ACI
THE FINANCIAL MARKETS ASSOCIATION

ACI BRIEFING

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ACIFXC Launched

The ACIFXC (Foreign Exchange Committee) was launched in NewYork on Monday 15 November 2010 during the ACI 2010 Council Meeting. Stéphane Malrait, Societe Generale, MD Global Head of e-Commerce became the first elected Chair of the committee, whilst David Woolcock, Senior Director, Head of Bank Sales at FXall was confirmed Vice Chair.

ACIFXC

The new group will meet six times a year and has the following mission statement:

- To inclusively represent the entire professional FX Market, including in the membership of ACI, all Professional Market Participants (PMP's), who, based upon the principle of personal integrity, will individually uphold the values of The Model Code.
- The committee to be focused on, and comprised of, FX experts who will support both the Executive Board and Regional ACI's and ensure that the views of the professional FX community are heard at the highest levels, in co-operation with other associations that have an FX voice when applicable.
- ACIFXC will work in concert with regulators and other foreign exchange committees to promote a common global, orderly and transparent FX market and to lobby on regulatory issues as required. To recommend best practices and changes to The Model Code as and when necessary from a professional FX market perspective.
- The ACIFXC will fully represent current and future trading styles and execution choices available to the FX market professionals and will actively facilitate the development of regional foreign exchange markets and their integration into the global marketplace.

A meeting was held in London on Thursday 20 January, the next is in Moscow on 17 March.

Stéphane Malrait is Managing Director and Global Head of E-Commerce at Societe Generale. Based in London, Stéphane joined Societe Generale in August 2007 to lead the bank e-commerce initiatives across Credit, Rates and Foreign Exchange products and continue the bank effort to develop a cross-asset ecommerce strategy. Previously, Stéphane has worked at

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Message from the President

FOREWORD

Dear Reader,
The financial markets are at a turning point – and so is ACI. The past year was a busy one for our individual-based trader's association and we, the Executive Board and its Committees, implemented a lot of initiatives, the fruits of which shall be seen in the near future.
ACI signed a memorandum of understanding with CISI – The Chartered Institute for Securities & Investment. The MOU recognises both the ACI Operations and Dealing Certificates as one unit of the CISI's Investment Administration Qualification.
Recently the UK's FSA – Financial Services Authority – put ACI's Dealing Certificate and Diploma on its recommendation list. An important step which we shall seek to replicate during 2011 with other regulators and central banks.
To support our industry in these heavy days of impending regulation the Executive Board not only responded to some of the consultation papers by the various commissions but also instigated contact with officials from several regulatory bodies around the globe. Contacts/visits were made with the European Commission, several Central Banks, to the SAFE (State Administration Foreign Exchange) in Beijing, to the Federal Reserve Bank of New York, the IMF and the World Bank in Washington, the FSA in London and others.

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PROFIT & LOSS IN THE CURRENCY & DERIVATIVE MARKETS

Message from the President. Continued from p.1

A missing milestone was the initiative to hold a trader's reception for New York banks, which took place in November. The next steps will be to re-install an ACI USA association as well as to open an ACI Representative Office in China. Our goal shall be maintaining a finger on the pulse of activity.

In response to the ongoing market challenges, for example Dodd Frank, EU hedge fund regulation, MiFID, Markets infrastructure, to name just a few, ACI has re-instigated an ACI Foreign Exchange Committee. The ACIFXC was officially inaugurated on November 15 in New York and its membership includes well-respected and well-known market experts.

That said, a lot remains to be done. A strong focus for the Association will be in adjusting our certification program to the changing environment (Asset & Liability, Liquidity, to name just two areas). The various committees will actively follow the development of the regulatory infrastructure and we shall promote our activities all over the world to show the regulators what ACI has to offer and its value to the industry.

ACI continues to grow in its influence, particularly encouraging was the strong increase of members by ASSIOM Forex Italy – something we see as a strong commitment to our Association.

ACI will hold its 50th World Congress from May 26– 28 in Budapest and I strongly recommend not missing this opportunity to share your ideas, thoughts and opinions with your fellow members. At the Congress, ACI's working groups will discuss the latest developments in foreign exchange (Dodd Frank) and money market and liquidity (Basel III) in addition to many other interesting panels. Registration is open - just take a look at www.acibudapest2011.hu or through ACI's website.

Manfred Wiebogen
President ACI

ACIFXC Launched. Continued from p.1

JPMorgan Chase for ten years based in New-York and London, working in different roles in global FX e-commerce business management and cross asset e-commerce technology. Stephane is also a board member for several e-trading market initiatives.

David Woolcock is an experienced trader, with a broad knowledge of foreign exchange, fixed income and related matters gained through a variety of roles in commercial and investment banking. David has been focused on e-business in sales, strategy and product development for e-FX since 1999; and is currently at FXall as Senior Director, Head of Bank Sales having been with the company since March 2004.


MANFRED WIEBOGEN AND EDDIE TAN OFFICIALLY INAUGURATE THE ACIFXC

MEMBERS:

Stefan Hamberger
- Commerzbank - Frankfurt

Stephane Malrait
- Societe Generale - London

Morgan McDonnell
- RBC Dexia - London

David Hudson
- JPMorgan - London

Niklas Karlsson
- Danske Bank - Copenhagen

Sergey Romanchuk
- Metallinvestbank - Moscow

David Woolcock
- FXall - London

Nigel Brandon-Bravo
- Gain Capital - London

Anne-Maria Rothenstein
- Adsatis - London

FX market little affected by the Financial Crisis – but it feels the breath of regulation

The BIS recently confirmed the FX business as being the world's largest financial market. The daily traded FX volume increased from USD 3.3 trillion in 2007 to USD 4 trillion in April 2010. This represents a 20% gain, which was markedly less than the 71% increase observed between 2004 and 2007.

