

June 30, 2001

Minutes of the 43rd Meeting of the Tokyo Foreign Exchange Market Committee

Time and date of the meeting: 13:00-15:30 April 24, 2001
Venue: Bank of Japan
Chairperson: Mr. Tomomasa Sumida (Bank of Tokyo-Mitsubishi)
Vice-chairperson: Mr. Takashi Okura (Barclays Bank)
Vice-chairperson: Mr. Takeshi Hanai (Industrial Bank of Japan)
Secretary: Mr. Hirochika Nishikawa (Bank of Japan)
Attending committee members: 16

1. Election of Members

Mr. T. Sumida, chairperson of the Committee, reported that four Members' term had expired and that all four applied for another term. After a review of the applications and presentations by each candidate, a vote was taken. All applicants, listed below, were elected as members of the Committee.

Mr. Takashi Okura (Barclays Bank)
Mr. Takeshi Hanai (Industrial Bank of Japan)
Mr. Takao Sakoh (UBS)
Mr. Nao Nakajima (Standard Chartered Bank)

Next, Mr. T. Sumida reported that the term as vice-chairperson for Mr. T. Okura would expire before the next meeting and therefore would invite election for both positions. Mr. T. Okura applied for reappointment, and was approved by the Committee.

2. Activities of Sub-committees

(1) the Sub-committee on Education

Mr. M. Imai, the chairperson of the Sub-committee, reported the course of action for the Sub-committee as follows.

- (i) As the small-size seminar held this January was favorably accepted by the participants, the Sub-committee is planning to hold such seminars with about 50 participants twice or thrice a year. The next seminar is envisioned for this summer.
- (ii) If the ACI diploma gains recognition among market participants in Tokyo, a seminar to prepare for the examination might be considered in the future.

As regards the ACI diploma, some members pointed that "Because dealer education programs at banks have changed, most FX dealers do not have the chance to trade other financial products. Therefore, it seems commendable for FX dealers to study for the ACI diploma, which requires not only knowledge on the FX market but also options and money markets, and the committee should

support such efforts.”

(2) the Sub-committee on Legal Matters

Mr. T. Kanagami, the chairperson of the Sub-committee, reported as follows.

- (i) The Sub-committee continues the process of drafting the explanation paper of “ISDA 1998 Definitions” in Japanese. Drafting responsibility had been shared among the Sub-committee members. Now that all the members have submitted their drafts, and the Sub-committee is assembling the drafts. The work needs to be organized tactically in order not to make the workload too much.
- (ii) The Sub-committee would make up task forces for specific topics when any legal questions are raised in the Committee.

(3) the Sub-committee on E-commerce

Mr. H. Note, the chairperson of the Sub-committee, reported as follows.

- (i) Since the word “E-commerce” covers a wide range of topics, the Sub-committee considers it necessary to limit the topics to be picked up in order to make them manageable. In order to identify the pertinent issues, we would like to take into account the discussions at the NY FX Committee and London FX Joint Standing Committee.
- (ii) As a First step, the Sub-committee would examine the status quo of electronic trading systems for transactions between banks and their customers. There are several systems planned or already running. So, if there are any issues that need to be discussed, they should be submitted to the Sub-committee.

(4) the Sub-committee on T+1

Mr. K. Kobayashi, the chairperson of the Sub-committee, reported as follows.

- (i) The Sub-committee is going to discuss issues relevant to FX settlement after the start of T+1 settlement in security markets.
- (ii) Concerning issues that arise from the time differences between Tokyo and New York markets, the Sub-committee would examine the issues in close cooperation with the Sub-committee of the US SIA, established in conjunction with the NY FX committee.
- (iii) The Sub-committee would contact the Japanese SIA, which is considering T+1 settlement in security markets, and seems to be aware of the effects of T+1 on the FX market.

(5) the Sub-committee on NDF/CFD

Mr. T. Ichikawa, the chairperson of the Sub-committee, reported as follows.

- (i) Ahead of the scheduled preliminary introduction of CLS this October, market participants seem to presume that the Herstatt risk would be

eliminated by CLS, and their banks are absorbed in the preparation for CLS. As a result, discussions on CFD appear to virtually have stalled. The Sub-committee would, however, continue its work for identifying the issues that need to be addressed for CFD, so that the Sub-committee would be able to react swiftly when the project receives.

- (ii) The NDF transactions are quite active in Singapore and Hong Kong, in particular, for the Korean won and the new Taiwan dollars. The background for the virtually non-existence of NDF transactions in Tokyo market could be summarized as follows; uncertainty as to the legality of NDF; weak incentive of Japanese customers to use NDF; the limited liquidity of the NDF markets in general; increase in the dollar denominated trade transactions after the Asian crisis.
- (iii) There could exist a strong potential demand of Japanese enterprises for NDF transactions. Moreover, such a demand could be enhanced by the recent movements in some Asian countries to strengthen the restrictions on forward transactions. Therefore, the members of the Sub-committee have decided to examine the issues related to NDF, monitoring the developments in the markets. The Sub-committee would like to request the members of the Committee, active participation in the discussion on this issue.

