ACI
THE FINANCIAL MARKETS ASSOCIATION

ACI BRIEFING

NEWS FROM THE FINANCIAL MARKETS ASSOCIATION
http://www.aciforex.org

Q2 2011 VOL 17, ISSUE 106 ISSN 1469-2031

Congress 2011: Budapest Does ACI Proud at 50th World Congress

ACI Hungary did ACI – The Financial Markets Association proud with a superbly organised World Congress in Budapest at the end of May. The event provided an opportunity to look back and remember the "good old days", but also, crucially, to discuss what the future holds. 'Hungry for Future' was the prevailing theme of the conference.

UAEFMA RECEIVES THE ACI FLAG IN BUDAPEST

The event marked the 50th ACI World Congress and ACI Hungary brought together as many former ACI global presidents as possible to celebrate the anniversary. It also played host to around 500 industry participants from 56 countries representing the buy-, sell- and service sides of the markets, along with global policy makers and regulators.
The groundwork for bringing the Congress to Budapest began years before the ACI flag was turned over by ACI Australia to ACI Hungary at last year's Congress in Sydney. The flurry of preparations resulted in a world-class event with a business programme interspersed with networking events and the chance for delegates to enjoy the beautiful surroundings of the historic city of Budapest.
Held at the SYMA Sports and Events Centre from 26–28 May, the Congress's business programme consisted of topical panel discussions and presentations, keynote addresses from several high quality speakers, and an exhibition hall hosting nearly 40 international companies.
The business sessions of the Congress were officially opened on Friday morning by Manfred Wiebogen, President of ACI – The Financial Markets Association. This came after the Opening Ceremony the previous evening, which featured an address by István Gondi, President of ACI Hungary.
In his opening remarks, Wiebogen called for sensible regulation of the well-functioning FX markets. "None of the recent crises were caused by any of our traders or members of ACI. But our members, our traders, were, and still are, heavily involved in managing the crisis. It is them, it is you, who are providing a working market environment with two way prices to keep a normal system running," he said. "Politicians are seeking their ways – through Dodd-Frank and the European Commission – to regulate the FX markets. May I

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Message from the President

Foreword

Dear Reader,

ACI celebrated its 50th ACI World Congress in Budapest at the end of May. I don't know any other financial markets association with such a rich background and history, and that fills me with pride.
In Budapest more than 500 participants from 56 different countries met and exchanged views, as well as listened to the array of highly qualified speakers discuss the important and urgent issues raised during the business programme.
In short, we learned from the Bank for International Settlements and European Central Bank speakers that there will still be room for maneuver when it comes to regulation for banking – but banks do need to raise their voice and make their case heard. We, as ACI, with the support of our members and with other professional associations, will ensure that this is done.
Another remarkable statement from a central banker was: 'It is not the duty of banks to finance the public but it is their job to finance the economy.' Well, that is exactly our experience during our discussions with regulators and central banks. There is a clear understanding on their part of our business and of the markets but there is enormous pressure from the politicians to change, punish or tax.
Before and during the Congress ACI held its various meetings,

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ranging from a Board of Education (BOE) conference call, to the Committee for Professionalism (CFP), the ACI Foreign Exchange Committee (ACIFXC), the Executive Board (EB) and the Council Meeting.
In short: Committee For Professionalism: we shall revamp the Model Code (by creating a section on, and profiling, settlement procedures) as well as reformat the Mission Statement of the CFP. We are also looking for a new chair of the CFP as Terry Tanaka is stepping down after six years at the top of this very prestigious committee.
Board of Education: after the recognition of two of our exams by the UK's FSA we shall build our contacts with them, and we shall implement a Wikipedia as a learning database. There will also be an expansion of exams towards Asset and Liability and Treasury Sales Certification as well as a further marketing initiative.
ACIFXC: the newly formed committee will look into settlement procedures of the RBL, the TRL and the CNY/CNH and will also closely follow the regulatory initiatives for Derivatives, CCPs and other areas of our market.
Executive Board: the EB decided to strengthen its connections into China and the US markets and India and will further evaluate the benefits of supporting the Latin America region.
There could be demand for an ACIEAS (Experts Advice Service) and an ACIEWAS (Experts Witness Arbitration Service). The last two still need to be discussed with the various committees and we shall report on the next steps once those discussions have taken place.
ACI's Council is keen to move ahead and continue to make the association stronger through our support for many initiatives all over the world. We are fortunate that through its strong commitment the EB remains flexible in its decisions, and this in turn improves our ability to react quicker to events in our industry.
Finally, may I draw your attention to our next 51st ACI Financial Markets World Congress, which will be hosted in Dubai, 22-24 March 2012 – save the date.