The FX market is larger than all the other financial markets combined. More importantly, it enables liquidity to be efficiently distributed around the globe and remains essential for a sustainable economic growth. It is highly liquid and transparent and FX trading transcends geographical and time zone boundaries – nearly tradable seven days a week.

Drivers

The increase in turnover was driven by a 48% growth in Spot transactions, which represents 37% of the FX market and reached USD 1,5 trillion. Another staggering increase was noted in the outright forward segment (+31%), whereas the growth in the largest segment of FX Swaps was flat. Meanwhile, a marginal decrease of 2% was registered in FX Options.

Members of the ACIFXC (ACI Foreign Exchange Committee) summarised the development as a significant increase of client flow in Europe and Asia. Clients are looking at more counterparties than before. They also notice more demands for emerging market currencies and bet-

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ter execution using e-commerce. Additionally the FXC analysis suggests that speculative FX business is on the decline . The tendency in the FX markets still is for hedging but even more for using FX as an investment vehice. Many hedge funds, pension funds, large corporates or insurance companies discovered FX as an asset class in their portfolio whilst pure trading for own accounts is diminishing.

Cross border transactions

The BIS survey also shows that the FX market became more global with cross border transactions representing 65% of daily trading activity. This may be due to an increase in cross border trade amongst countries but also to the growing number of investors considering FX as an asset class and are investing in the fast growing economies.
The US dollar remained the dominant currency, with 84,9% of all transactions. The euro's share rose to 39% from 37%, the Japanese yen gained 1,8% to 12,9% and the biggest decline was in the British pound. Moreover, it is interesting to note that amongst the emerging countries, significant increase were seen in the Turkish Lira, Korean Won, Brazilian Real and the Singapore Dollar.
In terms of currency pairs, EUR/USD remains dominant with 28%, followed at some distance by USD/JPY at 14% and USD/GBP (9%). The United Kingdom (37% market share) and the US (18% market share) still host the worlds' largest foreign exchange markets. The UK's market share increased by 2% whereas that of the US was pretty much flat. These countries are followed by Japan (6%), Singapore (5%) and Switzerland (5%).
Trading originating from non-dealers and classified as other financial institutions, grew by 42% to USD 1.9 trillion and become the highest contributing source in today's FX Market. This category, mainly includes central banks, hedge funds, mutual funds and even smaller commercial banks. Meanwhile, trading between reporting dealers grew at a slower pace, by 11% to $1.5 trillion. Reporting dealers is defined as those financial institutions that actively participate in local and global FX markets.

Market trends

We as ACI agree with CLS's (Continuous Linked Settlement) summary in the key FX market trends in the foreseeable future:
Risk and liquidity will play an important role. The regulatory environment is changing and will influence the clearing of derivatives. The trend further will be towards trade repositories and price transparency – but we have to state, that the FX business already provides the upmost transparency in financial markets. Risk mitigation remains at the top of the banks' agenda whilst the cost of liquidity has and will increase further.
There will be a further need for market consolidation. But e-commerce investment will continue to climb and we foresee some concentration in the scale business. That said, niche players will still find roomto succeed, in particular in the retail business.
Costs and capacity will stay on the agenda in FX as well. Assuming ongoing capacity and a robust infrastructure the continuing demand for lower costs will remain. A universal spread compression will increase these cost pressures.
Despite these developments mentioned above we agree on the prospects for further growth from the key segments of prime brokerage, algo and retail business. Continued growth may be seen globally – in emerging market currencies as well as in the more traditional ones.

Regulation

In some sense the FX markets have to be seen different to the rest. The market of spot, forwards and swaps is qualitatively different to the derivatives markets. The latest BIS survey confirmed spot and swaps (short FX exchange or mainly liquidity exchange) account for 82.5% of the overall market volume whilst outright forwards, cross currency swaps and FX options are just occupying 17.5% Even this figure is down from 18.2% in 2004! Whatever might come up on regulation – I am definitely concerned by the possibility of over-regulation:
We have to avoid the danger of concentration risk by mandatory clearing.
During the crisis, the FX market became a critical source of liquidity and funding for participants through the FX swap mechanism – which was absolutely supportive in terrible times.
Much of FX is used in carrying out monetary policy. The FX market is needed – in particular larger amounts – by Central Banks and Treasury departments intervening in the markets to stabilise and balance at bad economic market conditions.
The non-commercial banks segment generated for the first time more volume than reporting banks. This indicates that the FX market is increasingly shared by non-regulated counterparts.
Finally (besides others) we should not forget, the majority of the FX business is extremely short dated and the market is very liquid.
The Dodd Frank Act and/or the EU Hedge Fund regulation cast a cloud over the world's oldest financial product. We as ACI The Financial Markets Association and other sister associations are concerned about any possible quick shot of regulation which could lead to new market turbulence.

