ACI
THE FINANCIAL MARKETS ASSOCIATION

ACI BRIEFING

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

Q3 2011 VOL 17, ISSUE 107 ISSN 1469-2031

ACI Signs MOU in China

During a very busy visit to China, senior members of ACI – The Financial Markets Association met with a series of important local officials and signed a Memorandum of Understanding aimed at helping the Association build its influence and presence in that important developing market.

LEFT TO RIGHT: YU BO, CFAE (VICE PRESIDENT); MANFRED WIEBOGEN, ACI PRESIDENT; XIONG YAN, CFAE CHAIRMAN AND PRESIDENT; LINDA LEE, ACI CHINA REP.; LI WEIQUN, CFAE (ASSISTANT TO PRESIDENT)

ACI's President Manfred Wiebogen and its China Representative Linda Lee met with officials from the China Financial Assets Exchange (CFAE) for the formal signing of the MOU. CFAE is seeking to be a major player in the settlement and trading of financial assets in China, and recently applied for four licenses with local Chinese authorities to operate in financial markets.
The MOU sees CFAE provide free office space for ACI to assist the Association in its work to raise its presence in China, while ACI has committed to assisting CFAE in building its business to international standards, thus enabling it to operate on a global basis if desired. CFAE will also host the ACI Executive Board and committee meetings on November 2-3.
Also as part of the MOU, the two parties are seeking to jointly create a local ACI association in China. Under this aspect of the Memorandum CFAE is seeking to become a co-founder for an ACI China, details of this will be discussed at a meeting in November.
The two ACI representatives also met with senior members of the Beijing Municipal Bureau of Financial Work, the Beijing Municipal Financial Services Office and the Beijing Municipal Commission of Development and Reform. As a side issue to the meetings ACI was able to further strengthen ties with China by arranging for ACI Austria to host a Chinese delegation for dinner in Vienna at the same time. Feedback from that dinner, hosted by ACI Honorary Member Manfred Kunert and Franz Gruber, ACI Austria President, was very positive and further helped build support for ACI in China.

SIGNING OF THE MOU BETWEEN ACI AND CFAE

At the meeting with the three Beijing organisations, the local dignitaries were informed of

continued on p.2 ▷

Message from the President

Occident and Far East

ACI is putting strong efforts into establishing an ACI China. It's all over town. China has been the rising star for years and there will be no reversal – we cannot ignore this increasingly important market.
During my fact finding tours in Beijing and Shanghai I met with many officials and bankers, regulators and other authorities, together with our China Representative Linda Lee. The picture is clear – Chinese authorities are aware about their responsibility of taking a leading role in financial markets in the future. They are keen to invest in the best education, and are equally keen to listen and learn from global market sources, as well as to slowly start to open their markets.
Being an economic and financial giant (I learned through research the income of the biggest five Chinese banks is higher than that of the 14 largest western banks in the US and Europe!) – China is still in the learning phase of global financial markets. As ACI we need to be patient in assisting and supporting this financial market in its development. The biggest fear for them is making mistakes and becoming an international playing field, misused by "sharks". ACI's response to allay these fears have been to first hire an ACI Representative and then to step into a cooperation with the CFAE – China/Beijing Financial Assets Exchange (more about this story inside this paper).

continued on p.2 ▷

Contents

ACI BRIEFING IS PUBLISHED BY:
profit & loss
PROFIT & LOSS IN THE CURRENCY & DERIVATIVE MARKETS

ACI Head Office: 8 rue du Mail, F-75002 Paris, Tel: +33 1 42975115 / Fax: +33 1 42975116

Message from the President. Continued from p.1

Whilst we are witnessing the enormous growth story in the Far East, Europe still struggles with its financial crisis, which finally turned into a Sovereign Crisis. Instead of forming achievable longer goals (Where to stay in 2050 in the world?) the search instead was for additional fiscal income, which ended once more in the story of a Financial Transaction Tax (FTT).

As ACI we reacted with a Press Release, showing our concern over such an implementation. Our concerns are, that unless such measures are globally applied, there is potential for fiscal arbitrage. Our fears further go that the Financial Transaction Tax would affect market behaviour and the financial industry business in a detrimental fashion.