Wishing you and your families a relaxing summer,

Yours
Manfred Wiebogen, President ACI

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ask you, what needs to be regulated? Does it need to be the FX market, which is fully functioning and working on a daily basis? I ask for fairness from politicians and regulators."
It was appropriate for the local markets that András Simor, Governor of the National Bank of Hungary, gave the first keynote address of the day. Simor looked at the two waves of the financial crisis in Europe – in 2008, post-Lehman Brothers, and 2010. The crisis mostly hit high current account deficit countries in Central and Eastern Europe and in the Eurozone periphery, he said. Simor discussed the similarities of the two cases, adding that the crisis triggered fast and large scale current account adjustment in central and eastern European countries. He said lessons can be learnt from the region and these show that prolonged fiscal consolidation is possible; nominal depreciation is not the only way for improving export competitiveness; and although sluggish and fragile, recovery is on the horizon.
Simor's presentation can be accessed at: http://www.acibudapest2011.hu
The main body of the business programme was opened by the second keynote address from Alexandre Lamfalussy, the former General Manager of the Bank for International Settlements and former President of the European Monetary Institute.


Panel 3 discusses the FX market post Dodd-Frank


Claudia Segre

Lamfalussy talked about the challenges facing central banks in the aftermath of the financial crisis.
"Whether they like it or not, central banks are in the front line when it comes to keeping price manifestations under control. But what is new in our current experience is that most central banks have had to carry out their liquidity boosting operations in an environment where the liquidity shortage turned rather quickly into solvency problems of frightening dimensions, for which there has been no precedent since the 1930s," he said. "The result has been an increasing variety of non standard central bank interventions ranging from free liquidity support to quantitative easing of all shapes and sizes. Central banks have now started operating and navigating in unchartered waters."
Lamfalussy said there is no certainty that the pressures on central banks would fade away. "I see three rules of reasons for this – first because our globalised, competitive and highly innovative markets have an unlimited capacity to breed financial disturbances of a size and nature that could lead to systemic meltdown. Second, we badly need a co-ordinated action at the global level to extricate ourselves from the moral hazard trap implied by the prevailing expectations that systemically significant banks will always be bailed out. And third, it is questionable whether we have the ability to deal with those global macro economic imbalances which played an instrumental role in the original development of the crisis," he said. "There is a general risk that [central banks] will continue to navigate through unchartered and rather murky waters."
But he did praise the performance of the ECB, saying it acted swiftly in August

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2007 to contain the crisis and has displayed imagination and inventiveness. "Anybody who doubts it should take the trouble of observing the steady changes in the bank's monetary policy toolbox," he said.

The central banks of Hungary, Serbia, Slovakia and the Czech Republic provided the speakers for the day's first panel discussion, sponsored by K&H Bank, on the 'Euro - past, present…and future?' Amid a debt crisis that is worsening in Europe and with Hungary looking to consign its forint to history, the panel discussion was particularly timely.

Delegates also listened to a keynote address from Nouriel Roubini, Professor at New York University and Chairman of Roubini Global Economics, who famously predicted the global financial crisis in 2006. Roubini discussed the crisis in Greece and the possible spread of contagion to Spain. He argued that Greece must seek an orderly restructuring of its debts and that its austerity program is off track because the recession is getting worse. He dismissed worries that a Greek debt restructuring would affect Spain, although he said the consensus that Spain is out of the woods is wrong.

Regarding the travails of Ireland, Roubini said he expects a sovereign debt crisis within three years as the cost of rescuing Ireland's banks mounts. He also predicted that stock markets are at the tipping point of a correction on signs of a global economic slowdown.

The conversation continued to focus on the economy when a stellar line up of economists took to the stage to discuss "The world economy situation in 2020 – tendencies and power relations."


PROF. NOURIEL ROUBINI

Sitting on the panel, moderated by Zoltán Török at Raiffeisen Bank, were Roubini, András Inotai, Director, Doctor of Economic Sciences, Institute for World Economics of the Hungarian Academy of Sciences; Arnab Das, managing director of market research and strategy at Roubini Global Economics; and Paul Mortimer-Lee, Global Head of Market Economics, BNP Paribas.

The day closed out with a presentation by Robert Thomson, Editor-in-Chief, Dow Jones and Managing Editor, The Wall Street Journal, who discussed the two themes of digitalisation and globalisation.

The pace did not slacken on the second day of the business programme and the conversation returned to mainstream topics. During the morning, a line up of senior FX market executives, many of whom are members of the ACI FX Committee, discussed the future of the foreign exchange market in the wake of global regulation.


PANEL FIVE DISCUSSES THE IMPLICATIONS OF BASEL III

Sitting on the panel was Stephane Malrait, Global Head of e-Commerce at Société Générale and also Chair of the recently formed international ACI FXC, which interacts and works with regulators. Also on the panel, moderated by Hervé Ferhani, Head of the Financial Sector Practice, Centennial Group, were Robin Poynder, Head of FX and MM, EMEA at Thomson Reuters, and two other members of the ACI FXC – David Hudson, COO for Global Foreign Exchange, Fixed Income and Economic Research at JP Morgan, and David Woolcock, Senior Director, Head of Bank Sales at FXall and Vice Chair of the ACI FX Committee.

The panel discussed regulatory initiatives and the consequences of regulation for institutional and corporate clients as well as the consequences of regulatory arbitrage. CLS and settlement risk, post trade trans-


ANDRAS SIMOR

parency, fragmentation and high frequency trading were also topics under discussion.