Manfred Wiebogen
President ACI
The Financial Markets Association

Paris/Vienna, 25 January 2011

ACI Hungary making the final preparations for the 50th ACI World Congress

It was in 2007 when ACI Hungary got the vote for organising the 50th ACI World Congress and it is now only a little more than four months to go before the Congress kicks off on 26 May 2011.
ACI Hungary did not waste any time and preparations for the Congress started at the end of 2007. The Organising Committee was formed and headed by Levente Fülöp from the Hungarian Development Bank.
The 47th World Congress in Vienna in 2008 gave a good opportunity to start marketing our Congress. The location and very good cooperation between the two Associations helped us to launch our campaign. During this year our main task was to secure the necessary sponsorship from the local banks first. The Magyar Nemzeti Bank (the central bank of Hungary) is standing firmly behind the Congress. By the end of 2010 we had one platinum sponsor, Deutsche Bank. There are three Diamond sponsors, Erste Bank, UBS and OTP Bank. We have the MKB as a Gold sponsor. There are two media partners, *Profit and Loss* magazine and the *Wall Street Journal*.
The signal to accelerate preparations came when ACI Hungary received the flag of ACI – The Financial Markets Association in March 2010 in Sydney from ACI Australia at the end of the 49th World Congress.
The major issue was to set up a high level business program. As this will be the 50th World Congress, the Organising Committee decided that the second day, Saturday 28th May, will be almost fully dedicated to ACI. Additional to the General Assembly, we will hear reports from the new Foreign Exchange Committee, and the Money Market and Liquidity Committee. We will bring to Budapest as many former ACI global presidents as possible to celebrate this anniversary and to discuss how they can see the past, present and the future of ACI.

THE ACI HUNGARY ORGANISING COMMITTEE

The Congress will kick off in the evening of 26 May, Thursday, in the SYMA Sports and Event Centre where the Conference and the Exhibition is located. The Opening Ceremony will be held in the Exhibition Area, providing possibilities for the participants to meet and enjoy some entertainment.
Friday sees a busy schedule on the business program. After the Opening Remarks from Manfred Wiebogen, president ACI – the Financial Markets Association and István Gondi, President of ACI Hungary we will hear a keynote speech from András Simor, Governor of the Magyar Nemzeti Bank. The introductory speech by Alexandre Lamfalussy, former General Manager of the Bank for International Settlements and former President of the European Monetary Institute will be followed by a panel discussion from members of Eastern European Central Banks on the topic of "The Euro. Past, present… and future?"
After the lunch break we will hear a keynote speech by Nouriel Roubini, Professor - New York University, Chairman – Roubini Global Economics. The afternoon panel will discuss "The world economic situation in 2020. Tendencies and power relations" with panellists including Roubini. Arnab Das also from Roubini Global Economics, and Anrás Inotai, director, Doctor of Economic Sciences – Institute for World Economics of the Hungarian Academy of Sciences will also participate. The afternoon will be concluded by a speech from Robert Thomson, Editor-in-Chief, Dow Jones and Managing Editor – The *Wall Street Journal*.
Saturday will be an ACI day. The topics will cover challenges regarding FX, Basel III and Liquidity. The morning program will commence with "What kind of FX market going forward after Dodd Frank and EU hedge Fund regulation?" Hervé Ferhani, Deputy Director Monetary and Capital Markets, IMF will introduce the topic which will be discussed by members of the ACIFXC Foreign Exchange Committee). The is will be followed by the General Assembly of ACI as well a presentation and discussion about the recent banking crisis (led by Manfred Kunert, Honorary Member ACI) will follow. Finally, "Basel III Liquidity Rules - How will Treasury's bank-wide role be effected?" will be presented by Dr. Hannes Enthofer, Finance Trainer Consulting, and discussed amongst a panel comprised of

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representatives from the European Central Bank, Crédit Agricole and Deutsche Bank. The closing speech of the Congress will be by Claudia Segre, General Secretaryand the closing speech of the Congress will be by Claudia Segre, General Secretary – Assiom Forex, Credito Emiliano, a symbolic transition of Congress "From Budapest to Dubai: Exploring new opportunities in Islamic finance". The aforementioned speakers are already confirmed and we are still working on more to offer delegates as high a quality program as possible.
There are four and five star hotels available in the centre of the city to enjoy the sights and only a short bus ride from the Congress Centre.

The early bird registration is still on so hurry up to book your place.
You can find all the details on our website: **www.acibudapest2011.hu**

ACI Holds New York Reception

ACI took the opportunity afforded by the Council meeting being in New York to hold a reception for local traders in November. More than 100 came along to the reception, for some it was an opportunity to meet again after a hiatus since ACI USA disbanded some years ago.
What was heartening for ACI's officials was that the message from the reception was clear – nostalgia has its place, but there is a real desire to see ACI USA reformed for the future. This reformation is, of course, one of the objectives for ACI in 2011, as we seek to build our influence and presence in this huge financial centre.

NETWORKING IN NEW YORK

ACI Europe Reports

The recent ACI Council meeting took place at the offices of Natixis in New York, the bank kindly hosting the Executive Board and Regional meetings the previous day. At the meeting, an update was provided on the status of ACI Europe.

The mapping of members :

Members in charge of working groups have been mapped in every European country, and different commissions can now exchange topics and documents, directly or through the ACI website that has been enhanced with this specific purpose in mind.
We realised that in the current environment, driven by a general push towards more market regulation, it is critical to know what the regulators are planning, and to be part of the industry network that participates in the discussions.
In that regard the cooperation between Euribor ACI working groups (that now work under the ACI Europe umbrella) and other specific ACI Europe working groups, has been fruitful, and we have been represented in several meetings with G20 regulators including Jacques de Larosière as well as the European Commission (the so-called "Barnier" commission), and more recently with the Federal Reserve Bank of New York. Reports of these meetings and presentations made by our ACI group members can be found on the association's website at www.aciforex.org.

Euribor ACI :

Euribor ACI Working Groups have been integrated into ACI Europe. These groups are essential to ACI, and they represent a strong asset for the Association. Reports of the Working Group meetings have been put on the association's website.
Following the resignation of Godfried De Vidts from the Presidency of Euribor ACI, a new President will be elected at a meeting scheduled for February.