Our efforts for clarification will continue through contacts with local banking associations, central banks and others. I have to say, lobbying in the name of ACI means to support and advise authorities through our expertise delivered first hand by our individual members. We are not seeking to convince but to argue and explain our view through our experiences. The financial markets have still not recovered from the last few years and liquidity is still fragile. The risk is that such a tax will further reduce activities in some of our markets, and will be counter-productive to what we need: deep and liquid markets.

ACI is now preparing for its next Council meeting deciding for our way 2012. What I can tell you now is that it will become the year of fostering China, raising the USA but also connecting ourselves in a stronger fashion with regional authorities.

Best regards
Manfred Wiebogen, ACI President

ACI signs in China. Continued from p.1

the intentions of CFAE and ACI and expressed a strong interest in supporting the establishment of an ACI education and certification programme. The organisations offered a 10 year plan on a joint venture basis, initially targeting a lower return on investment but then seeing that accelerate from years four-to-seven before seeing a high return for the last four years. The proposed programme will be targeted at all levels of seniority and be taught in Chinese and a strategy roadmap may be produced at the November ACI meeting.

To help assist ACI establish a local association, ACI's President also met with senior local market figure Wu Tian Peng, Executive Manager at Bank of China and a member of the first generation of FX traders in the country. Mr Wu agreed to assist ACI, in particular when he retires in two years' time, by proving a list of traders for both a reception in November and as potential future members of the Association.

Further meetings were held with senior local representatives of IBM, Rontong Info & Tech Co, EximBank, other figures at Bank of China, DerYang Bank and ICBC, several of whom expressed an interest in supporting the establishment and growth of an ACI China.

Mr. Huo Xue Wen, Manfred Wiebogen, Ken Wen, Hou Bo

Two final, and very constructive meetings were held in Beijing, initially with Chen Sheng, Deputy Director of the Supervisory Rules and Regulations Department at the China Banking Regulatory Commission (CBRC). Mr Chen showed an interest from a regulatory perspective in ACI's Model Code and its suite of examinations and was able to introduce ACI's President to Dr Shi Tiantao, Vice Dean, Doctor and Law and Professor at Law at Tsinghua University School of Law in Beijing. Following the latter meeting, ACI's China Representative is to engage in follow up discussions to explore possible areas of cooperation between the two bodies.

l-t-r- Philip Wang, IGVISION/Organisor; Mitul Kotecha, Head of Global FX Strategy, FI Market Research, Credit Agricole, HongKong; Linda Lee, ACI China Rep; Manfred Wiebogen, ACI President; KC Lam, Director FX Products CME, Singapore

ACI's representatives then travelled to Shanghai and on the sidelines of the China Forex Trading 2011 conference met with representatives of CFETS (China Foreign Exchnage Trade System/National Interbank Funding Centre). As a vital local market infrastructure this was an excellent opportunity for ACI to introduce itself and describe its mission in China to CFETS, although members of the CFETS delegation had previously successfully participated in the ACI Australia Dealing Simulation Course in London and Copenhagen and most recently Sydney.

In an effort to further strengthen ACI's existing ties with the local market in Shanghai, the Association's representatives then met with Jonathan Y.Q. Lin, Assistant General Manager at Shanghai Pudong Bank, who, along with five colleagues, passed the ACI Dealing Certificate a few years ago. This meeting was followed by appointments with senior officials at the Shanghai Banking Association and Commerzbank. Again, the feedback from these meetings was positive regarding potential support for ACI's efforts.

"This was a very valuable series of meetings," says Wiebogen. "There is an enormous opportunity for ACI here, although we will have to be patient and progress in a coordinated and professional fashion.

"We need to produce a road map to establish our plans and goals, and to that end, our Council Meeting in Beijing on November 3-4 will be of great importance. Therefore I urge every Councillor and member of our Working Groups to participate in that meeting."

M. Wiebogen, ACI President, Mr. Yang Wenpu, Dep GM Treasury Department and Mr. Wei Gang, SenTrader Deputy Division Chief, Treasury Department

ACI Looks to Dubai 2012

UAEFMA invites the world to Dubai for the ACI Financial Markets Congress 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, 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."

