ACI
THE FINANCIAL MARKETS ASSOCIATION

ACI BRIEFING

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Congress 2010: Evolution or Revolution?

ACI Australia did ACI – The Financial Markets Association proud with a superbly organised World Congress in Sydney at the end of March. The theme, "Evolution or Revolution" permeated the business programme of the conference which brought together industry participants from the buy, sell and service sides of the market, along with policy makers and regulators.

It was appropriate for the local markets that former Australian Treasurer and Prime Minister Paul Keating opened the business programme, for it was Keating as Treasurer, who floated the Australian dollar and opened local markets to international banks.

In his address, Keating warned of the dangers to the global recovery from trade and current account imbalances and urged surplus nations such as China to increase domestic demand to help alleviate the imbalances. He also highlighted the dangers of a double-dip recession for the world's developing economies, noting that if such an event occurred, these nations would not be able to react in the same fashion as the major nations did over the previous two years, with huge fiscal stimulus.

On a domestic note, Keating called for an increase in Australia's superannuation contributions to help avert a pensions time bomb, and also warned that the nation's economy was vulnerable to Chinese slowdown. China continues to grow, he said, but added there were doubts over its ability to continue to do so at the same rate because it was growing on "investment steroids".

The main body of the business programme was opened with a keynote address by Reserve Bank of Australia Governor, Glenn

PAUL KEATING

Stevens, who welcomed ACI back to Sydney, noting that the last time it gathered there, in 1992, Australia was struggling out of a long period of deep recession. Stevens added that it was hard to find an optimist at that time over Australia's future, and that a similar condition existed today, in other countries. The consequent long upswing in the Australian economy not only proved how hard it was to forecast economic development, he observed,

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Message from the President

FOREWORD

Dear ACI Community,
Considering conditions and the very volatile market landscape, along with my obligation to my employer, it was not an easy decision to apply for a second term as ACI President. That said, I finally agreed to do so upon receiving the backing of my bank and by the many voices of support from within ACI. I would like to, at this point, thank the ACI Council and all Members for your confidence in re-electing me unanimously – it is a very strong commitment and a huge obligation for me.

We all know the banking industry is passing through exceptional and very difficult times. The markets are changing, the public view of us bankers has changed dramatically and we have to scope the enormous challenge of regulatory changes facing us. It would be too easy, however, to only blame the financial industry for the turmoil that started in 2007. Wasn't it also the thoughtless string of mega-mergers in banking and other industries that were authorised by the various government commissions? Was it not also due to insufficient control of market activities by certain financial segments (the entire banking industry has to report its positions on a regular basis)? Was it not also some careless handling of tax money by governments, most of whom produced large deficits for decades – even in times of good economic growth?

My point is that it is not only the

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

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Message from the President. Continued from p.1

banking industry that created the crisis, but the culmination of a long period of increasing – and enormous – budget deficits run up by governments. That was what caused the real large concern, unsettled investors and created instability in markets.

That said, what will be the exit strategy from this crisis? Well, it is certain that it will be a long road back as every market participant and in particular governments will have to change their behaviour.

Again, we have to realise the world changed dramatically and there will be no way back to where we were before.

Nevertheless I think it is important that we stay optimistic in our view of the future. We as ACI, shall meet all these challenges and ensure our message and point of view is put across. We will communicate our ideas and concerns and cooperate with regulators, central banks and other authorities whenever we can. The MiFID review is on the agenda of the European Commission, and the European Union is now targeting currency derivatives possibly with the intention of them becoming exchange traded. Probably the most urgent topic is the impending review of liquidity and capital requirements by the Bank for International Settlements, which will be finalised by the end of this year. BASEL III aims to further tighten the regulatory requirements – mandated by the G20 states and the Financial Stability Board. The Basel Committee has put forward proposals aimed at improving the resilience of the financial system in the medium term. We as ACI have a role to play to ensure our markets to not become overregulated or misunderstood and as such we will play as full a role as possible in this process.

I recently read a survey conducted by the IMF which identified more than 220 international financial crises during the past 25 years! This again underlines the importance for a traders' association like ours, to focus on our core values;

- a traders network (to enable a well functioning market according to the principles of Know Your Customer)
- by exchanging expertise amongst market professionals at events like our recent Sydney World Congress
- by connecting to the vendors industry, learning about the very latest technology trends
- by promoting the best moral and ethical behaviour standards in the markets
- by examining and certifying our traders, as well as back- and middle-office staff, according to the standards of knowledge of market professionals who are the benchmark in our industry.

