

September 13, 2002

Minutes of the 55th Meeting of the Tokyo Foreign Exchange Market Committee

Time and date of the meeting: 13:00-15:30 June 27, 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. Hirochika Nishikawa (Bank of Japan)
Attending committee members: 16

. Revision of the Foreign Exchange and Foreign Trade Law (FX Law) to require confirmation of the identities of counterparties

Mr. T. Kanagami (The Mitsubishi Trust and Banking Co.) reported as follows. The Sub-committee received drafts of the Cabinet Order and Ordinances based on the law from the FSA on 26th June. It was confirmed that trades conducted through S.W.I.F.T would be excluded from application of the law. Furthermore, details of the application to overseas branches would be defined in the form of Q&As rather than as formal regulation of authorities. Thus the focus of attention would be on the contents of the Q&As.

. Activities of Sub-committees

(1) Sub-Committee on Education

Concerning the next Forex Seminar, Mr. M. Imai (UFJ Bank), Chairperson on the Sub-Committee, reported on the expenses and revenue from the FX seminar held on 27th May which was approved by the Committee.

(2) Sub-Committee on Code of Conduct

Mr. N. Nakajima, the Chairperson on the Sub-Committee, reported that the revised Code of Conduct had been further modified and in connection reported the following.

- (a) With regard to articles covering the activity of brokers (mainly Article 17 "Quotation of Prices and Concluding of a Deal", Article 25 "Relation Between Dealers and Brokers", Article 27 "Name Substitution", Article 28 "Brokerage", and Article 32 "Japan Offshore Market <JOM> Transaction"), the Sub-Committee was asking brokers through Mr. Y. Noguchi (Money Brokers Association) to review the draft text.

- (b) Based on the experience of last year's terrorist attack, a new article covering the measures against large-scale disasters has been added.
- (c) Article 15 "Money Laundering" would be revised based on the revision of the FX Law regarding the confirmation of the identity of counterparties.(d) Further improve the section on electronic transactions (Article 18) also taking into consideration information supplied by electronic transaction service providers.
- (e) Concerning the methods of yen funds delivery in Article 20 "Methods of Funds Delivery" the information on CLS settlement will be added.
- (f) The validity of the parts concerning off-market rates and HRR would be examined by Committee members.
- (g) Old transaction rules such as the use of Telex mentioned in Article 31 "Exercise of Currency Option rights" would be deleted.

Following discussions, the suggestions above were all approved. However, concerning the section on CLS, the details of how and where it will be presented will be further considered in light of the fact that actual operations of CLS Bank will only begin this autumn.

In the glossary additional terms including those on NDF transactions will be added while checking consistency with the new edition of the ACI Model Code. In addition, the cost of using an outside firm to prepare an English translation of the Code will be reviewed and presented at the next meeting.

(3) Sub-Committee on CLS

Mr. T. Ichikawa (Mizuho Bank), the Chairperson of the Sub-Committee, reported on the results of a meeting held through e-mail and the following issues were discussed.

- () Based on the decision of an expanded Sub-Committee meeting (including back-office representatives of brokers and banks), volunteers from the brokers community developed a note; "Questions and requests concerning the introduction of CLS". For example, the brokers requested that changes in settlement information be provided promptly to them. The Committee members were requested to ask their respective back-office to prepare a response.
- () A meeting of all parties to discuss the note is planned for early July. Committee members were requested to ask the back-office staff of each firm to attend this meeting.

The Committee agreed to support the two initiatives.

(4) Sub-Committee on NDF's

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

follows based on the Sub-Committee meeting held on 17th June.

(1) Factors preventing the development of NDFs in the Tokyo market>

(a) Lack of transparency in NDF pricing

At present each firm quotes its own price respectively. In overseas markets, there are often cases where multiple indication rates are provided by major information vendors.

(b) Japanese banks tend to avoid conducting trades which may not be popular with host authorities.

(c) The Singapore market seems to be most advanced from the perspective of providing information on conditions in Asian countries, flexibility in trading, liquidity, and infrastructure such as settlement systems.

(2) Steps to develop the Tokyo NDF market

Ultimate goal is to expand the Tokyo NDF market. As for process, the main activities will be to arouse demand and to review possible ways of avoiding problems being experienced in overseas markets..

As a first step, the Sub-Committee on NDFs would develop a report. The report would be developed as a study paper aimed at supplying institutions expertise and information that would be useful in arousing potential customer demand. The report will be posted on the web site of the Committee and Japan Forex Club to stimulate discussion among market participants

Currently, for example, confirmations are not conducted very strictly and this could be a source of problems when operational accidents occur. Concerning this point, the Sub-Committee was going to survey the overseas FX Committee and conduct joint work with the Sub-Committee on Legal Matters.

(5) Sub-Committee on Public Relations

Mr. N. Kanda (Reuters Japan), the Chairperson of the Sub-Committee, reported that a structure was now in place to periodically update the Committee web site.

Other Issues

The Sub-Committee on E-Commerce held a presentation of Mr. Y. Kato, Director of Fxall Tokyo, under the topic "The present situation and prospect of the multi-portal system".

List of Tokyo Foreign Exchange Market Committee Members
(18 April, 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. Hirochika Nishikawa* (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 T+1:

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

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* (Reuters Japan)

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

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

Observers

Mr. Yoshihiko Noguchi* (Money Brokers Association)

Mr. Satoshi Kawazoe* (Bank of Japan)

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

Mr. Koichi Takenaka* (Mizuho Corporate Bank)

*Attended the meeting.