(6) the Sub-committee on the Model Code

Mr. K. Kobayashi reported that the working group held a meeting to examine divergences between Chapter 4 of the ACI Model Code and the Tokyo Code of Conduct (Orange Book) and necessity for revision of the Orange Book. Mr. K. Kobayashi reported the conclusions of the Sub-committee as follows.

- (i) The Model Code stresses that disputes should be handled by manager (IV-1). It seems pertinent to have such a description, which could be added to the Orange Book. In addition, the Model Code recommends consulting with Committee for Professionalism (CFP) when disputes cannot be resolved. It would be beneficial to have the similar description in the Orange Book, aiming also at acknowledging the activity of CFP.
- (ii) As for the “Differences in principals”, the coverage of the Model Code is extensive, while the Orange Book refers only to “stuffing” between brokers and dealers in Article 22. Therefore, the article which stipulates how to deal with the difference in principals should be included in the Orange Book.
- (iii) The Orange Book should have an article, which describe the necessity for observance of the Code as the Model Code has.
- (iv) A number of articles in the Orange Book related to brokers appear to be out-dated and need to be revised, as they do not refer to the electronic brokerage systems which are now widely used in FX markets.

3. Singapore FX Market Committee

Mr. M. Imura reported that the Singapore FX Market Committee

suggested the following three issues, (a) CLS, (b) NDF and (c) Official market opening, as the issues to be discussed in the joint meeting with Tokyo and Hong Kong committees, which would be held on 24th May. In addition to four members of the Committee including Mr. H. Kato, Mr. T. Sakoh, Mr. N. Nakajima and Mr. H. Nishikawa, two observers consisting of Mr. Y. Kawazoe and Mr. M. Yasuda are participating in the joint meeting.

4. CLS

Mr. M. Imura reported that FX settlements through the Continuous Linked Settlement (CLS) Bank were scheduled to be introduced at the end of this October. He noted also that the CLS is a system for reducing the Herstatt risk and is likely to be widely adopted among the market participants. A number of members stated that they expect some influences on the flows of the funds. More specifically, the following possible changes were pointed; (a) to the banks of settlements accounts, (b) concentration of FX settlements, which have more sophisticated procedures and systems. Some members expressed their concern about the possible segmentation of the markets due to the difference in the settlement risk, and resulting deterioration in the market function for arbitrage.

In view of the strong interest of market participants in the influences of the CLS on the foreign exchange markets, and the plan for the discussion on this issue in the scheduled joint meeting in Singapore, the Committee decided to invite experts on this issue and hold an extraordinary meeting on 16th May.

5. Other Issues

Name switch in voice brokerage trading

Mr. T. Sakoh reported that he had been requested by a market participant to discuss the following issue in the Committee.

There are a number of occasions that our bank accept the requests of name switching when brokers fail to implement transactions due to, for example, insufficient credit lines. We are, however, considering to retreat from such transactions in consideration of their high risk. Therefore, we would like the Committee to show general rules and practices of such transactions.

The Committee requested the Money Brokers Association and Tokyo Forex & Ueda Harlow to investigate the actual circumstances.

List of Tokyo Foreign Exchange Market Committee Members
(April 24, 2001)

Members

Chairperson:

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

Vice-chairpersons:

Mr. Takeshi Hanai* (Industrial Bank of Japan)

Mr. Takashi Okura* (Barclays Bank)

Secretary:

Mr. Hirochika Nishikawa* (Bank of Japan)

Chairperson of the Sub-committee on Committee Steering:

Mr. Hiromitsu Kato* (Nomura Securities)

Chairperson of the Sub-committee on Public Relations:

Mr. Hidenori Watanabe (Dai-Ichi Kangyo 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 NDF/CFD:

Mr. Toru Ichikawa* (Fuji Bank)

Chairperson of the Sub-committee on the Model Code

Mr. Nao Nakajima* (Standard Chartered Bank)

Mr. Takao Sakoh* (UBS)

Mr. Eiichi Ishikawa (EBS Dealing Resources Japan)

Mr. Noriaki Kanda* (Reuters Japan)

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

Mr. Masakazu Bunno* (The Sakura Bank)

Mr. Shuji Kawanabe* (The Chase Manhattan Bank)

Mr. Daisuke Kono* (Citibank)

Observers

Mr. Yoshihiko Noguchi* (Money Brokers Association)

Mr. Takashi Kawazoe* (Bank of Japan)

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

*Attended the meeting.