Improvements in the website:

We have launched a specific area in the website for members of each working group to access the reports and presentations created by similar Working Groups in other countries. The entire database is updated by the ACI Administration team in Paris, so it is important that all relevant information is forwarded to them by the National Associations.
They have been put online, accessible though a system of password that can be given either to each group member, or to all ACI members. This means it is now easier for every European country to follow events in other European financial centres, and to contact people in those centres that may be facing the same problems or working on the same topics.
The log of former meeting, reports, or calls is being put on the web little by little, and filed according to each topic. The agenda of meetings between ACI members and regulators is also online, as well as short call reports following these meetings.

Education:

The global financial crisis has reinforced the focus on education and ethics, topics on which ACI has always been pro-active. We want to take advantage of this to continue our effort, and try to market ACI as a "reference point" for financial markets. We need to market our professionalism and competence, and seek to be included in as many central bank or regulatory

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working groups as possible, in order to give our opinion on our areas of expertise. We need to market the ACI Certificates, and push for more candidates in more countries to take the exams, in connection with ACI's Board of Education.

Communication : Monthly calls :
Since the beginning of the financial crisis ACI Europe has organised monthly conference calls to enhance communication about the situation in the different markets; to update members regarding the discussions with regulators; and events in the different European associations, the organisation of local events.
It is our intention to continue these conference calls in the future.

ACI Landmarks :
We are working on the definition of an ACI Index that we will try to market and get accepted by the trading community. The index will be general (including several markets) but also easy to compute, and will be monitored by a group of scholars and published daily or weekly. A specific idea has been put forward during the meetings and will be discussed further in Q1 2011.

2010 Summary of Activities in Asia

I am pleased to report that the ACI Asia Secretariat successfully relocated to Singapore in January 2010, and a branch office has been established.
The most significant event for Asia in 2010 was the successful hosting of the 49th ACI World Congress in Sydney by ACI Australia from 25-28 March 2010. The year has also seen significant progress in building an educational platform and roadmap for the member Associations in Asia, with the collaboration between ACI Asia, ACI Singapore and the Singapore Management University seeing over 240 participants attending its 7 courses, and a further 120 participants taking the highly successful Non-Deliverable Products Course developed by ACI Singapore. ACI Australia has continued to develop and expand its highly successful Dealing Simulation Course with 185 participants attending the course globally.
2010 was also a year when our member associations did much to give back to Society. ACI New Zealand co-hosted with Thomson Reuters Charity Golf Classic in Taupo from 24-26 September 2010, while ACI Australia hosted a Charity Golf Day for the benefit of the St Edmunds Special

Needs School in Sydney. On 9 July 2010, ACI Singapore hosted its Annual Charity Golf event raising SGD750,000 (about USD580,000) for various hospitals and charities in Singapore. ACI Indonesia also made a contribution to the orphanage Al-Futuwwah, in Jakarta, during the year. To promote ongoing interaction among our member Associations, ACI Malaysia & ACI Singapore met in Kuala Lumpur during the weekend of 30-31 July 2010 and played out a series of games in a spirit of friendly competition and camaraderie. Over 60 member-participants from Singapore made the trip to Kuala Lumpur and were warmly hosted by ACI Malaysia.

ACI Visits FRBNY, IMF, World Bank

Following the Executive Board and Council meetings in New York during November and the subsequent meeting with the Federal Reserve Bank of New York, ACI's President Manfred Wiebogen and Managing Director Jean-Pierre Ravisé visited Washington DC to meet with officials from both the International Monetary Fund and the World Bank.
The meetings marked the first occasion since ACI was formed in 1955 that senior members of the Association have met with officials from the IMF and World Bank.


HERVEY FERHANI

ACI's President Manfred Wiebogen, the Vice President Eddie Tan, Board of Education Chair, Christoph Niggli, and the Chair of ACI's Committee for Professionalism, Teruo Tanaka, met November 17th with the New York Fed's Patricia Mosser, SVP and Anna Nordstrom, Director Foreign Exchange, to discuss recent market and regulatory developments. A point raised was ACI's concerns on over-regulation (Dodd Frank Act and Basel III) which could massively mislead and hurt

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financial markets in the future. The discussion then moved to the advantages of ACI's certification program and its Model Code. The visit was well received and will we will continue to exchange our expert views going forward.
At the IMF ACI met with Hervey Ferhani, Deputy Director of the Monetary and Capital Markets Department and two of his colleagues, Karl Habermeier and Simon Gray. ACI's President explained ACI's mission, including the work of the Committee for Professionalism and Board of Education and further stressed the need for a revival of a National Association for the US.
At the meeting it was agreed that ACI and the IMF will cooperate through further discussions and the exchange of ideas on activity within the financial markets, including the structure of the market, professional ethics and a code of conduct for markets, as well as an education programme. Wiebogen told the IMF officials of the intention of the UK's Financial Services Authority (FSA) to place ACI's Dealing Certificate Diploma on their recommended examinations list.
It was also agreed to include officials from the IMF in ACI's business meetings going forward.
At the World Bank ACI met Isabelle Strauss Khan and two of her colleagues Robert Hunt and Robin Pernia. Again Wiebogen and Ravisé explained ACI's main goals, including its ambitions for its various Working Groups .
Following the meeting, there would appear to be good opportunities for co-operation in education projects, especially in countries where the World Bank is active, such as Armenia, Qatar, Libya, Syria and Algeria. The recognition by the FSA was warmly received by the World Bank and was seen as a key factor in it being able to promote ACI certification.

