

June 2, 2003

**Minutes of the 60th Meeting
of the Tokyo Foreign Exchange Market Committee (TFXMC)**

Time and date of the meeting:	13:00-16:15 January 29, 2003
Venue:	Bank of Japan
Chairperson:	Mr. Tetsuji Ogino (Bank of Tokyo-Mitsubishi)
Vice-chairperson:	Mr. Kazunari Kobayashi (State Street Bank)
Vice-chairperson:	Mr. Akio Kashima (Mizuho Corporate Bank)
Secretary:	Mr. Satoshi Kawazoe (Bank of Japan)
Attending committee members:	17

. Resignation of a Member

Mr. T. Ogino (Bank of Tokyo-Mitsubishi), Chairperson of the Committee, reported that Mr. K. Kanagami (Mitsubishi Trust and Banking Co.), Chairperson of the Sub-Committee on Legal Matters, had expressed his wish to resign from the Committee.

. Activities of Sub-Committees

(1) the Sub-Committee on Public Relations

Mr. N. Kanda (Reuters Japan), Chairperson of the Sub-committee, reported that the Hong Kong Foreign Exchange and Money Market Practices Committee had proposed to set up a mutual link between the web sites of the two committees'. He proposed to accept the proposal and this was approved by the Committee.

(2) the Sub-Committee on Market Research

Mr. A. Kashima (Mizuho Corporate Bank), Chairperson of the Sub-Committee, reported as follows, based on the Sub-Committee meeting held on 20th December.

(a) Mr. Y. Nakata (Bank of Japan), Observer of the Committee, reported on

the current situation of the Tokyo FX market using data from the BIS Triennial Survey of Foreign Exchange and Derivatives Market Activity. The following conditions were noted.

The general downward trend in transaction volume in the Tokyo market seemed to be unchanged although in the 2001 survey, overall volume increased due to a sharp rise in currency swap transactions.

The share of foreign banks in the Tokyo FX interbank market was increasing (1998 = 53.6% 2001 = 71.1%).

The sluggish Japanese economy, high business costs, language barriers, and limited investment opportunities, are often considered as factors behind declining transaction volume.

- (b) After the presentation, members felt the following issues could be further explored as possible ways to rejuvenate the Tokyo market.

Development of an index similar to the MSCI which would be calculated in Tokyo time

Development of yuan/yen market in Tokyo as a long term goal

Development of additional cross yen market in addition to the euro/yen market as a short term goal

Research on currency overlay transaction in Tokyo market

The Chairperson also reported that members of the Sub-Committee had received assignments to gather information on key global markets– such as transaction volume, regulation, costs, taxation – in order to conduct a comparison with the Tokyo market as a basis for further discussion and research.

(3) the Sub-Committee on NDF

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

- (a) Questionnaire on the confirmation of NDF transactions

The Sub-Committee sent out the questionnaire to Japanese banks and branches of foreign banks in Japan (total of 38 banks) in December and the questionnaire was also uploaded on to the websites of TFXMC and Forex Club, Japan.

The Sub-Committee also sent letters to explain the aim and background of this questionnaire to the overseas Market Committees of Hong Kong, Singapore and Seoul.

So far 14 banks (37%) have replied to the questionnaire.

- (b) Work with the New York Foreign Exchange Committee (NYFXC)

The Committee had received an e-mail from the NYFXC that they were planning to establish a Global Task Force Project to work on “Asian NDF Templates” and had invited overseas market committees including TFXMC to participate in the project.

NYFXC had also circulated a new “Master Agreement Addendum for

Non-Deliverable Forwards.”

The Chairperson of the Sub-committee informed NYFXC of his intention to participate in the task force as a representative of the Sub-Committee.

The Committee approved the participation of the Sub-Committee in the project.

(4) the Sub-Committee on CLS

Mr. T. Ichikawa (Mizuho Bank), Chairperson of the Sub-Committee, reported that the Sub-Committee reached a consensus on the draft of Article 21 (“Methods of Funds Delivery”) of the revised Code of Conduct.

. Revision of the Code of Conduct

Concerning the draft of the revised Code of Conduct, Mr. N. Nakajima (Standard Chartered Bank), Chairperson of the Sub-Committee, introduced several topics which needed to be confirmed by the Committee. As a result of the discussions, the points below were approved and details were left to be finalized by the Sub-committee.

- (a) Concerning the definitions of the words “management” and “supervisor,” the former means the person who has overall control of a section (e.g. general manager or department head) and the latter means a person who undertakes specific tasks under the control of management (e.g. group or section head).
- (b) Article 15 (“Abuse of Drug, Alcohol, and other addictive substances”) will cover appropriate conduct by managers in drug and alcohol issues in the office or situations where staff are unable to properly function due to the influence of drugs or alcohol.
- (c) Article 16 (“Money Laundering and Identification”) will focus on necessary measures to prevent money laundering and will no longer include general information such as steps taken by national authorities against money laundering or changes to the domestic reporting system.
- (d) Article 17 (“Opening and Closing Time of the week in the FX Market”) will explain current market practice and indicate that individual transacting parties can agree to modify such practices, and define their own opening and closing time of the week between themselves.
- (e) It was explained that in the process of drafting Article 21 (“Methods of Funds Delivery”), it had been pointed out that, it should be recognized that voice brokers cannot take full responsibility to provide parties concerned with information regarding CLS settlement since they themselves do not always receive full information. In light of this the Committee agreed hat

wording of the Article 21 should be revised in order to prevent parties concerned from putting excess responsibility on voice brokers concerning international brokerage for which voice brokers have responsibility.

- (f) "Points for consideration in connections with the introduction of CLS" will be included in the revised Code of Conduct as a supplementary note. Details are below.

Points regarding settlement methods (e.g. recognition of best practices by participating banks, the need for prompt reaction to inquiries from counterparties or brokers on settlement method <i.e. CLS or non-CLS>.)

Points on transactions using electronic broking systems (e.g. need to renew settlement information registered in electronic broking systems when banks start to participate in CLS)

Points regarding liquidity management (e.g. need to ensure sufficient daytime liquidity, especially in time of emergency situations)

Points regarding contingency planning

- (g) Concerning the example given on the use of dealing equipment in Appendix 2. (a), it was approved that the expression would not be changed reflecting the fact that it is not possible at this stage to clarify which was the trend among market participants; those which require the confirmation of the front office or those which leave settlement procedures completely to be decided by the back offices.

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

Members

Chairperson:

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

Vice-chairpersons:

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

Mr. Eiichi Ishikawa* (EBS Dealing Resources Japan)

Mr. Tadahiko Nashimoto* (Barclays Bank)

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

Mr. Masayoshi Takegawa (Merrill Lynch Japan Securities)

Observers

Mr. Yoshihiko Noguchi* (Money Brokers Association)

Mr. Yoshinori Nakata* (Bank of Japan)

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

Mr. Koichi Takenaka (Mizuho Corporate Bank)

*Attended the meeting.