ACI held its 49th World Congress in March in Sydney, hosted by ACI Australia. At this meeting 52 countries were present, representing a total vote power of 12,216 members. This level of participation was a record for the past 25 years and underlines the importance of our community in these times. A summary of the Congress will be given inside this issue of ACI Briefing.

Manfred Wiebogen
President
ACI The Financial Markets Association
May 2010

Congress 2010. Continued from p.1

it also demonstrated that with "time, effort, discipline, good policies and a bit of luck, economies can be returned to health and their citizens to prosperity."

Stevens argued that it was "helpful" that the global financial system is gradually recovering its poise after a "near-death experience", and that although there is still some damage to be repaired, the functioning of money markets has improved substantially.

The return of risk appetite was further assisting the recovery, although Stevens did point out that Australia was ahead of the curve in terms of its economic cycle compared to many other nations.

It was not all good news, however, for the Governor warned of continuing issues in need of solving, not least the banking system. "The challenges that remain ahead for the banking system in major countries nonetheless remain considerable," he told delegates. "The outlook for some of the remaining government ownership stakes remains unclear. While losses coming from write-downs of securities slowed some time back, losses are still occurring in lending books as a result of the normal effects of big recessions, not least in the area of commercial property. This will continue for a while. In addition, banks, particularly large internationally active banks with big trading operations, will require additional capital over time under proposed changes to global prudential standards."

On the subject of regulatory reform, Stevens stressed Australia's backing for the process, suggesting it should focus on key areas such as: removing the scope for taking on excessive leverage via regulatory arbitrage; making sure that adequate capital is held against risk that is being incurred; ensuring better management of funding liquidity; countering, to the extent possible, the inherent tendencies in both human nature and regulation to form assessments of risk in a procyclical way; and improving resolution processes to ensure orderly and rapid crisis management and to help manage the issue of 'too-big-to-fail' institutions.

He could not, however, resist a swipe at the banks that were widely seen as creating the financial crisis, stressing, "The really serious problems were generated in a relatively small number of

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GLENN STEVENS

Congress 2010. Continued from p.2

very large, internationally active banks. They did not stem from the thousands of other banks around the world, which have not needed to be bailed out and whose capital resources have, in most cases, proved adequate to cover normal losses in a cyclical downswing. Hence it is important not to shackle unnecessarily the latter group in our efforts to constrain the relatively small number that caused much of the problem."

After discussing the ongoing problem of sovereign debt levels – while stressing Australia was a conspicuous exception – the Governor concluded by highlighting some challenges likely to be raised as the recovery continues. "The differences in the speed of economic recovery are starting to present challenges of their own, showing up as they do in capital flows, asset valuations and exchange rates," he concluded. "When we add to all that the looming long-term requirement for fiscal consolidation in a number of major countries, there is plenty for markets and policy makers alike to think about."

The four platinum sponsors of the Congress, ANZ, Commonwealth Bank, HSBC (Australia) and Westpac provided the