Committee For Professionalism: **Confirmation of Trades**

International supervisory authorities and major market participants met at the Federal Reserve Bank of New York in late January to discuss ongoing efforts and future priorities for improving the infrastructure and reducing risk in OTC derivatives markets.
The meetings between the OTC Derivatives Supervisors Group (ODSG) and major market participants have served as a venue for open dialogue and collective action to effect practical improvements in these global markets and have focused upon the post-trade space.
Regulatory interest in post-trade processing has grown significantly over the past two years and one of the current focus areas is the reporting and confirmation of trades, possibly to trade repositories, as soon as possible.
ACI's Model Code states that one of the "essential" risk controls available to institutions dealing in the financial markets is the independent confirmation of trades between the back offices of the respective counterparties. It further notes while confirmations continue to be an essential risk control in bilaterally-negotiated and settled transactions, the introduction of multi-lateral trading and clearing in some OTC instruments has led to confirmations being replaced by the automated matching of transactions.
The Model Code further states that brokers should confirm all transactions to both counterparties immediately by an efficient and secure means of communication, and whilst it notes that in some markets it is not uncommon for one party to send out confirmations, this practice is not recommended due to the operational and legal risks that may arise.
The rise of automated trading systems and central clearing counterparties (CCPs) has meant that in recent years, trades executed or reported to these venues have been automatically matched. The Model Code states that provided the trading system or CCP is independent to the counterparties, that matching takes place without undue delay over a system that is efficient, secure and robust, and that the counterparties have efficient procedures in place to deal with unmatched transactions, then confirmations need not be exchanged.
Issues pertaining to the back office, payments and confirmations are dealt with in Chapter III of the Model Code. The code of conduct can be downloaded for free at 222.aciforex.org.

Board of Education: **New Market Experts Committee In Place**

The new ACI Market Experts Committee (MEC) is now in place and commenced its work in January. The ACI Board of Education has nominated the members for this new committee and is proud to welcome:

- Aladin Al Khatib, Al-Hilal Bank, ACI UAE
- David Almeida, BNY Mellon, US
- Salman Hyder, National Bank of Fujairah, UAE
- Ton Kennedie, AXA Bank, ACI Belgium
- Sameh Khalil, CI Capital Asset Management, President of ACI Egypt
- Mohammed Madhoun, Volksbank, ACI Austria
- Peter Nettekoven, Commerzbank, ACI Germany
- John O'Farell, UniCredit Bank, ACI Ireland (former President)
- Albert Prendiville, Commerzbank Europe, ACI Ireland
- John Shine, Allied Irish Banks, ACI Ireland
- Paul Tancred, Ulster Bank, ACI Ireland
- Josephine Tham, OCBC, ACI Singapore

As a gateway between ACI's market practitioners and the ACI education programme, the MEC will play a critical role in maintaining the integrity and quality of ACI's suite of examinations and exam preparation. The MEC is a sub-committee to the ACI Board of Education similar to the ACI Exam Appeal Committee. The Chairman is Alan Malone from Allied Irish Banks Global Treasury who is also a member of the BOE.
Each MEC member is a recognised market expert and primarily responsible for reviewing ACI exam syllabi, the new exam preparation materials and the test question databases related to his/her field as well as for proposing new exam test questions. Additionally he or she will advise the BOE and the CFP on latest market developments and current best market practice.
If you also want to become an "MEC" and contribute to the professionalism of our young market practitioners please visit www.aciforex.org where you'll find an application form providing you with more information on the qualification requirements and your duties as a MEC.

New on the Web

Three years ago in Hong Kong a new Website design was presented to ACI's Council: a design that incorporated new colours, pictures, was more interactive, with more internal and external information available.

The Web is ACI's window. The Web address, aciforex.net, appears in all the Association's documents and could be consulted by professionals, students, journalists and also regulatory authorities.

Now there are not only more pictures but more boxes that can be opened by clicking on them. These boxes open files, list of documents, rates, internal and external news announcements. In 2010 the Markets Topics section of the website registered more than 1000 articles.

Thomson Reuters' rates will be available on a running ticker as well as the daily Euro fixing delivery by European Banking Federation.

New Information Now Available

CERTIFICATE REGISTRY: first page blue button left column, the certificate delivery updated list by names, certificates, years, country.

CALENDARS TODAYS FROM FORECAST: first page blue button left column you get a world daily event calendar.

Intranet

ACI's Intranet is updated on daily basis and everyone can open it: https://doc.aciforex.org

User name: visitor

Pass word: 2010

But now a link with the ACI Website is also available.

Useful information includes Council meeting minutes, Council members, Working Group members contact, events pictures, and more details…

Derivatives Markets Contract 4% - BIS

The global over-the-counter derivatives market contracted 4% to $583 trillion in the first half of 2010, compared with a 2% rise in the second half of 2009, according to survey results from the Bank for International Settlements (BIS).

Positions in foreign exchange derivatives contracts increased, rising 8% in the first half of 2010 to $53 trillion. The amount outstanding in US dollar-denominated contracts increased by 11% and euro contracts dropped by 2%, while Swiss franc contracts increased by 23%, the Basel, Switzerland-based BIS says.

The rise in currency-related derivatives was in contrast to the contraction of amounts outstanding in credit default swaps, from $32.7 trillion at the end of 2009 to $30.3 trillion at the end of June 2010. This was largely due to terminations of existing contracts.

Outstanding amounts of OTC interest rate derivatives, the biggest category of privately traded derivatives, stayed at $452 trillion in the first six months of 2010, after increasing by 3% in the previous six months.

"In the first half of 2010, growth in amounts outstanding was subdued or negative in all risk categories," the BIS says in a statement.

The latest BIS data comprises the regular semi-annual OTC derivatives statistics at the end of June 2010 and the results of the second part of the Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity.