Philippe Jeanne, European President,

The New World

Again the world has changed faster than anyone thought, and has entered what could be a vicious circle between growth and debt.
Europe is used to sluggish growth, but this time even usually well-performing countries are hit. In the US, despite strong action from the Federal Reserve for more than a year, and abundant and free liquidity, the economy is not picking-up. And Asia itself is now slowing.
In that gloomy macro-economic context, the pay-back of debt by growth is impossible, thus the accrued focus becomes on the amount of debt everywhere. The restrictive budgetary plans implemented in all countries also prove restrictive in terms of growth, completing the circle. Markets, politicians and economists are looking for a way out, but don't see it clearly.
At the same time the pressure on banks increases, as we had anticipated: they have to put aside more capital (Basle III), finance long-term loans by long-term debt (liquidity ratios), continue to finance companies and States at a low rate (not reflecting the credit risks involved), and without taking risks (stress-tests),. This leads to a difficult paradigm.
Even the "technical" environment has changed in a way we would never have expected, with negative interest rates, interest rate futures > 100, discount factors > 1 and the lognormal assumptions for option pricing obviously not valid!
In this challenging environment there is a tendency to focus on personal and national matters, even though the solutions are not national, they are global. Within ACI Europe we need to address these issues globally, foster new ideas and solutions, and make sure the regulators fully understand the implications of any regulatory changes they implement.

ACI Expresses Concern over Transaction Tax Proposal

In a recent release, ACI – The Financial Markets Association made clear its concerns over European Union proposals for a financial transaction tax. The proposals, which are otherwise known as the "Tobin Tax", would, if accepted, come into force in 2014.

In the annual State of the Union address, José Manuel Barroso, the European Commission president claimed that this fiscal measure, which would apply a tax of 0.1 percent on trading of stocks and bonds, with a 0.01 percent rate for derivatives contracts, could raise about 57 billion euros a year and would apply throughout the 27-nation bloc.

ACI's concerns are that unless such measures are globally applied, there is potential for fiscal arbitrage and such measures, at a time when the G20 is seeking to implement harmonisation of global financial markets regulation, are not conducive to financial market stability or cohesion, and rather could be detrimental to European economies and financial markets.

Further ACI says it fears that rather than ensuring that the financial sector makes a fair contribution at a time of fiscal consolidation, the tax would affect market behaviour and financial industry business models detrimentally.

With regard to the FX markets and instruments, and the extent to which these would be impacted by the tax, ACI and its Foreign Exchange Committee (ACIFXC) is of the opinion that these instruments are broadly used for hedging by end users such as corporations and real money funds.

Despite the EU Commission's statement that the proposed tax would be aimed at banks, investment firms, insurance companies, pension funds, stockbrokers and hedge funds, among other types of financial firms, ACI believes the proposed tax would be passed on through widening the current very fine spreads that benefit businesses and pension funds. Additionally since the FX market is a payment mechanism, the imposition of a pan-EU tax would increase costs of doing cross border business.

Therefore, ACI strongly believes that the proposed tax would be an obstacle for global trade, global financing and growth at a time when EU member states need growth and economic re-generation.

CPSS, Iosco Release Trade Repository Report

Banks must report a minimum set of data on their derivatives trades from the end of 2012 to help regulators monitor systemic risk and financial stability, according to a report from the Committee on Payment and Settlement Systems (CPSS) and the technical committee of the International Organisation of Securities Commissions (Iosco).

The two organisations released proposals in response to Financial Stability Board recommendations made last October. The FSB urged supervisors to consult with relevant market authorities to ensure a minimum level of transaction data is regularly made available to regulators and is aggregated for regulatory dissemination on a global basis. A final report from the CPSS and Iosco is due by the end of 2011.

Regulators want a complete picture of the $600 trillion over-the-counter derivatives market at all times by requiring that banks provide transaction details to trade repositories. Current formats are based on voluntary agreements with banks.

The CPSS-Iosco report notes that the collapse of Lehman Brothers, along with the near-default of AIG and Bear Stearns, was exacerbated by a lack of information on OTC derivatives exposure.