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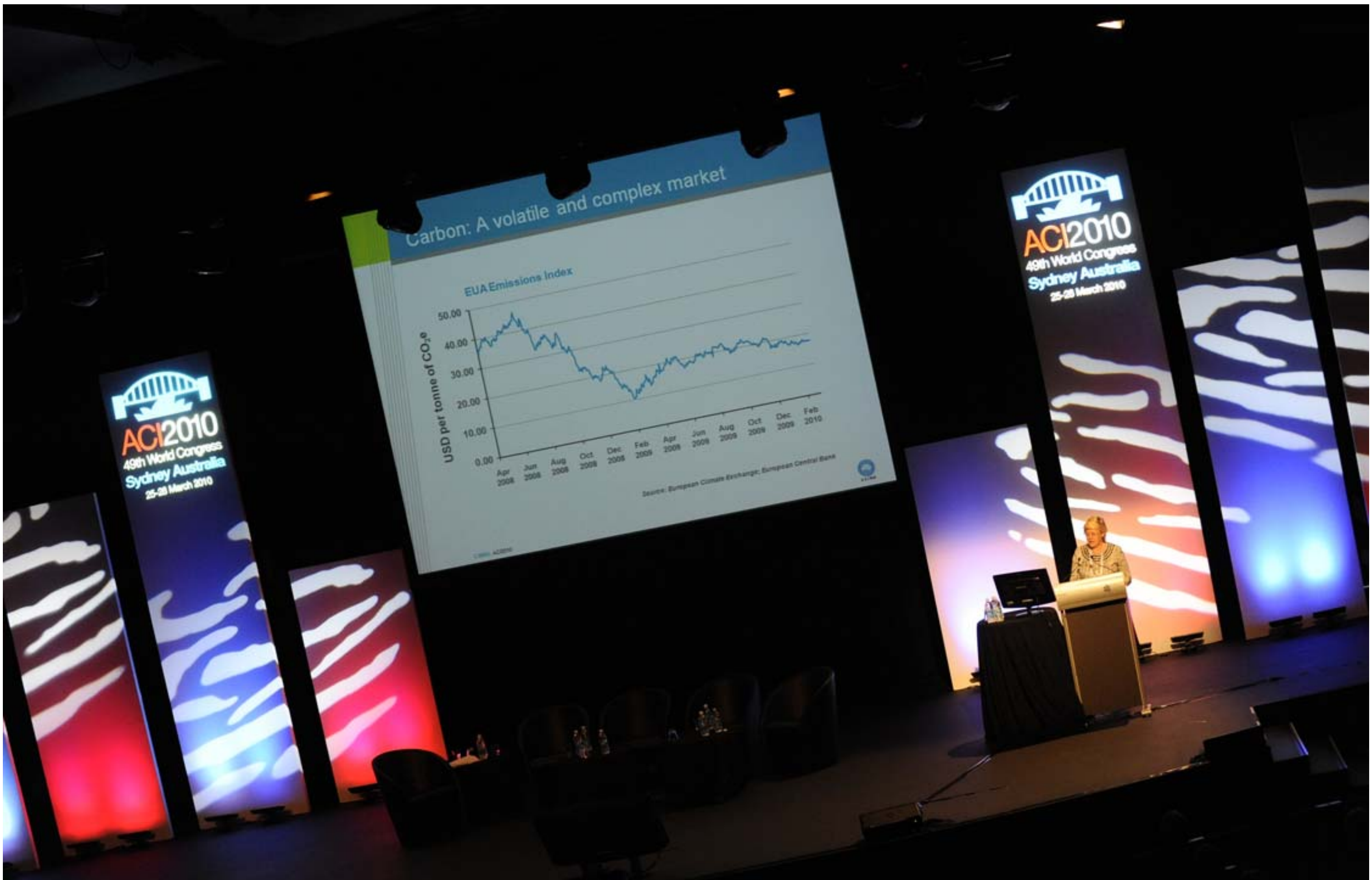
PANEL 1 - SENIOR BANKERS DISCUSS THE INDUSTRY

PANEL 2 - ASSET MANAGERS ON THE CHALLENGES IN FINANCIAL MARKETS



WHERE SCIENCE MEETS MARKETS - DR MEGAN CLARK

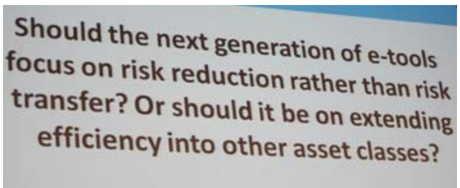
Congress 2010. Continued from p.3

speakers for the initial panel discussion which sought to discuss peer issues for many of the audience in the form of the challenges facing banks and their trading businesses today.

Delegates were treated to a thought-provoking presentation by Dr Megan Clark, Chief Executive of CSIRO, who discussed when science meets markets. In the process of her fascinating presentation, Dr Clark teased delegates with the prospect of markets in new commodities and products, including bio-diversity swaps.

The conversation returned to more mainstream topics during the Friday afternoon when a stellar line up of buy side representatives took to the stage to discuss their approach to markets, their relationships with their bank providers, and the challenges and opportunities faced. Testimony to the quality of the panel sessions, indeed of the entire business programme can be found in the comments of several delegates who pointed out that the discussions were among the best they had heard in nearly a decade of conference going.