The triennial survey covers trades reported by 400 market participants across 47 countries between 2007 and 2010 and serves as a benchmark for the semi-annual survey, which is based on data from 59 dealers in the G10 countries and Switzerland.

The 2007 and 2010 BIS surveys bracket a three-year period of extreme growth in OTC derivatives that peaked in the first half of 2008. A decline in the amounts outstanding of derivatives since the end of 2008 is due in part to trade compression, the BIS says.

Sharp asset price movements following the bankruptcy of Lehman Brothers in September 2008 resulted in a sharp rise in gross market value in the second half of 2008. Gross market values declined again as asset prices moved closer to their pre-crisis values, but increased in the first half of 2010 as markets went through another bout of turbulence.

Overall, the OTC market has grown 15% during the last three years. This corresponds to an annualised compounded rate of growth of 5%, however, compared to 32% annually in the period 2004–07.

Gross market values for existing OTC contracts rose by 122% over the last three years and 15% in the first half of 2010 to $25 trillion on the back of sharp asset price movements, BIS says.

Positions of foreign exchange derivatives increased to $63 trillion, a rise of 9% over the last three years. The growth in this segment was much slower than the 83% growth from 2004–07. Gross market values of FX derivative contracts increased 97% to $3.15 trillion in June 2010 from $1.6 trillion three years earlier.

Interest rate derivatives remains by far the largest type of risk traded on the OTC derivatives market in terms of both notional amounts and gross market values. Open positions in interest rate contracts totalled $478 trillion in mid-2010, 25% higher than three years before and 0.4% over the first half of 2010. Gross market values of interest rate contracts went up by 175% to $19 trillion.

Interest rate contracts now account for 82% of the OTC derivatives market compared with 75% three years earlier and foreign exchange derivatives account for 11%, unchanged from three years previously.

Single currency interest rate swaps remained the dominant instrument within the rates segment, accounting for more than three quarters of total notional amounts falling into this category. Options made up 11% of the market, down from 15%. Forward rate agreements saw their share rise from 7% to 13% in June 2010.

Positions in credit derivatives declined 39% from three years earlier to $31 trillion at

end-June 2010. CDS continue to be by far the dominant instrument in this category, accounting for 99% of credit derivatives. This compares to 88% in 2007. In contrast to the decline in amounts outstanding, market values of credit derivatives rose by 88% to $1.7 trillion over the three-year survey period to 2010.

The BIS surveys come as regulators globally are working on rules to steer as many OTC derivatives as possible on to clearing houses and to have them traded in public trading venues to reduce risks to the financial system.

ACI 2011 World Congress
Hungary Budapest, 26–28 May 2011

Celebrating Past – Hungry for Future

It was in 2005 when we celebrated the 50th birthday of ACI – The Financial Markets Association in Paris, with great success.

Now we are preparing to host the 50th ACI World Congress in 2011 in Budapest, Hungary where we would like to invite you. The anniversary event would give us a good opportunity to look back a bit, remember the "good old days" and also to see what the future holds as it is the topic of our congress.

The technology has gone through a tremendous change from the telephone to the internet, from the very few to the masses but the center of the activity has not changed: the dealer.

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Central Bankers Ratify Basel III Standards

Following the publication of new capital adequacy standards in July, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, has ratified a substantial strengthening of existing capital requirements and fully endorsed the agreements.

"Systemically important banks should have loss absorbing capacity beyond the standards announced"

"These capital reforms, together with the introduction of a global liquidity standard, deliver on the core of the global financial reform agenda and will be presented to the Seoul G20 Leaders summit in November," the BIS says.
The Committee's package of reforms will increase the minimum common equity requirement from 2% to 4.5%. In addition, banks will be required to hold a capital conservation buffer of 2.5% to withstand future periods of stress bringing the total common equity requirements to 7%. This reinforces the stronger definition of capital agreed by governors and heads of supervision in July and the higher capital requirements for trading, derivative and securitisation activities to be introduced at the end of 2011.
The new rules are to be phased in to January 2015, the Tier 1 capital requirement, which includes common equity and other qualifying financial instruments based on stricter criteria, will increase from 4% to 6% over the same period.
A countercyclical buffer within a range of 0% - 2.5% of common equity or other fully loss absorbing capital will be implemented according to national circumstance, the BIS say. The purpose of the countercyclical buffer is to achieve the broader macro-prudential goal of protecting the banking sector from periods of excess aggregate credit growth. For any given country, this buffer will only be in effect when there is excess credit growth that is resulting in a system wide build up of risk. The countercyclical buffer, when in effect, would be introduced as an extension of the conservation buffer range.