"Public dissemination of data… promotes the understanding of OTC derivatives markets by all stakeholders, underpins investor protection and facilitates the exercise of market discipline," the report states.

The two organisations set out in their report how they would achieve the timely collection, storage and distribution of data on OTC derivatives.

"The proposed requirements and data formats will apply to both market participants reporting to trade repositories and to trade repositories reporting to the public and to regulators," they say.

Examples of trade repositories include the Trade Information Warehouse for credit default swaps and the Equity Derivatives Reporting Repository, both run by the Depository Trust & Clearing Corp.

Importantly, the report finds that shortfalls in available data may undermine attempts to use trade repositories. The lack of details on the value of trades "presents a potential gap in the data that authorities may require to fulfill" their mandates, the organisations say. More data on collateral would allow regulators to "better assess exposures, counterparty risk and ultimately systemic risk," they say.

The CPSS and Iosco also want a global system for tagging each trade with legal entity identifiers (LEI) to identify the counterparties, and a classification system for identifying different types of OTC derivatives and their attributes.

OTC Derivatives Groups Warn of Harmful Effects of Extra-Territoriality

Eight global and regional trade associations have called on regulators in the US and Europe to increase coordination to prevent or limit the harmful effects of inconsistency and ambiguity resulting from extra-territoriality in regulatory efforts to implement G20 commitments.

The Group of 20 world leaders agreed in 2009 that standardised derivatives traded over-the-counter or privately among banks should be centrally cleared and reported to a repository by the end of 2012 to minimise systemic risk in the financial markets.

Extra-territoriality is a fundamental concern in the derivatives business, where it is common for counterparties based in different parts of the world to transact with each other.

In a letter to Michel Barnier, Commissioner for Internal Market and Services at the European Commission, and Timothy Geithner, US Treasury Secretary, the associations urge policymakers to consult with each other in the formation of legislation, and to resolve differences in the course of implementation of legislation.

They further ask regulators to ensure that reform of the international financial regulatory system is based on consistency of approach and on mutual recognition.

"Specifically, in the United States and Europe, we believe that both sets of rules, as proposed in the United States and as currently being debated in the EU, leave the global derivatives business with ambiguity and problematic extra-territorial challenges and issues of legal uncertainty and misunderstanding which might give rise to material risk," the associations say in the letter.

Harmful effects of a failure to address this concern, say the associations, include a more fragmented view of financial market activity making it difficult for regulators to prevent build-up and concentration of systemic risk; legal uncertainty for internationally-active firms giving rise to further risk; greater costs for international firms and their clients leading to higher financing costs for the wider economy; and negative impacts on investment and employment levels.

The eight associations that signed the letter include: the Alternative Investment Management Association (AIMA), the European Banking Association (EBF), the Futures and Options Association (FOA), the Global Financial Markets Association (GFMA), the Investment Management Association (IMA), the International Swaps and Derivatives Association (ISDA), the London Energy Brokers' Association (LEBA) and the Wholesale Market Brokers' Association (WMBA).

The letter cites a number of examples of extra-territoriality concerns. These include licensing, authorisation and registration rules. The letter says rules for licensing entities that are significant participants in the swap market should be coordinated so that those entities do not face duplicative regulatory regimes.

Also of concern is the potential overlap and conflict in regulation of derivatives market participants in foreign jurisdictions. "It is important that global regulators agree to a coherent and complementary approach to the regulation of activities of financial institutions such as banks, broker dealers and asset managers in foreign jurisdictions, ensuring both a sufficiently stringent regulatory standard and an avoidance of conflict and overlap in regulation.

"An example of the difficulties that can be caused in this context is the extra-territorial application of margin requirements to non-US subsidiaries, branches or affiliates of US financial services institutions, meaning that these subsidiaries, branches and affiliates will face dual – and possibly, conflicting – regulatory requirements, as opposed to local competitors who will have to comply only with the local regulatory regime," the groups say.

Similarly, non-US firms have concerns about their US subsidiaries, branches or affiliates facing dual requirements in the US and in their home jurisdiction.

"We urge global regulators to enter into mutual recognition arrangements where each would limit the extra-territorial reach of their regulation so long as a firm complies with their home country regulations," they say.

