

March 19, 2002

Minutes of the 51th Meeting of the Tokyo Foreign Exchange Market Committee

Time and date of the meeting: 13:00-15:30 February 19, 2002  
Venue: Bank of Japan  
Chairperson: Mr. Tomomasa Sumida (Bank of Tokyo-Mitsubishi)  
Vice-chairperson: Mr. Kazunari Kobayashi (State Street Bank)  
Vice-chairperson: Mr. Takeshi Hanai (Industrial Bank of Japan)  
Secretary: Mr. Hirochika Nishikawa (Bank of Japan)  
Attending committee members: 16

. Resignation and Election of Members

Mr. T. Sumida, chairperson of the Committee, reported that Mr. S. Kawanabe (JP Morgan Chase) expressed his wish to resign from the Committee. Next, Mr. T. Sumida reported that he had received the member application listed below:

Mr. Y. Matsuno (JP Morgan Chase)

In addition to the above, Mr. T. Sumida reported that the term of Mr. H. Note (Mitsui Sumitomo Bank) as a Committee Member had expired, and he expressed his wish to serve for another term. After review of the applications and presentations by each candidate, a vote was taken. Both were elected as new members of the Committee.

At the suggestion of the Sub-Committee on Committee Steering held on 14<sup>th</sup> February, it was also approved that Mr. Matsuno would take over a position as a member of the Sub-Committee on E-commerce.

. Reports from the Sub-Committee on Committee Steering

Concerning the steering of the Committees activities, members of the Sub-Committee reported on conclusions reached at the meeting of the Sub-Committee on 14<sup>th</sup> February. Their reports and suggestions on issues were discussed.

(1) Drills on message transmission in contingencies

Mr. H. Nishikawa (Bank of Japan), the Secretary of the Committee, proposed a procedure for confirming the safety of the Committee members in contingencies. The proposal was approved and it was decided to conduct a drill based on this procedure on 27<sup>th</sup> February.

## (2) Revision of the Orange Book (Code of Conduct)

Concerning the arrangements for revising the Orange Book, Mr. N. Nakajima (Standard Chartered Bank), the chairperson of Sub-Committee on Model Code, reported and proposed as follows. The proposals were all approved.

- (a) The revisions would include, the results of the examination conducted by the Sub-Committee on Model Code, additional provisions that could be taken in from the Code of NYFXC, provisions to reflect occasional revisions for the Model Code. As for articles which need to be revised in accordance with advances in electronic broking, the Sub-Committee on E-commerce would immediately begin work to expand present articles related to electronic broking.
- (b) The Sub-Committee on Model Code would be re-organized into a Sub-Committee on Code of Conduct. The newly-established Sub-Committee would inherit the members of the Sub-Committee on Model Code, and would draw up a blueprint of the revised plan and manage the whole process.
- (c) All Committee members are expected to partake in the project.

## (3) Revision of the by laws of the Committee

Mr. H. Kato, the chairperson of the Sub-Committee on Committee Steering, reported that the following three points needed to be modified. A proposal to revise the by laws based on these points were approved.

- (a) Technical modification of the wording in accordance with amendments of related laws and regulations.
- (b) A change in the appointment process of the Committee members (invitation of public applications).
- (c) Clarification that minutes of the Committee were open to the public.

## (4) The relationship with overseas FX Committee

Mr. H. Nishikawa suggested that as he was having a meeting with members of the Seoul FXC, he would suggest the members to establish a cooperative relationship between the two committees. The proposal was approved.

## (5) Advisory group concerning Middle and Back offices.

Mr. H. Kato, the chairperson of the Sub-Committee on Committee Steering, reported that the Operational Group of NYFXC, composed of back-office staff, had contributed considerably to maintain the functioning of the market when the terrorist attacks had taken place, and that London FXJSC was considering the establishment of similar group. The Committee discussed its

options with these developments in mind. The key points of discussion were as follows:

- Though there may be the cases when we need to obtain advice from back-office specialists, these needs do not seem to warrant the establishment of a standing Sub-Committee.
- It would be useful to identify in advance specialists who could be consulted as needed.
- "There could be a need to consult not only back-office, but also specialists of the middle office.

In view of this discussion, it was proposed that a standing Advisory Groups that should not hold periodic meetings, but could respond to the Committee's requests and the established along the following lines:

- (a) The Advisory Groups would consist of back-office (related to settlement) and middle-office (related to market risk management) specialists.
- (b) Each group would examine issues as requested by the Committee and give answers or make proposals to the Committee.
- (c) The chairpersons of Sub-Committees on related issues would attend meetings of the Advisory Groups.
- (d) The members of the Advisory Groups could be requested to attend the Committee meeting.
- (e) Concerning the selection of members of each group, the Committee would decide based on the recommendation of committee members, giving careful consideration so that burden among firms would not be too unbalanced. The committee would send a formal written request under the name of the Committee Chairperson to each candidate.

