

December 2, 2002

Minutes of the 57th Meeting of the Tokyo Foreign Exchange Market Committee

Time and date of the meeting: 13:00-15:30 September 25, 2002  
Venue: Bank of Japan  
Chairperson: Mr. Tetsuji Ogino (Bank of Tokyo-Mitsubishi)  
Vice-chairperson: Mr. Kazunari Kobayashi (State Street Bank)  
Vice-chairperson: Mr. Katsuhiko Oda (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 he had received an application for membership from Mr. M. Takegawa (Merrill Lynch Japan Securities, Co.). He also reported that the term of Mr. K. Kobayashi (State Street Bank and Trust Company) as Vice-Chairperson had expired, and that he had expressed his wish to serve for another term.

After reviewing the applications and presentations by the candidates, a vote was taken, and the two candidates were elected unanimously as a new member and Vice-Chairperson of the Committee.

Then Mr. S. Kawazoe (Bank of Japan), Secretary of the Committee, expressed his wish to appoint Mr. Y. Nakata (Bank of Japan) as an observer, which was approved.

. Revision of Code of Conduct

Concerning the draft of the revised version of the Code of Conduct, which was submitted at the last Committee meeting, Mr. N. Nakajima (Standard Chartered Bank), Chairperson of the Sub-Committee, reported that he had received comments from Committee members and had revised the draft reflecting the comments. The main points raised by members.

- (a) The definitions of the word “management” and “supervisor” used in Article 3 should be clarified.
- (b) “Use of Master Agreements” (Article 7) should be presented as a recommendation rather than an obligation.
- (c) The application of Article 8 (Measures against major disasters) should be limited to measures to be taken in disaster situations.
- (d) Concerning Article 12 (“Dealing for Personal Account”), as the current text was unclear whether it approved or disapproved dealing for personal account, it was necessary to clarify that such dealing is in principle not

allowed and to clearly establish the conditions under which such dealing would be approved.

- (e) Concerning Article 17-1 (“Opening Time of Trades”), it should be clarified that the 5 am opening time at the beginning of the week in the inter-bank market also applied even when the Sydney market is closed due to a holiday.
- (f) Article 18-2-5 specifies swap transactions as trades where it should be confirmed that there are no credit line issues. However, option trading should also be categorized within such trades.
- (g) The text concerning H.R.R. in Article 25 (“Off Market Rates”) should be reviewed taking into consideration the wording used in the current version, so as to avoid any confusion.

Following those comments, it was decided the Sub-Committee would make necessary modifications and would submit the revised report to the Committee. Concerning the glossary, it was reported that (a) several points of the terms related to exotic options had been amended, and (b) the Sub-Committee on NDFs would develop the glossary for NDFs referring to among others the 98 FX Definitions.

#### . Activities of the Sub-Committee on CLS and the situation of CLS after its launch

Mr. T. Ichikawa (Mizuho Bank), Chairperson of the Sub-Committee, reported that the report “Issues regarding the introduction of CLS” had been published with the cooperation of the CLS Tokyo office. He also reported that the report had been released in the following manner: (a) the web-site of the Committee, (b) mailing of the report to banker’s associations, (c) distribution at the financial press club, (d) the web-site of Japan Forex Club. A seminar is also planned for December.

It was proposed and approved that the Sub-Committee on CLS would, going forward, concentrate on developing the CLS related text for the Code of Conduct and on monitoring the operations of CLS which had recently begun.

Concerning the current situation of CLS after its launch (9<sup>th</sup> September), the following was noted.

- (1) Mr. Y. Noguchi (Money Brokers Association), observer of the Committee, reported from the voice brokers perspective the points below.
  - (a) settlement information

In cases where the counterparty is a foreign bank or a non-resident, delays in the settlement operations were being noted as it is taking time to confirm whether a transaction would be settled through CLS or outside of especially at the time of launch. It seemed some front offices did not even understand

the concept of CLS.

Brokers were receiving little information from banks including payment instructions. Some banks have explained that once a transaction with a certain bank could be settled via CLS, all future transactions with the bank should automatically be understood as CLS settled. However, at present voice brokers are required to confirm settlement information of individual trades since this is not always the case.

(b) overseas voice brokers

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

(c) In the future, once third parties start taking part in CLS, further confusion is expected regarding settlement information for trades done through brokers. Voice brokers especially need information for head office/branch and branch/branch settlements conducted by CLS members.

(2) Mr. M. Imura (Bank of Tokyo-Mitsubishi), observer of the Committee, provided additional information.

(a) Some problems were being seen, but were minor.

(b) It seemed the best practice of bringing transactions to CLS within two hours after conducting a trade was not being observed because some front offices are not familiar with CLS operations yet.

. Activities of Sub-Committees

(1) the Sub-Committee on Education.

Mr. M. Imai (UFJ Bank), Chairperson of the Sub-Committee, reported on the following items.