The panel was followed by the ACI General Assembly, where Andreas Gaus, Member of the ACI Board of Education, gave a briefing on the new global best practices for FX operations. His presentation can be found at: http://www.acibudapest2011.hu/images/stories/presentations/Andreas_Gaus.pdf

ACI President Manfred Wiebogen announced that the ACI certification programme has received a boost after being endorsed by the UK's Financial Services Authority. He also announced the creation of a new ACI committee in the US and a representative office in Beijing, run by Linda Lee. In addition Manfred Kunert, previously President of ACI Austria, and Aldo Bortolotti, former ACI Treasurer, were made honorary members of ACI along with Terry Tanaka, a long standing member of the Committee for Professionalism, who recently stepped down as Chair.

The final two panel discussions zeroed in on the recent banking crisis and Basel III. Jacques Fournier, Member of the Board, Banque de France and President of the French Bond Association, gave a presentation on bonds and related fixed income instruments, discussing why standardisation is more necessary after the crisis.

The business programme closed out with a speech by Claudia Segre, General Secretary for Assiom Forex, the financial market association of Italy, who, in a symbolic transition of Congress, discussed 'From Budapest to Dubai – exploring new opportunities in Islamic finance'. Her speech was a fitting climax to a superb business programme, throughout

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which there was a high level of interaction between the floor and panels.

Congress 2011: Social Events

The ACI Hungary Organising Committee created a networking programme to complement the extensive business programme, allowing delegates to meet socially and discuss the topics of the day, as well as to renew old acquaintances and make new friends.
At the closing ceremony, ACI Hungary President István Gondi led the ceremonial turnover of the ACI flag to the next ACI World Congress host. ACI Dubai president Mohammed Al-Hashemi was called onstage to receive the ACI flag and deliver a short message of invitation to the 51st ACI World Congress. Gondi then formally thanked the delegates for coming to Budapest and invited the other members of the Organising Committee and key Congress personnel to come up and be recognised for the ceremonial toast.
ACI Hungary delivered a world-class event that was organised and managed to perfection in an environment of warm hospitality. The event succeeded in what it set out to do: namely to celebrate ACI's 55 years as the financial markets' association and to provide a forum for discussion, debate and preparation for future market changes – particularly important during a time of greater regulation and policy making. After the resounding success of the ACI World Congress in Budapest, ACI – The Financial Markets Association looks forward to the 51st World Congress in Dubai.
Presentations from the business programme can be accessed at: http://www.acibudapest2011.hu/presentations-published
Photographs taken at the conference and evening events can be found at: http://www.acibudapest2011.hu/photo-gallery
The 50th ACI World Congress was supported by platinum sponsors Deutsche Bank and Magyar Nemzeti Bank (the Central Bank of Hungary). Erste Bank, UBS and OTP Bank were diamond sponsors, and Thomson Reuters was the gold plus sponsor.

ACI Looks to Dubai 2012

In response to the extraordinary development of the Gulf area during the past years ACI will hold its 51st ACI Financial Markets Congress in Dubai from 22-24 March 2012.

By doing so, ACI is seeking to contribute to the major effort involved in positioning the Dubai International Financial Centre (DIFC) as a hub between the Asian and the European financial markets.
The Congress will further contribute to the entire Gulf region and its neighbouring countries, in particular to the Islamic world. Islamic finance handled the recent financial crisis well – it was barely affected. Just like the trend towards 'green energy' there is now increased demand for Sukuk or Takaful products all around the globe.
Also of interest, some of the Gulf States are seeking their own currency/monetary union, the GCC currency or 'Khaleeji' (gold) project; Riyadh, the capital of Saudi Arabia, will host the first regional central bank. As Manfred Wiebogen, President of ACI notes, "The United States has long benefited from having a single currency or the US dollar as a currency of reserve for the world. Is there a chance to bring in diversification and maybe some kind of gold standard back by the Khaleeji? And if the GCC project becomes true, what will be the impact on our foreign exchange markets, money markets and capital markets? What will be the impact in terms of liquidity, market depth, and on commodity prices?"
These topics as well as updates and discussions on the latest regulatory trends will be high on the agenda of this prestigious Congress. ACI is aware of the importance of the Gulf region and Dubai, the Congress host. Delegates can expect to see this importance reflected in the high profile speakers and panels, by a very strong participation from delegates all over the world and an interesting exhibition area showcasing the latest technology.
ACI – The Financial Markets Association invites you to take the opportunity of visiting the region and building your knowledge, contacts and understanding of the Gulf markets.
The Financial Markets Congress will be hosted by the UAEFMA, the United Arab Emirates Financial Markets Association. Mohammed Al-Hashemi, President of UAEFMA, says Dubai provides a commercial hub of opportunity. "In the last three decades Dubai has positioned itself on the map as one of the Middle East's respected markets for global banking and finance. A gate-way to the MENA region,

UAEFMA INVITES THE WORLD TO DUBAI FOR THE ACI FINANCIAL MARKETS CONGRESS 2012

Dubai facilitates a safe and well connected trade network and an established centre for Islamic banking services. A world class business environment and a wealth of opportunities are available for those wishing to tap into this dynamic and globally respected platform of commerce.
"The 51st ACI World Congress in Dubai not only offers banking professionals from across the MENA region a chance to network, discuss and debate topical business challenges currently facing the finance market. It also provides, in Congress down-time, a vibrant city with an excellent infrastructure, a wide range of hotel and restaurant offerings services ranging from 5* international brands through to authentic Arabic hospitality at its very best, world class golf courses and memorable stretches of beaches. A truly unique balance rivalled by few other destinations world-wide."