The new capital requirements are supplemented by a non-risk-based leverage ratio that will serve as a backstop to the risk-based measures described above.
In July, governors and heads of supervision agreed to test a minimum Tier 1 leverage ratio of 3% during the parallel run period. Based on the results of the parallel run period, any final adjustments would be carried out in the first half of 2017 with a view to migrating to a Pillar 1 treatment on 1 January 2018 based on appropriate review and calibration.
"Systemically important banks should have loss absorbing capacity beyond the standards announced today and work continues on this issue in the Financial Stability Board and relevant Basel Committee work streams," the BIS states. "The Basel Committee and the FSB are developing a well integrated approach to systemically important financial institutions which could include combinations of capital surcharges, contingent capital and bail-in debt. In addition, work is continuing to strengthen resolution regimes."
The BIS further adds that since the onset of the global financial crisis, banks have undertaken "substantial" efforts to raise their capital levels. "However, preliminary results of the Committee's comprehensive quantitative impact study show that as of the end of 2009, large banks will need, in the aggregate, a significant amount of additional capital to meet these new requirements. Smaller banks, which are particularly important for lending to the SME sector, for the most part already meet these higher standards," it adds.
The Governors and Heads of Supervision also agreed on transitional arrangements for implementing the new standards. National implementation by member countries will begin on 1 January 2013. Member countries must translate the rules into national laws and regulations before this date. As of 1 January 2013, banks will be required to meet the new minimum requirements in relation to risk-weighted assets (RWAs). These are 3.5% common equity/RWAs; 4.5% Tier 1 capital/RWAs, and 8.0% total capital/RWAs.
Phase-in arrangements for the leverage ratio were announced in the 26 July 2010 release from the Group of Governors and Heads of Supervision. That is, the supervisory monitoring period will commence 1 January 2011; the parallel run period will commence 1 January 2013 and run until 1 January 2017; and disclosure of the leverage ratio and its components will start 1 January 2015. Based on the results of the parallel run period, any final adjustments will be carried out in the first half of 2017 with a view to migrating to a Pillar 1 treatment on 1 January 2018 based on appropriate review and calibration.
After an observation period beginning in 2011, the liquidity coverage ratio (LCR) will be introduced on 1 January 2015. The revised net stable funding ratio (NSFR) will move to a minimum standard by 1 January 2018. The Committee will put in place rigorous reporting processes to monitor the ratios during the transition period and will continue to review the implications of these standards for financial markets, credit extension and economic growth, addressing unintended consequences as necessary.
Jean-Claude Trichet, president of the European Central Bank and chairman of the Group of Governors and Heads of Supervision, says that the agreements "are a fundamental strengthening of global capital standards," adding that "their contribution to long term financial stability and growth will be substantial. The transition arrangements will enable banks to meet the new standards while supporting the economic recovery."

"These capital reforms, together with the introduction of a global liquidity standard, deliver on the core of the global financial reform agenda"

FXC Updates Documentation

The New York-based Foreign Exchange Committee has released an updated version of its best-practice document Management of Operational Risk in Foreign Exchange, which encourages all significant players to use the settlement services provided by CLS Bank. At the same time the committee also released a paper that provides an overview of credit risk in foreign exchange including a detailed discussion of the use of credit support annexes (CSAs) in the marketplace

New language has been included in the document to reflect the FXC's commitment to the importance of utilising payment-versus-payment services such as Continuous Linked Settlement (CLS) to further mitigate settlement risk.

The FXC says it strongly believes that increased use of CLS in concert with a broader use of credit risk mitigation strategies such as credit support annexes (CSAs) benefits the global foreign exchange market.

"Together, these tools provide significant risk mitigation while preserving the flexibility, accessibility, and efficiency of this highly important and interconnected market," says Jeff Feig, chair of the FXC.

In a November 2009 paper, the Foreign Exchange Committee observed that the availability of CLS was a key contributor to the robust functioning of the foreign exchange market during the recent period of financial market disruption.

Accordingly, Best Practice number 34 in the document has been amended as follows:

"Understand the settlement process and settlement exposure and use settlement services wherever possible to reduce settlement risk within the market. Market participants should measure and monitor settlement risk exposures. All senior managers should obtain a high-level understanding of the settlement process as well as of the tools that exist to better manage settlement risk. Additionally, both credit and risk managers (those managing position risk and credit risk) should be cognisant of the impact their internal procedures have on settlement exposure.

"Settlement risk may be reduced if those involved in the process better understand the ramifications of its possible failure. Senior management, sales and trading, operations, risk management, and credit management should understand the process and be aware of the timing of the following key events in the process: when payment instructions are recorded, when they become irrevocable, and when confirmation of counterparty payment is received with finality. Knowledge of these items allows the duration and amount of FX settlement exposure to be better quantified.

"Both credit and risk managers should develop accurate methods to quantify settlement risk. A bank's actual exposure when settling an FX trade equals the full amount of the currency purchased, and lasts from the time a payment instruction for the currency sold can no longer be cancelled unilaterally until the currency purchased is received with finality.

"Market participants should adequately utilise settlement services that reduce their exposures to settlement risk whenever possible, for example, through the use of payment-versus-payment services, such as those offered by CLS, for the settlement of eligible foreign exchange transactions. Counterparties currently unable to use such services should be encouraged to consider ways to use them."

Credit Risk

The second paper, Tools for Mitigating Credit Risk in Foreign Exchange Transactions, also introduces language on prudent management of credit risk to the Committee's core best-practice documents, Guidelines for Foreign Exchange Trading Activities and Management of Operational Risk in Foreign Exchange.

The updated guidance in Guidelines for Foreign Exchange Trading Activities encourages financial institutions to manage their credit risk exposure through the use of master netting agreements and collateral arrangements, such as credit support annexes (CSAs).

Netting agreements reduce the size of counterparty exposures by requiring the counterparties to offset trades so that only a net amount in each currency is settled and provide for a single net payment upon the closeout of all transactions in the event of a default or termination event.

Collateral arrangements are those in which one or both parties to a transaction agree to post collateral, usually cash or liquid securities, for the purpose of securing credit exposures that may arise from their financial transactions.

Master netting agreements specify not only the various events of default and termination events applicable to the parties, including bankruptcy, failure to pay or perform under the transactions, and cross-default to indebtedness, in excess of specified thresholds, but also provide the methodology for calculating the net close-out value payable to or by the non-defaulting or non-affected party of the transactions governed by these agreements.

By reducing counterparty credit exposure, broad use of CSAs in connection with master netting agreements helps to further strengthen the smooth functioning of, and robust liquidity offered by, the global foreign exchange market, the FXC says.