The associations are also concerned about the rules for central counterparties (CCPs). Regulators should seek to agree on the standards for equivalence or recognition of CCPs in each others' jurisdictions to avoid ambiguity and to give CCPs and regulators the opportunity to meet these standards, the groups say.

"Equivalence is critical for rules on clearing as conflicting clearing requirements would be impossible to comply with if the rules of each of two different jurisdictions require a trade to be cleared in its jurisdiction," they say.

There are also concerns about rules for trade repositories. The US Dodd-Frank Act's requirement that swap data repositories obtain indemnification from foreign regulators as a pre-condition to data sharing is an area of discussion currently between global regulators.

"This statutory requirement is not only unnecessary, given international agreements on sharing of data and work such as that pursued in the OTC Derivatives Regulators Forum at international level, but also undermines the ability of trade repositories to provide coherent information on risk in the derivatives business to regulators throughout the world," the groups say.

"Likewise, pre-conditions to recognition of third country repositories in EU regulation are best drafted in cooperation and understanding with regulators in those third countries. We support the continued dialogue among global regulators on these issues."

The groups conclude in their letter: "We urge policymakers to redouble their efforts to ensure that reform of the international financial regulatory system is based on consistency of approach and on mutual recognition."

They add: "We believe that regulators should seek to limit the damaging effects of divergence, either by consultation with international counterparts in preparation of legislation, or by resolving these differences in the course of implementation of legislation."

A final vote on European Union over-the-counter derivatives rules has been pushed back to autumn as a global crackdown on the sector faces delays on both sides of the Atlantic.

While the delay provides much needed breathing space for harried regulators to take a step back and consider the bigger picture, banks were hoping for an early iteration of rules to remove the uncertainty on the way they will have to do business.

FX Turnover Continues to Surge Ahead

The latest FX turnover surveys from the world's FX committees indicate that 2011 will be the year in which the FX market – in turnover terms at least – finally shook off the legacy of the post-Lehman credit crunch. Activity rose strongly from the previous survey in October 2010 as well as on a year-on-year basis, with most categories measured showing continued growth.

Crucially, as a signal that the worst effects of the credit crunch are now behind the market, activity in FX swaps is now more or less back to the levels of the April 2008 survey which was the last survey taken before the banking crisis hit in full force. The UK and Tokyo reports are slightly underneath the 2008 data, the UK by 2%, Tokyo by 10% (Japan was in the immediate aftermath of the devastating events of March so was bound, therefore to see slightly lower activity); Singapore has regained the April 2008 level of turnover, whilst the US has seen activity grow across the period, by 15.5%. Equally heartening was a rise in activity with Non-Financial counterparties in the US and UK, suggesting that credit conditions have been easing for corporations.

In what may be another sign that the market is returning to "normality" (if a near-zero interest rate environment is "normal") activity in FX swaps has fallen away in Canada, a market that benefited from a healthy banking industry throughout the crisis. The evidence is inconclusive, however, for Australia, another nation with a strong banking industry, has seen FX swap turnover continue to climb. Equally, inflation effects would also argue that values should be slightly higher, but notwithstanding that, the industry can look at the latest survey with a degree of confidence that trust in the viability of counterparties is returning to the major markets.

The UK remains the largest FX swap centre by a considerable distance, averaging $909 billion per day in April 2011, a more than 20% increase year-on-year. The increase was evident across all counterparty segments, with Other Reporting Dealers increasing $69 billion per day, or almost 22% year-on-year. There was also a healthy recovery from the Non-Financial segment of the FX swap report, with turnover rising to $36 billion per day from $26 billion in April 2010 and $28 billion per day in October 2010.

In the US, activity in FX swaps registered $224.2 billion per day, a 10.5% increase year-on-year. In the US activity actually declined between Reporting Dealers and was flat with Other Financials, however there was a surge in activity with Other Banks of 20% and a 60% rise in turnover with Non Financials.

As far as general activity is concerned the latest reports represent good news all round with all centres rising year-on-year. The UK saw a 30% increase in activity and broke the $2 trillion per day barrier quite convincingly, hitting $2.19 trillion per day. The Joint Standing Committee which produces the report confirms this is the highest mark yet for the UK FX market.