ACIFXC Addresses Regulatory Issues

The ACI FX Committee, the international group that was created last year to promote a global, orderly and transparent FX market and to lobby on regulatory issues, last month welcomed the US Treasury's proposed determination to exempt FX swaps and forwards from central clearing under the Dodd-Frank Act.

"The association's international FX Committee regards this proposal as fundamental for the sustainability and effective functionality of stable, liquid cash currency markets. There has been concern that the associated costs of mandated or enforced clearing of non-derivative currency contracts may cause severe and detrimental impact, particularly on buy-side market participants' ability to source robust, economic pricing for currency risk management," the ACIFXC said.

"Additionally, the incremental risks that would be brought on the market through concentration of exposure and settlement would far outweigh any benefits to all participants."

The ACIFXC added that it agrees with the logic underpinning the decision by the US Treasury in recognising the unique factors in foreign exchange markets and the difference between FX forwards and other derivatives.

"The fixed terms of physical settlement, short-term nature and well functioning settlement process have ensured that the FX industry has continued to function continuously throughout the market turmoil of the past decade. The ACIFXC recognises and supports the substantial and very effective progress in the elimination of settlement risk, which has been achieved since the introduction and operation of CLS Bank and other payment versus payment settlement systems."

Speaking to *ACI Briefing*, Stéphane Malrait, Chair of the ACI FX Committee, says the group has set its sights on European regulators now the 30-day consultation period in the US has ended.

"The US Treasury received 15 letters of support for their proposal and nine letters against it. There was no strong argument from what we saw to change the US Treasury's view. Given the global nature of the FX markets and the operational challenges and potential for arbitrage that could arise from geographical and cross-border regulatory inconsistencies, we now want to make sure that European regulators align themselves to the Treasury proposal for exemption," says Malrait. "It seems that they are moving in that direction which is a very good sign. The FX market is global and we want to keep it global on similar grounds."

The ACIFX was set up in New York in November last year during the ACI Executive Board meeting held as part of ACI's semi-annual Council meeting.

"ACI – the Financial Markets Association has been operating for more than 55 years but as a trade organisation it is recognised more for its programme on education and code of practice managed by the Committee for Professionalism, and as a global organisation with a regional committee in each country," says Malrait.

"A decision was made to use all the information that ACI has through its membership to create a voice for foreign exchange market participants to the outside world through a central group of the ACI organisation. The timing was right with changes to regulation which has created a need to communicate with regulators and the media about the FX markets."

The ACIFXC does not compete with other trade organisations; rather it complements them, Malrait says, pointing to the Securities Industry and Financial Markets Association (Sifma) in the US as an example.

"We don't want to duplicate what Sifma is doing with our FX Committee. Sifma is a corporate driven trade organisation, whereas ACI represents individual market participants. What was key when we published the ACIFXC mission statement was to make sure that we have a global representation of all the market participants. Our goal is to have corporate and buy side representatives on the Committee as well," Malrait explains.

"As Chair of the Committee I come from a banking background and David Woolcock, Vice Chair of ACIFXC, represents trading venues, coming from FXall. We have members from different regions as well, representing Russia and the US for example. We are still in the early process but our goal is to represent every segment of the FX market. It is critical for us to do that," he says.

The ACIFXC will meet six times a year in a different city around the world. "Each time we get together, we arrange to meet a local regulator or an important player in the market to gauge their views on regulation and how they are approaching the changes," Malrait says, adding that the next meeting will take place in London on 6 July.


Stéphane Malrait

The ACI FX Committee also has a role to play in advising and working with the other committees within ACI such as the Committee for Professionalism (CFP) and the Board of Education.

"The code of conduct was established some time ago by the CFP and doesn't strongly reflect the way the markets have become more electronic. One of our initiatives is to make sure the code of conduct reflects electronic trading activities. With the Board of Education we will make sure that the way people trade electronically is reflected in some of the training programmes that ACI puts together," Malrait says.

Other issues that the ACIFXC is looking to tackle include market conventions for settlement dates and retail FX – specifically how this should be regulated in different jurisdictions.

"But the biggest goal for us is communication. We will support both the Executive Board and regional ACIs and ensure that the views of the professional FX community are heard at the highest levels to promote a common global, orderly and transparent FX market," says Malrait.

Landmark for ACI Education as FSA Registers Exams

> *"Becoming part of the FSA's training and competence regime is clear evidence of the high quality and relevance of the ACI examinations"*

ACI Education received a major boost recently with the announcement that the UK's Financial Services Authority (FSA) has recognised ACI's exam & certification programme. The FSA has registered the ACI Dealing Certificate and the ACI Diploma for "Dealing with Securities and Derivatives" as well as for "Advising on Securities and Derivates". The ACI exams were listed on the FSA's "List of appropriate Qualifications" which is published in the new FSA Policy Statement on Competence & Ethics from 17 December 2010.