CSAs provide a framework within which market participants can extend credit to parties that they may otherwise not have transacted with, or in magnitudes that otherwise may not have been offered. Further, this collateral framework can help to reduce systemic risk given the ability to set off all or a portion of amounts owed between the parties by recourse to the collateral.

The FXC says institutions may also reduce their credit risk exposure through a variety of other means including: special purpose vehicles; mark-to-market cash settlement techniques; closeout contracts, material change triggers; and multilateral settlement systems, such as CLS.

The FXC has also updated best practice number three in the Management of Operational Risk in Foreign Exchange best practice document.

It says that if a bank elects to use a master agreement with a counterparty, the master agreement should contain legally enforceable provisions for "closeout" netting and/or settlement netting.

"Closeout" and settlement netting provisions in master agreements permit a bank to decrease credit exposures, increase business with existing counterparties, and decrease the need for credit support of counterparty obligations.

Closeout netting clauses provide for 1) appropriate events of default, including default upon insolvency or bankruptcy, 2) immediate closeout of all covered transactions, and 3) the calculation of a single net

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FXC Updates. Continued from p.11

obligation from unrealised gains and losses. Closeout provisions have the added benefit of a positive balance sheet effect under Financial Accounting Standards Board (FASB) Interpretation 39, which allows the netting of assets and liabilities in the unrealised gains and losses account if netting is legally enforceable in the relevant jurisdiction.

Closeout netting provisions help to protect a bank in the event of a counterparty default. When a counterparty defaults, and a closeout netting agreement is not in place, the bankruptcy trustee of the defaulting party may demand payment on all contracts that are in-the-money and refuse to pay on those that are out-of-the-money. If the defaulting counterparty takes this action, the non-defaulting party may be left with a larger-than-expected loss. A master agreement signed by both parties with enforceable closeout netting provisions ensures that the counterparty remains responsible for all existing contracts and not just those it chooses to endorse.

Settlement netting permits parties to settle multiple trades with a counterparty with only one payment instead of settling each trade individually with separate payments. Consequently, settlement netting decreases operational risk to the bank in addition to reducing settlement risk. To realise the settlement netting benefits, however, a bank's operations function must commence settling on a net basis. Therefore, it is essential that operations receive a copy of the agreement or be notified of the terms of the executed agreement.

Given the benefits of settlement netting, it is in a bank's best interest to include settlement netting in any master agreement that it may enter into, the FXC says.

Master agreements that have been developed as industry-standard forms include the ISDA Master Agreement; IFEMA agreement covering spot and forward currency transactions; ICOM agreement covering currency options; and FEOMA agreement covering spot and forward currency transactions and currency options. These netting provisions should satisfy relevant accounting and regulatory standards as long as legal opinions are able to conclude that the agreements are legally enforceable in each jurisdiction in which they are applied. Banks should confer with local legal counsel in all relevant jurisdictions to ensure that netting provisions are enforceable. To the extent that local counsel suggests that certain provisions of a master netting agreement may be unenforceable, the bank should ensure that other provisions in the agreement could be enforced nonetheless.

A credit support annex can also be negotiated as a supplement to these master netting agreements. CSAs provide for the movement of collateral between parties during the term of outstanding transactions governed by the master netting agreement in order to reduce the net exposure that may result in the event of a trading counterparty's bankruptcy or other default under such agreement.

Under a CSA, one or both parties agree to post collateral to secure counterparty credit exposure, typically on a net basis. Under these CSAs, failure to deliver required collateral also constitutes an event of default under the master netting agreement. There may be two components to any collateral arrangement. The primary component is a requirement to deliver collateral based on the net mark-to-market valuation of all transactions documented under the master agreement, or "variation margin."

In the case of the ISDA CSA, variation margin is determined based on mid-market values for the transactions and does not reflect the bid or offer spread that would result in replacing the transactions in an actual default of one of the parties. Variation margin is calculated at mid-market in order to avoid one party being preferred over the other as a result of calculating the mark-to-market value of transactions at that party's side of the market (which would include bid or offer, as applicable).

Variation margin is most commonly calculated based on the previous day's closing marks and is delivered on a daily basis to the party that has the net receivable in the event of a closeout of the transactions. The other component to the collateral requirement is commonly referred to as "initial margin" or "Independent Amount," the term used in the ISDA CSA. The purpose of this collateral requirement—which may be defined for specific transactions, a portfolio of transactions, or all transactions governed by the relevant master agreement, either in the credit support document or in transaction confirmations—is to provide additional cushion beyond the mark-to-market exposure. In cases where a party's trading partner is in default, the initial margin serves as a buffer to protect against market movements in transaction values during the time between the last variation margin delivery and the date on which the non-defaulting party can actually close out positions and apply collateral or when a bid-offer spread is applied in order to determine replacement value.

NEWS FROM THE ASSOCIATIONS

RECENT CHANGE IN NATIONAL ASSOCIATIONS

July • Israel • new board
The president of ACI Israel is Mr. Dror Sachs
The secretary is Mr liran Carmel
The treasurer is Sandrine Finkelstein

September • Jordan • new board
The President: Mr Ali abu Swai
The Vice President: Mr Ahmad S. Elaayan
The Secretary: Mr Nour J. AbdulQader
The Treasurer: Mr. Mohammed Swais

September • Indonesia

Panji Irawan	President
Wiwig Santoso	Vice President
Helmi Imam Satriono	Secretary
Edy Masrianto	Treasurer

October • Norway

Tom Frederick Pehrsen	President

October • Serbia

Mr Filip Jelic	President

October • Zambia

Mwape Kambafwile	President

November • Korea

Jong-Soo, Ha	President
Gi-Back, Kim	Secretary