The same was also the case in the US, where a 5.9% increase in turnover also saw US activity hit a new peak at $798.7 billion per day, as well as Singapore which rose by almost 12% to a new peak at $361.5 billion. As noted, the Japanese data was likely to have been impacted by the aftermath of the earthquake and Tsunami which may have dampened FX swap activity, nevertheless activity rose overall to $286.4 billion per day, an increase of 8% from April 2010 but still below the April 2008 peak of $302.5 billion.

In the other two jurisdictions reporting results it was a mixed picture, although both Australia and Canada increased strongly year-on-year. In Canada activity rose to $65.1 billion per day, an 8.3% increase year-on-year, but is still below the peaks established before and after the Lehman's crisis when it was touching $70 billion per day. Perhaps reflecting the greater confidence in the regional economy, the Australian data has hit a new peak at $219.1 billion, a 14% year-on-year rise.

Across the six surveys, overall OTC turnover has risen 18.6% year-on-year, which would suggest, assuming the trend was repeated in the other reporting jurisdictions for the Bank for International Settlements' Triennial Survey (the six centres account for 71% of global FX turnover in the BIS survey) a "BIS number" of $4.7-$4.8 billion. It should be noted, however, that the various FX committees collate data on different bases, specifically the UK, US and Singapore collate according to the location of the price setting desk, the other committees and the BIS according to the location of the sales desk.

Product Splits

As already noted, FX swap turnover performed well in April 2011, confirming that, hopefully, the worst of the credit squeeze is behind the industry. In terms of spot trading, the reports were also positive, although there was, maybe surprisingly, a small drop in activity in the US.

In the UK, spot turnover in April 2011 outstripped FX swap turnover for the fist time since the JSC started collating data. At $919 billion per day, the UK is approaching the trillion dollar day milestone, indeed it is very likely that it has already hit that market on individual days since April. The surge in spot turnover (by 47% year-on-year) stands in stark reflection to the US, where the FXC reports that spot activity actually declined year-on-year by 5.3% to $395.6 billion.

Singapore saw a healthy year-on-year increase in spot turnover, from $94.5 billion per day to $120 billion in April 2011, while Japan saw a 10% increase in spot turnover to $106.2 billion per day, Canada a slight increase to $17.3 billion. Only in Australia did spot turnover decline, by about 40% from April 2010 to $47.6 billion.

Looking at the customer data from the UK and the US, there were some divergences that would undermine attempts to put a global spin on the data from the two largest markets.

In the UK, spot turnover with Other Financials rose strongly year-on-year from $162 billion to $300 billion per day. By contrast in the US, turnover with this segment fell from $134.2 billion to $114.3 billion, a shift that could hint at high frequency firms executing more business during London hours and reducing their activity during the patchy North American afternoon. Activity with Other Banks – also seen as another client segment for the top group of banks – fell from $191.5 billion to $172.8 billion in the US market, whereas in the UK survey the segment saw increased turnover from $185 billion in April 2010 to $252 billion in the latest survey.

Overall, the data suggest a shift from the

US to UK, this is probably a result of the thinning in general liquidity. Market observers often believe that liquidity in the North American afternoon is often a good signal of the condition in the global economy. When markets are steady, more players, especially high frequency firms, are happy to price and provide liquidity. When things get shaky many players disappear – a source of frustration for the major banks as they seek to hold onto client business.

There was some good news for the US spot market in the report, whereas the UK survey saw Non-Financials' turnover decline slightly from $25 billion to $24 billion, in the US, it almost trebled from $12 billion a year ago, to $35.7 billion in April 2011.

With so much attention on the developing e-FX options market, the data from the various committees represented a mixed bag for those seeking to build the FX options market up. In the UK, turnover rose strongly, year-on-year from $105 billion to $138 billion, but in the US it fell from $29.8 billion in April 2010 to $19.7 billion, in Japan from $7.6 billion to $6.6 billion and in Singapore from $20.9 billion to $18.5 billion per day.