The real money panel got to grips with portfolio construction, the problem (or not) of the use of benchmarks and the lessons learned from the global financial crisis. There was an interesting divide between panelists on the relative performance of real money during the crisis, with



QUESTION FOR THE ACI FORUM

some arguing it was unacceptable, but others pointing out that their hands were effectively tied due to the need to track a benchmark return.

When asked the question, "do we need to re-think our approach to real money" the panel was more or less in agreement that it would be a good thing, however there was a diversity of views as to how this could, or should be achieved.

The alternative investment community was next on stage and a hugely informative and entertaining 90 minutes was given over to the challenges they faced, as well as the benefits they provide. As well as continuing some of the themes from the previous panel, the subject of new technology, the impact of high frequency trading, the next generation of risk management and order management tools was also discussed.

PANEL 3 - HEDGE FUND MANAGERS WARM TO THEIR THEME

PANEL 4 - THE REGULATORS DISCUSS POSSIBLE OUTCOMES

A wide ranging discussion also investigated buy side firms as market makers and how this affected the relationship with bank providers, the changing nature of that relationship was also discussed as was the decision to buy or build a firm's technology infrastructure.

The pace did not slacken on day two of the Congress, following the ACI General Assembly a panel of regulators took to the floor to discuss one of the hottest topics in the industry today.

The business programme of the Congress closed out with a new innovation for ACI – The Financial Markets Association. Throughout the Congress there was a huge level of interaction between floor and panel and this culminated in the ACI Forum, a session wherein the floor became the panel and discussed a series of themes presented on the big screen.

Topics covered the range of issues raised during the previous two days of debate, as well as new themes specifically aimed at emerging markets and technology. A truly interactive session, in which all delegates could take part, was a fitting climax to a superb business programme.

STAGE FOR THE 49TH ACI WORLD CONGRESS

Congress 2010: Images from Sydney

The ACI Australia Congress Organising Committee created a networking programme to compliment 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. Icap sponsored the Opening Ceremony on the waterfront at Daltone House, near Sydney's Darling Harbour, FXall sponsored the Friday night cruise that took delegates around Sydney Harbour on a lovely warm evening, and UBS sponsored the Gala Dinner at which the handing over of the ACI Flag from Australia to Hungary took place. Here are some images from the networking programme. We look forward to reconvening in Hungary in 2011.

Celebrating Past - Hungry for Future

It was in 2005 when we celebrated the 50th birthday of ACI – the Financial Markets Association in Paris, with great success.
Now, five years on, we are preparing to host the 50th ACI World Congress in 2011 in Budapest, Hungary, and we would like to invite all ACI members to join us. The anniversary event will provide a good opportunity to look back and remember the "good old days", but also, crucially, to see what the future holds. This is the key theme of our Congress.
Technology has gone through a tremendous change from the telephone to the Internet, from very few providers and users to use by the masses, but the centre of activity has not changed: the dealer. This is, and always has been, a unique and challenging role in the world of banking, but in a way they are the same all around the world! The main purpose of the Congress is to maintain the human element in our industry as it remains the most important aspect.
We would like to bring back memories from the past and relive the events and the developments of the last 50 congresses. This will happen in a place that has also seen a lot of changes over the same period, but which now stands on the cusp of a new era. It is very likely that soon after this Congress the Hungarian Forint will be consigned to history and the country will melt into the great family of Euroland. This will be a very significant change for such a small nation as ours, which has already seen very big changes during its long history.
Some fall in love with the city of Budapest at first sight, others are won only as a result of a longer period of discovery; but all agree that it is one of the most beautiful cities of the world. This metropolis, bisected by the Danube with the hills and valleys on the Buda side and the flat, low-lying Pest on the other, is the only capital where there are more than 130 thermal springs. The riverside panorama as well as the Andrassy Boulevard have been declared a World Heritage site by UNESCO. Everybody who has ever seen them illuminated by night will understand why.

News from ACI's Board of Education

New ACI Exam Titles

The ACI Board of Education has decided that ACI certificate holders will automatically be awarded a title which may be put on their business cards. The ACI education programme represents the highest standards of professionalism and market expertise in the global financial markets. The title reveals that the candidate was successful and that he/she has become a part of the ACI community of excellence. Certificate holders may use the following titles:
ACI Diploma: ACI Dipl.
ACI Dealing Certificate: ACI DC
ACI Operations Certificate: ACI OC
Candidates who have passed the former ACI Settlements Certificate have the right to use the title ACI OC.