#### (6) Election of the members following the M&A of firms.

The Committee revisited the membership issue as there was an imminent regrouping among banks to which the members belong. The question was whether the inclusion of two or more members from the same financial group should be strictly avoided or not, when such a situation takes place as a result of the regrouping. Special consideration was called for, noting that the numbers of active financial firms in the FX markets were decreasing.

The following views were expressed:

- In the case where a holding company was established, eligibility should be decided depending on each firm's manner of market participation.
- If the present practice of one member from one firm was maintained and was applied to a financial group under a holding company, the number of the Committee members would decrease with each M&A, and the activities of the Committee eventually be compromised.
- Considering that participation in the Committee was voluntary and

individual capacity, it might not be necessary to strictly apply a one firm /one member rule.

- It would be appropriate to recruit new members more actively from, for example, the Trust Banks or Regional Banks.

As a result of deliberation the following points were agreed:

- (a) Since the firm to which members belonged was considered as only influencing their possible contributions, and the most important factor was the ability of individual candidates, the name of the firm should not automatically override the wish to serve on the Committee.
- (b) Appropriateness should be decided by the election process, and the decision to run should be left to the individual.  
---The prospects for contributions and support from employers would be determined through the Q&A process of election.
- (c) The Committee would explore means to promote applications from dealers who belong to firms not presently represented the Committee.

#### . Activities of Sub-Committees

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

Mr. H. Note (Sumitomo Mitsui Banking Corporation), the chairperson of Sub-Committee, reported that NY Fed would hold “Electronic Trading Forum.” A staff of the BOJ NY office would attend and feedback would subsequently be provided to the Committee.

In a related matter, Mr. M. Imura (Bank of Tokyo-Mitsubishi), the observer of the Committee, reported that the London FXJSC had provided information that they had launched research into the current conditions of e-broking from the viewpoint of both the effect on the relationship between the customers and the financial firms, and the security issues.

##### (2) the Sub-Committee on T+1

Mr. K. Kobayashi, the chairperson of Sub-Committee, reported and proposed as follows, and proposals were approved.

- (a) A discussion paper was completed.
- (b) The paper was to be approved and endorsed as a report of the Committee at the next Committee meeting after the deliberation by Committee members.

##### (3) the Sub-Committee on NDF

Mr. H. Inamura (Citibank), the chairperson of Sub-Committee, reported as follows.

Following the completion of the survey (questionnaire) about NDF's, the Sub-Committee embarked on a series of visits to individual institutional

asset managers, inquiring about the reason why NDF's were not used in Tokyo market in spite of potential interest. The following reasons were pointed out for not using NDF's in spite of institutional asset managers' potential interest.

- (a) The heavy operational burden of accounting treatment under current laws and regulations (requirement for third-party valuations and fund-by-fund reporting).
- (b) The difficulty of completing transactions in time due to time differences and the lack of standardized agreements.

#### (4) the Sub-Committee on CLS

Mr. T. Ichikawa, the Chairperson of the Sub-Committee, reported as follows:

- (a) The Sub-Committee was examining the following issues which had been raised by brokers about the practical problems of potential CLS settlement.
  - The notification of the information whether a firm was participating in CLS to brokers.
  - Non-CLS settlement of deals between banks participating in CLS.
  - The need to answer inquiries from dealers about CLS participation status of other dealers.
  - How to deal with mistakes of names.
  - Time limits for sending of broker confirmations.
  - Dealings at night or on holidays in Tokyo.
- (b) The output of the CLS Sub-Committee's examination was under development and the first draft was to be submitted at next Committee's meeting.

List of Tokyo Foreign Exchange Market Committee Members  
(19 February, 2002)

Members

Chairperson:

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

Vice-chairpersons:

Mr. Takeshi Hanai\* (Industrial Bank of Japan)

Mr. Kzunari Kobayashi\* (State Street Bank and Trust Company)

Secretary:

Mr. Hirochika Nishikawa\* (Bank of Japan)

Chairperson of the Sub-committee on Committee Steering

Mr. Hiromitsu Kato\* (Nomura Securities)

Chairperson of the Public Relations

Mr. Yutaka Kawazoe\* (Barclays 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 CLS:

Mr. Toru Ichikawa\* (Fuji 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. Noriaki Kanda\* (Reuters Japan)

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

Mr. Shuji Kawanabe (The JP Morgan Chase Bank)

Observers

Mr. Yoshihiko Noguchi\* (Money Brokers Association)

Mr. Satoshi Kawazoe\* (Bank of Japan)

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

Mr. T. Kabe\* (Industrial Bank of Japan)

\*Attended the meeting.