Cross currency swaps drove a 43% increase in FX derivatives turnover in Australia, while in Canada the centre saw turnover increase from $3.1 billion to $3.9 billion.

Execution Shifts

The April 2011 data was good for proponents of electronic trading in the UK, but more mixed in the US. In Japan, where the Tokyo Foreign Exchange Committee reports execution methods, electronic broking systems saw a huge increase in activity from $29.2 billion per day in April 2010 to $55 billion in April 2011. The optimism was slightly dampened by the electronic trading systems data which saw turnover fall from $42.9 billion to $35.5 billion.

There was good news for client-driven e-businesses in Japan where customer e-volumes rose from $24.3 billion per day to $31.9 billion. This 31.1% increase came at the expense of a 26.4% decline in telephone trades.

In the UK, activity on electronic broking systems rose year-on-year from $474.6 billion to $599.8 billion, on single bank platforms it rose from $221.5 billion to $268.8 billion and on multi-participant platforms from $147.7 billion to $297.6 billion.

In spot terms, it was a similar picture with electronic broking systems' turnover rising from $285 billion to $371.3 billion; single bank portals from $92.6 billion to $137 billion and multi-participant platforms from $68.9 billion to $160.2 billion.

In the US, overall activity rose slightly from $143.7 billion in April 2010 to $146.6 billion on electronic broking systems, and on electronic trading systems it rose from $236.6 to $240.9 billion. In the spot market the US saw declines in the e-channel's usage, electronic broking systems rose slightly from $96 billion to $97.2 billion, but electronic trading systems' turnover fell from $167.8 billion to $153 billion.

NEWS FROM THE ASSOCIATIONS

ACI Kenya Hosts Dealing Simulation

ACI Kenya recently hosted the ACI Australia Dealing Simulation Course, the second time the course has been held in the country. Delegates from five African nations attended the course, which was held on the outskirts of Nairobi.

"The feedback we have had from the course has been excellent," says Solomon Alubala, Chairman of ACI Kenya. "We are very hopeful that we will be able to host further courses as part of our commitment to ACI education in Africa."

ACI UK Hosts Regulatory Forum

ACI UK recently held an exclusive event for global financial markets leaders where Angela Knight, Chief Executive, British Bankers' Association, addressed the impact of regulatory reform on London as a financial centre. The recommendations of Britain's Independent Commission on Banking and the European Commission proposals for a tax on financial transactions were discussed by those present, where the key concern was the unintended consequences of reform.

Regarding the proposed transaction tax Angela Knight commented to the group: "It's not easy for a bank to re-domicile – any shift will be more subtle. The question will be out of which jurisdiction they choose to do which part of their business? We risk creating a toxic environment for banking and this does not help economic recovery here or elsewhere. The industry needs to speak with a single voice on this topic. It's up to each bank, each trade association and the government to make the case that transaction taxes do not solve problems they create a different one."

Morgan McDonnell, ACI UK President, facilitated the discussion, which was attended by global heads of foreign exchange from international banks based in London. "Banks from all over Europe base their trading operations in London," he says. "While there is a question mark over how much money this transaction tax will raise, there is no doubting the impact it will have on London as a place to do business and the effect on economic growth. We have to defend the importance of trading activities to London as the home of the EU's biggest financial services industry.

The attendees were concerned with the disproportionate impact of a transaction tax on London as Europe's leading financial centre. It was agreed that while increased capital and strong management are key to a successful future, there is no radical short-term solution. Rather, there needed to be a consistent co-ordinated dialogue with regulators to ensure that the financial services industry and financial markets professionals are effectively represented.

ACI Australia Hosts HFT Seminar

ACI Australia hosted an afternoon seminar on the impact of high frequency trading in Sydney. The seminar featured a keynote speech from Dr Guy Debelle, Deputy Governor of the Reserve Bank of Australia and Chair of the Study Group of the Markets Committee at the Bank for International Settlements, which recently released a report on the impact of HFT in FX markets.

Following the Deputy Governor's speech, three market experts took part in a panel discussion on the impact of high frequency trading, moderated by Colin Lambert, Editor of *Profit & Loss* magazine and *ACI Briefing*. More than 100 delegates attended the event.