As a result, ACI's exams have become part of the FSA's training & competence regime for the financial industry in the UK which is clear evidence of the high quality and relevance of the ACI education programme. The FSA only applies to UK-regulated financial entities, yet because of the importance of the UK financial markets, the FSA decision is considered to be of major importance for financial markets participants and regulators world-wide.

In 2010 the FSA began consultation on its Training and Competence (T&C) Sourcebook which sets out the principles of the FSA's training and competence regime for regulated firms where employees act on behalf of their retail clients. ACI participated in the consultation process by its Director of Education, Andreas Emser from the Frankfurt School of Finance & Management.

The proposals for review ranged from topics such as time limits for passing qualifications and defining new activities to adding new exams to the list of appropriate qualifications which is an implicit part of the training and competence regime. The list of appropriate qualifications is based on FSA educational standards for various activities in the financial industry. The ACI exams were checked against these standards and the ACI Dealing Certificate and the ACI Diploma were registered and recommended to the markets for "Dealing with Securities and Derivatives" and for "Advising on Securities and Derivatives".

The ACI Operations Certificate is still in consultation and a decision is expected in September.

Several consultation papers were published before the FSA issued a new Policy Statement on Competence and Ethics including a list of appropriate qualifications in December 2010, reporting on the main issues arising from the consultation papers and publishing the final rules.

Following its Policy Statement on Competence and Ethics the FSA conducted a Training and Competence Conference entitled "Why competence matters" on 24 March 2011 underlining the major importance which the FSA attaches to training and competence. ACI's Director of Education attended the conference.

Together with the delegates, the FSA discussed the importance of training & competence for the quality and the success of the financial industry in the UK. It should be noted that the FSA's training and competence regime will be incorporated in the new approach to financial regulation in the UK and the establishment of the new Financial Conduct Authority (FCA) proposed by HM Treasury.

For ACI, becoming part of the FSA's training and competence regime is clear evidence of the high quality and relevance of the ACI examinations. The ACI Board of Education highly appreciates the FSA decision which is considered as a confirmed step forward for the ACI education programme. ACI also supports the efforts made by the FSA in promoting the idea that competence matters. Since the biggest market particularly for foreign exchange is in London and since the FSA is a benchmark for many regulators and market participants across the world, ACI expects that the FSA decision will accelerate the recognition of the ACI exams & certifications around the world.

"Certifying the financial markets according to international standards and understanding is one of ACI's key focuses. For more than 15 years we have been offering our programmes to financial market entrants, advanced traders, back and middle office staff, and risk managers, with the intention of providing a common and international understanding of the financial markets," says Manfred Wiebogen, President of ACI.

Christoph Niggli, Chair of ACI's Board of Education, adds: "Our co-operation with universities alike the FSFM (Frankfurt School of Finance and Management) and the SMU (Singapore Management University) supervises and grants the quality of the exams based on the daily market experience of our traders."

The T&C rules are only mandatory for financial market retail businesses in the UK. However, the FSA considers competence issues as part of the risk management process where all firms in the financial industry need to evidence and prove their ability to manage risk and competently trained staff are the key to doing so.

Wholesale market participants, such as ACI members' firms, will be subject to supervisory arrangements that will take account of the new FSA recommendations in their risk assessments.

Risk management requirements as well as anticipated and demanding financial markets regulation will impact the standards for competent organisations. To this end, the ACI Boards recommend the recognition of ACI exams and certifications to their members as well as to regulators and financial institutions across the world.

> *"ACI Supports the efforts made by the FSA in promoting the idea that competence matters"*

ACI to Explore China

ACI – The Financial Markets Association is seeking to expand its influence and activities in one of the fastest growing markets in the world. The association has appointed Linda Lee as ACI Representative for China following the decision at last year's Council meeting in New York to establish an office in Beijing.

LINDA LEE, THE NEWLY APPOINTED ACI REPRESENTATIVE IN BEIJING

ACI is seeking to encourage the local financial markets community to become part of its international network of professionals. "The timing of this set up seems to be perfect," says Manfred Wiebogen, President of ACI – The Financial Markets Association. "China has moved from its neutral status in the past and sought to take over international responsibility as one of the world's leading economies. The tremendous speed of economic development will automatically lead to a strong demand in domestic and cross border financial transactions.

"Considering the enormous Chinese FX reserves as an example we have to recognise the already obvious relevance of China's international cross-linkage with the entire world. ACI wants to support, through its network and the know-how of its members, the local financial community and encourage them to establish their own local ACI China association."

Speaking at a Beijing Derivatives conference in May, Lee stated: "It is exciting becoming mandated to represent probably the oldest association in the wholesale financial markets in China. The recent global financial crisis has strengthened the demand for an international network of individual members. Regulators across the world co-operate to fight against risks and imbalances. ACI's community is doing the same but benchmarking the industry and working through common standards and ethics such as The Model Code of ACI. Certainly, the certification program of ACI will provide additional value to the Chinese financial market participants examining and leading them to international terminology and methodology."

Recent developments, such as allowing the trading of FX options between locally-based banks, institutions and corporations as of April 1st by the State Administration of Foreign Exchange underline the continued liberalisation of Chinese financial markets. Another encouraging step was the execution of a first Chinese Yuan FX option in USD/CNY reported by an international operating bank.