(a) A seminar for relatively more experienced dealers was being planned sometime between October and December.

(b) CLS will also be covered as a topic in the above seminar to increase awareness among CLS third party participants.

(2) the Sub-Committee on NDF

Based on the deliberations at the joint Sub-Committee meeting with the Sub-Committee on Legal Matters, Mr. H. Inamura (Citibank), Chairperson of the Sub-Committee, reported as follows.

(a) There are many cases where confirmations were not being returned. Therefore, there were risks that there maybe misunderstandings on the conditions of the trade or the possibility that trades may not be settled. The present situation would lead to serious problems in case a disruption event such as the financial crisis in Argentina were to occur.

(b) On the other hand, it was also pointed out that in most cases banks are

using documentation consistent with the EMTA format. There was the possibility that the trivial differences in the contract text may have no effect on the validity of the trade itself. But on the other hand, it was also reported by legal sections in the London office that there may be cases where a trade could become invalid. Thus the importance of obtaining confirmations was confirmed.

- (c) Concerning the confirmations of exotic options and interest rate swaps, the same problem as (a) was pointed out. The following points were pointed out as possible causes: (1) there was no practice of manually signing the documentation, (2) there was no mention of confirmation exchange at EMTA's discussions on confirmation, and (3) the complexity of the confirmation process and time constraints.

Following the report, it was confirmed that not receiving confirmations was problematic since NDF transactions are often done in currencies with high liquidity risk. Therefore the Sub-Committee proposed to conduct a survey (Questionnaire) including overseas markets participants on why confirmations are not being exchanged. This step was approved by the Committee.

### (3) the Sub-Committee on Legal Matters

Mr. K. Kanagami (Mitsubishi Trust and Banking Co.), Chairperson of the Sub-Committee, reported briefly on the Joint Sub Committee meeting with the Sub-Committee on NDF (the contents were the same as above).

### (4) the Sub-Committee on Public Relations

Mr. N. Kanda (Reuters Japan), Chairperson of the Sub-Committee, reported that the English version of the report "Issues regarding the introduction of CLS" had been posted on the Committee web-site.

### (5) the Sub-Committee on E-Commerce

Mr. N. Note (Sumitomo Mitsui Banking Corporation), Chairperson of the Sub-Committee, reported that the text for Article 19 of Code of Conduct (E-trading) was now complete.

Then he proposed to cease the activity of the Sub-Committee since there are no new urgent issues at this time. Concerning this proposal, the following comments were made by Committee members. "It is useful for the Committee to continue monitoring this area since the number of transactions using Fxall etc was increasing," "It might be useful to have a vehicle to examine the effects of IT on the market in general." As a result of the discussions, the points below were proposed and it was decided that the Sub-Committee on E-Commerce and

Steering Sub-Committee would examine them.

- (a) To temporarily suspend the activity of the E-Commerce Sub-Committee.
- (b) To reorganize the Sub-Committee into a standing Sub-Committee so that it could deal the problem concerning E-Commerce more generally.
- (c) To modify the name of the Sub-Committee to cover more broadly E-related transactions.

(6) the Sub-Committee on Committee Steering

Mr. H. Kato (Nomura Securities), Chairperson of Sub-Committee reported as follows.

- (a) “Issues regarding the introduction of CLS” was being translated into English. After its completion, the Committee would send the report to the FX Committees in NY, LDN, Singapore, HK, Sydney, and Korea.
- (b) As a part of the restructuring of the Sub-Committee activities, Chairpersons of the specific project-related Sub-Committees would be freed from the activities of other Sub-Committees.
- (c) Concerning the activities of the Sub-Committee on NDF, the Committee would request it to focus on improving the trading environment in the Tokyo market.
- (d) Based on the completion of the activities of the Sub-Committee on T+1, the membership of Sub-Committees would be reviewed.

. Other Issues

<Inquiry from Overseas FX Committee>

Mr. T. Kanagami (The Mitsubishi Trust and Banking Co.), Chairperson of the Sub-Committee on legal issues, reported that he had received an inquiry from FXJSC concerning customer identification when trading with investment funds and that he is preparing a response.

List of Tokyo Foreign Exchange Market Committee Members  
(25 September, 2002)

Members

Chairperson:

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

Vice-chairpersons:

Mr. Katsuhiko Oda\* (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\* (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 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. Eiichi Ishikawa\* (EBS Dealing Resources Japan)

Mr. Tadahiko Nashimoto\* (Barclays Bank)

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

Mr. Kosuke Hanao (The Royal Bank of Scotland)

Mr. Masayoshi Takegawa\* (Merrill Lynch Japan Securities, Co.)

Observers

Mr. Yoshihiko Noguchi\* (Money Brokers Association)

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

Mr. Koichi Takenaka\* (Mizuho Corporate Bank)

Mr. Yoshinori Nakata\* (Bank of Japan)

\*Attended the meeting.

