are applied to every currency.

- ( ) Only one branch of each bank can participate in the polling survey.
- ( ) There is no ceiling on the number of participants of the polling survey. The survey rate can be calculated on condition that 8 or more banks participate in the survey.
- ( ) On condition of ( ), the survey rate would be calculated through averaging gathered rates after omitting the highest and lowest rates.

- 2 ) The Sub-committee agreed with 1) and , and expressed its preference on fallbacks as follows.

NDF confirmation template proposed by the New York Foreign Exchange Market Committee and EMTA recommended the order of applicable rules in the events of fallbacks: Fallback Reference Price (Polling Rate), Valuation Postponement, and Calculation Agent Determination of Settlement Rate.

The Sub-committee proposed to apply Polling Rate before Valuation Postponement because if Fallback Reference Price is the 1st fallback, it would be difficult to calculate the survey rates when release of settlement rates might be delayed as it is sometimes seen in INR and CNY. And it is also because the overall framework would be more clearly defined if Valuation Postponement would trigger Polling Rate as the 2nd fallback.

- 3 ) The Sub-committee participated in the conference call on October 16.

It was agreed that Price Source Disruption would be the state when rate was not available in 14 days though the market is open.

Although some attendants insisted that the polling survey should cover on-shore participants, others claimed that we first conduct the test survey only covering off-shore participants, then we take into consideration of the result respective to each currency (For example, on-shore participants are very active in KRW and TWD, NDF markets). It was decided that each FX market committee would discuss this issue and bring the results back to the next meeting to reach a consensus.

Each FX market committee was also requested to express its intention to be a sponsor of the NDF confirmation template in the next meeting.

- 4 ) The Committee received a preliminary Polling Bank List from SFEMC and was requested to confirm the intentions of Japanese banks listed therein.

Regarding the request 3) , the Committee delegated the discussion on NDF confirmation template to the Sub-committee.

## 6. The Sub-committee on CLS

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

- 1 ) Mr. Tsuchiya (CLS) explained the current situations and the backgrounds of CLS settlement of foreign exchange transactions by funds.

Custodians and fund managers examined the use of CLS as a measure to avoid risks of FX settlement related to investment trusts or pension funds. They found that CLS settlement would come to be adopted in transactions between funds and FX banks as well as in interbank transactions, which improves allocation of funds. They also see it as the advantage of CLS settlement to reduce complicated procedures (ex. "Back to Back" transactions etc.)

CLS promotes CLS settlement of foreign exchange transactions by funds, and plans to conduct the tests of such settlement in overseas markets. In Japan, the test is still under examination for following reasons.

- ( ) Coordination of many counterparties is needed to fix the procedures.
- ( ) Some investment is needed to build the necessary systems.
- ( ) It would be difficult to send transaction data to CLS within two hours due to time differences.
- ( ) Custodian banks are often not CLS members.

- 2 ) CLS answered to the questions from the Sub-committee.

Question: Is it probable that liquidity gaps in nostro accounts occur in case that Short Notice Banking Holiday ( SNBH ) is evoked by CLS

unexpectedly?

Answer : Under the current hours of operation of BOJ Net, CLS would declare SNBH one hour and a half before closing and would also warn CLS members of its probability one hour before the declaration.

Question: Are there any problems of declaring bank holiday by a private company such as CLS?

Answer : CLS has the blessings of central banks and/or other authorities on its rules.

List of Tokyo Foreign Exchange Market Committee Members  
(October 22, 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.