"These developments indicate China's currency is also becoming increasingly global with a fast-growing offshore yuan market in Hong Kong and growing volumes of international trades being settled in CNY," says Eddie Tan, Citi, Vice President of ACI and President of ACI Asia. "ACI can contribute to a Chinese trader's community through its expertise and experience via its various committees based on more than 50 years existence."

NEWS FROM THE ASSOCIATIONS

ACI Monaco
Awards Honorary Presidency

At its 20th anniversary General Assembly, ACI Monaco were delighted to announce that Prince Albert II of Monaco was accepting an Honorary Presidency of the national association. The Prince was presented with the award during a Gala Dinner on the sidelines of the Association's General Assembly, at which Robert Laure from CMB was elected President to replace Franck Ciosi.

New Board for
ACI Slovenia

At its 19th General Assembly, held in Moravci, ACI Slovenia named a new board under new President Andrej Meza from Nova Ljubljanska Banka, who took over the reins from Ales Ipavec from Hypo Alpe-Adria Bank.

More than 100 members and guests attended the General Assembly and listed to presentations by David Owen, Chief European and UK Economist at Jefferies International, and by Atlamash Scheik, Head of Commodity Sales at Commerzbank.

Apart from Meza, the new board members are Klara Koren from Banka Koper; Marko Knez from Banka Celje; Cirila Vidovic from Probanka Maribor; Branka Cerkvenic from NKBM Maribor; Sabina Zupec Kranjc from Abanka Vipa; and Bostjan Tolar from UniCredit Bank.

Financial and Offshore Trading Levels Linked to Country Income: BIS

The 2010 Bank for International Settlements' (BIS) central bank survey of foreign exchange market activity showed rapid growth in turnover in emerging market currencies. In particular, global central banks reported that some up-and-coming currencies are now being traded outside their home market much more than market participants had estimated.

The report finds that the Triennial Survey often understates emerging market turnover

Where one had put Chinese renminbi offshore trading at $3 billion, for example, the central banks found $22 billion. Similarly, offshore trading of $17 billion in the Indian rupee surprised market participants, who had taken into account rupee trading in Singapore but not that in London or New York.

In a report within the BIS's Quarterly Review, Robert McCauley and Michela Scatigna widen and update these findings. In their article, they show, first, that as a country's income per capita rises, its currency trades in ever greater multiples of the home economy's underlying international trade; and second, that its currency trades to a greater extent outside the home market.

To the first point, McCauley and Scatigna provide a benchmark that divides foreign exchange turnover in a given currency by underlying exports and imports of goods and services of the currency's home country. Their analysis shows, for example, that the renminbi trades in daily amounts that are similar to daily Chinese exports and imports of goods and services – a ratio of around. In the most extreme form, foreign exchange turnover in the dollar and yen are 100 times the level of underlying trade in goods and services.

To account for the dispersion, the authors suggest that as economies develop, trading of their currencies grow faster than their current account transactions. To analyse this relationship, they re-plotted this relationship, putting the ratio on a logarithmic scale. With this transformation the relationship is nearly linear, with evidence of a plateau at higher income levels.

"This relationship between turnover and income held quite consistently from the April 2007 [BIS turnover survey] to the April 2010 survey. Thus, currencies trade more actively in relation to flows of goods and services as their respective economies develop," they say.

There are some exceptions however. While the global turnover figures for the Chinese renminbi and the Indian rupee were quite close, at a respective $34 billion and $38 billion, the currencies are outliers in opposite directions with respect to underlying trade and income.

"The Chinese economy is both larger and more open than that of India, so the similar dollar amounts translate into ratios that differ by an order of magnitude. Thus, the renminbi trades less than China's trade and income would suggest, while the rupee trades more than India's trade and income would seem to warrant," McCauley and Scatigna note.

They suggest that this is due in part to the contrast between the large outright foreign investment in India's equity market and the restrictions on direct foreign involvement in the Chinese stock market.

"If, relative to China's trade and income, renminbi turnover were to reach rupee-like levels, the case for including the renminbi in the [International Monetary Fund's] Special Drawing Right basket would strengthen," they say.

Given the relationship between income and turnover, multivariate regressions show that foreign exchange turnover is higher for currencies with either high or very low yields, consistent with their role as target and funding currencies in carry trades that in effect borrow in low-yielding currencies to fund holdings of high-yielding ones.

Offshore Trading

The authors use a similar benchmark for the geography of currency trading and find that currencies of higher-income countries tend to trade more outside the home jurisdiction.

"Turnover of the most actively traded bonds in major currencies outside home market hours, for instance, generates offshore foreign exchange transactions. In many emerging market currencies, controls push trading offshore into non-deliverable forwards, resulting in high proportions of forward transactions offshore."

As international financial centres tend to concentrate trading in their own currencies as well as in others' currencies, McCauley and Scatigna gave the Hong Kong and Singapore dollars as well as sterling and the Swiss franc a lower offshore share.

The currencies of many low- to medium-income countries trade offshore to a greater or lesser extent than the norm, the authors say. Offshore trading of the Indian rupee lines up with India's income, especially when account is taken of the strictly onshore rupee futures trading that has developed in Mumbai over the last several years.

There is a high amount of offshore trading in the Indonesian rupiah and the Chinese renminbi, both in non-deliverable form. The high share of offshore trading, the paucity of onshore-offshore trading, and rapid development of the deliverable renminbi market in Hong Kong reflect the gap between the world's interest in the renminbi and its access to it, the authors say.

At moderate income levels, the South African rand, the Mexican peso and the Turkish lira all trade heavily offshore, while the Thai baht, the Russian rouble and the Korean won all appear low for their incomes.

In contrast to the overall turnover analysis, higher yielding currencies are not systematically associated with higher proportions of offshore trading. Furthermore, non-deliverability of the currency offshore unsurprisingly seems to limit offshore trading, the authors find. This relationship does not rise to conventional levels of statistical significance however.

"Using income per capita to set a benchmark for both the ratio of turnover to underlying current account transactions and the proportion of offshore turnover can help policymakers discern what is usual and what is unusual in the trading of their currencies," McCauley and Scatigna conclude.

FXC Publishes Barrier Options Best Practice Document

The New York Foreign Exchange Committee, which operates under the auspices of the Federal Reserve Bank of New York, has published a paper that seeks to address the risk management benefits of additional life-cycle event processing for simple exotic options.

Specifically, the FXC says the focus of the paper is the "added market value of adopting standardised operational processes for notifying counterparts of Barrier Event occurrences", otherwise known as "barrier breaches".

The paper provides an overview of different barrier products available, and while the FXC's research finds that barrier options are typically valued at approximately 3% of total options volume, the triggering of barriers remains an occasionally sensitive subject in the market.

The paper notes that the market has no uniform standard regarding the notification of the occurrence of a Barrier Event. With that in mind the paper outlines how a notification may be provided, but notes that the failure to give such notification does not invalidate the occurrence of a Barrier Event.

For the front office, the FXC says the determination of a Barrier Event is first communicated by the front office and upon such an event, the common industry practice is for the front office to notify the other party(ies) to the transaction that the event has occurred (Front-Office-to-Front- Office). This initial notification usually occurs before or at system entry using a variety of communication methods, it adds.

The preferred method between trading desks across the inter-dealer market is for initial notification to take place over Reuters, the paper notes, this practice also exists as the industry norm for client trades. In the case of the latter, the trading desks alert the sales desk, which in turn notifies the clients of the event via phone or instant message.

As far as the back office is concerned, the paper observes that operational support practices vary "significantly" between barrier determination agents and their counterparts or clients. In addition to the initial notification, in most cases, the back office will send a secondary notification of barrier event occurrence to the party(ies) involved in the transaction, typically in the form of a written notice.

The FXC adds that some secondary notification is done electronically, specifically via the MT306 message. This occurs more frequently where the original transaction was confirmed via Swift, it adds, however in other cases, no secondary notification is sent at all.

The paper also lays out other supplemental practices which can serve to further mitigate the risk associated with barrier events. It further says the FXC has identified two processes for consideration as an operational best practice for further risk management of barrier option life-cycle events. Firstly, to reinforce the current process of transmitting secondary notification for all barrier event occurrences, and secondly to encourage the electronic confirmation of the event through the use of Swift messages.

The FXC argues these practices would converge market practices regarding the secondary notification and provide long term scaleability, it would mean, however, that participants would have to agree on the Swift message type and necessary information to constitute proper secondary notification. This would involve participants having to undertake infrastructure expenditures to comply with best practices, possibly requiring the build-out of internal systems to support this flow.

It concludes that although there is no legal requirement to notify counterparties of the occurrence of a barrier event (and no such requirement is advocated by the FXC), current practice is for the initial notification of such events to occur at the trading desk level. "We propose the adoption of a best practice in which a secondary notification is provided on the operational side, initially through issuance of paper (at a minimum) or standard electronic messaging and, possibly later, full electronification if the industry is able to leverage new infrastructure developed in the context of meeting applicable central clearing requirements."

The full paper can be accessed at http://www.newyorkfed.org/fxc/2011/LCEP_SEO.pdf

ISDA Targets Interest Rate Repository as FX Market Looks for Provider

The subect of trade repositories is high on the financial markets' agenda as they head towards the new regulatory era. One of the key elements of the Dodd-Frank legislation, which is expected to be repeated in other jurisdications around the world, is the requirement for a trade repository into which all swap transactions are reported.

In the interest rate derivatives field, the International Swaps and Derivatives Association has selected the Depository Trust & Clearing Corp. to partner with ISDA's Rates Steering Committee in the next stage of development of an interest rate trade repository. The selection takes the business from Trioptima, now a unit of Icap, which in 2009 was selected by ISDA to record all transactions in the market.

Following the passing of the Dodd-Frank Act in July last year, ISDA issued a request in March for companies to submit repository proposals based on the increased regulatory demands mandated by the law. In the FX market, this request was mirrored by the Association for Financial Markets in Europe's Global FX Division which issued an RFP in April. The FX RFP is currently being processed following the submission of expressions of interest, but ISDA is ready to move ahead.

Trade repositories provide global regulators with visibility into risk exposures by firm and by counterparty. ISDA has helped establish trade repositories for other asset classes, including over-the-counter credit default swaps and equity derivatives, and one is underway for commodity derivatives.

Derivatives Markets Still Growing

The Bank for International Settlements (BIS) has released its bi-annual survey results for the second half of 2010. The results state that the global over-the-counter (OTC) derivatives market, rose by 3.2% in the second half of the year, reaching $601 trillion, up from $583 trillion for the first half of 2010. However, overall gross credit exposure fell by 7% to $3.3 trillion, compared with the 2% fall reported in the survey for the first half of 2010.

The overall market has remained steady over the last two years, but has failed to attain the heights achieved in the first half of 2008, before the global financial crisis hit hard

The overall market has remained relatively steady over the past few years, remaining close to the $600 trillion mark in the last four surveys carried out by the BIS, although the heights the market reached in the first half of 2008, $672.6 trillion, have yet to be reached again.

The BIS now states that the foreign exchange market is worth over $4 trillion per day, with retail FX alone accounting for $315 billion- 7.9% of the total market volume; 32% larger than the average daily turnover of all other equity markets.

Foreign exchange derivatives contracts results present an increase of 9% from the beginning of the year to $58 trillion. The BIS says that gross market values have experience little change, levelled by short-term maturities growing by 13% and outstanding options dropping by 10%.

Euro products fell by 21% compared to gross market value terms, however this is not the full story, the BIS says; "The exceptions were instruments on the euro, where market values contracted by 21% despite the currency's appreciation against the US dollar, and on the Swiss franc (where market values rose by 55%, after the 101% increase in the first half of 2010)."

Currency related derivatives figures continued to fall in line with the last two surveys from the BIS, and levelled off in the second part of 2010 to $29.9 trillion, down 1% from $30.3 trillion at the end of June 2010.

Foreign exchange contracts continued to rise, in line with the results from the past three surveys which have presented consistent growth in the FX market. For the second half of 2010, foreign exchange contracts accounted for $57.8 trillion, 9.6%, of the global OTC derivatives market, an increase of 17.5% from the $53.1 trillion figure for the first half of the year.

When compared with the results for the first half of 2010, growth in the foreign exchange market continues, as the latest figure has increased; foreign exchange contracts accounted for 8.1% of the market in the second half of 2009.

OTC interest rate derivatives is still the largest risk category within the rates sector and, for the second half of 2010, rose to $465 trillion, up from $452 trillion for the first six months of the year; a total increase of 3% from the first part of the year, and up 3.4% from the second half of 2009 figure of $450 trillion. When considering the space occupied by interest rates in the total market, there has been a slight decrease (77.6% for H1 2010 compared with 77.4% for H2 2010), however, compared with the same period in 2009 (74.5% of the total derivatives market), OTC interest rate derivatives have delivered similar results.

US-dollar denominated contracts fell by 8%, however, positions for the euro, yen, Swiss franc and Swedish krona all increased by 10%, 7%, 10% and 14% respectively, simply due to an increase in activity, according to the BIS. The survey also notes, "Only the Canadian dollar segment showed a decline, of about 4%, despite the currency's 6% appreciation."

In its results, the BIS says, "Gross market values of all OTC contracts went down by 14%, driven mainly by the 17% decline in the market value of interest rate contracts… Possibly reflecting the convergence of interest rate expectations with the interest rates locked into contracts."

However, when considering notional amounts outstanding, the BIS survey for the second half of 2010 states that interest rate contracts have also experienced continued growth. For the second half of last year, interest rate contracts amounted to $465.3 trillion, a 3% increase from the $451.8 trillion for the first half of the year.

When examining the results for specific products within the interest rate contract market, i.e. swaps and options, there has been little change from the survey for the first half of 2010. The $364.4 trillion swaps contracts account for 79.9% of the interest rate contracts market, and 60.6% of the total global OTC derivatives market.

Options, presenting $49.3 trillion of the market, are 8.2% of the total market and 11% of the interest rate contracts space; this is unchanged from the survey published in the second half of 2009.

The results for credit default swaps also present some interesting information; the first half of 2010 saw positions in credit derivatives decline almost 40% from the previous three years to $31 trillion, however, the survey for the second half of 2010 states that the credit defaults market may be in the midst of 'levelling off', with the amounts outstanding for this period falling 1%.

The survey says, "Amounts outstanding with CCPs [central counterparties] increased from about 10% of the total market at end-June to 15% at end-December 2010. Positions with other reporting dealers dropped by 4%, and with non-financial customers by 63% (after a 46% decline in the first half) to stand at $310 billion, representing only 1% of the market compared with the previous peak of 5%, reached at the end of December 2009."

The survey also states that gross market value for the second half of 2010 fell by 19%. The BIS attributes this to the 11% decline for single-name credit default swaps and 31% fall for multi-name contracts. These figures align with the 20% fall for single-name contracts and an increase of 21% for multi-name swaps. The BIS says, "With the exception of contracts with CCPs (+23%), market values also decreased with other counterparties such as SPVs (-26%) and banks and securities firms (-20%)."

The bi-annual survey was introduced in June 2004, and then was extended to include credit default swaps at the end of December 2004 following a response to a request from the Committee on the Global Financial System (CGFS),

Reporting dealers are inclusive of all branches and subsidiaries of the organisations worldwide and includes commercial and investment banks and securities house.