Be proud to be a "MEC"

The ACI Board of Education is seeking nominations from National Associations for membership of the new ACI Market Experts Committee (MEC).
In order to maintain ACI's reputation of industry excellence and the level of distinction in our field, the ACI Board of Education has decided to establish and implement a new ACI Market Experts Committee. The MEC is a subcommittee of the ACI Board of Education similar to the ACI Exam Appeal Committee. The Chairman is Alan Malone from Allied Irish Banks Global Treasury who is also a member of the BOE.

Alan Malone,
Allied Irish Banks
Global Treasury

As a gateway between the ACI market practitioners and the ACI education programme, the MEC will play a critical role in maintaining the integrity and quality of ACI's suite of examinations. Each MEC member will be a recognised market expert and primarily responsible for reviewing ACI exam syllabi and test question databases related to his/her field as well as for proposing new exam test questions. Additionally he or she will advise the BOE and the CFP on latest market developments and current best market practice.
Become a "MEC" and be part of a wonderful community called ACI which gives you the opportunity to network on a global basis and contribute to the professionalism of our young market practitioners.
For more information on the qualification requirements and your duties as a MEC please visit www.aciforex.org where you'll also find an application form.

Recognition of ACI Operations Certificate by CISI

The ACI Operations Certificate has recently been officially recognised by the Chartered Institute of Securities and Investment CISI, the former Securities Institute, as equivalent to one technical examination of the CISI's Investment Administration Qualification (IAQ).
The IAQ is a practitioner-led programme for administration and operations staff and consists of three examinations. The first examination unit - International Introduction to Securities & Investment - provides candidates with an awareness of the industry; the second and third technical examination units (for which the ACI Operations Certificate can be counted as one examination with the exception of the Global Securities Operations unit) - allow candidates to specialise from a large number of options covering financial services regulation, operations and administration.
Recognition of the ACI Operations Certificate will allow financial services staff taking the IAQ to include foreign exchange and treasury services in their specialism.
It will also allow existing ACI Operations Certificate holders to expand on their qualification and increase their skill set. For more information on the IAQ see www.cisi.org.iaq

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

50. ACI WORLD CONGRESS BUDAPEST | 2011

Celebrating Past – Hungry for Future

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

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

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

This is and always has been a unique and outstanding person from the world of banking but in a way they are the same all around the world! The main purpose of the Congress is to keep alive the human touch in this industry as the most important aspect!

***Please ckeck our website constantly for updated informations:** www.acibudapest2011.hu*
For further information please contact us: ACI2011 Budapest, 50th World Congress Secretariat,
***Email:** aci2011@ibusz.hu*

Hosted by: ACI The Financial Markets Association

Official Congress Organisers: IBUSZ

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CFP Corner

Historical Rate Rollovers

Although not a widely-used practice, the use of historical rate rollovers does exist in the foreign exchange markets in certain jurisdictions. In the UK and US markets the practice is not allowed, while in other jurisdictions it is allowed but only under strict protocols with extensive documentation.

The problem with the practice is the potential to hide profits or losses, and in this way, historical rate rollovers could potentially be used in a similar fashion to deep-in-the-money options, products that were used in the Allfirst Financial scandal in 2002. Under a historical rate rollover, the deal is rolled/extended to another forward date, but using the same spot rate as the original trade.

This means that the control environment for the use of historical rate rollovers needs to be tightly controlled. In many jurisdictions, the use of rollovers is limited to domestic corporate customers – (while other customers like Non Bank Financial Institutions and Banks are banned from using them). Normal documentation protocol is for a side letter issued by the bank and signed by a responsible officer such as the Chief Financial Officer, Treasurer or Chief Operating Officer of the customer in question. Within this letter, it is normally clearly stated that the rollover is required purely to extend an existing hedge for a legitimate underlying transaction due to unforeseen circumstances.

These circumstances can vary, but would include a delay in shipment due to natural causes and other circumstances beyond the corporation's control. In this manner, historical rate rollovers recreate the use of FX time options, a product used prior to the 1980s, with which a corporation could agree to a foreign exchange transaction with a settlement date any time between two specified dates. Time options were widely used by companies involved in the shipping of goods, where the exact arrival time of the ships was uncertain.

In spite of this usage, controversy surrounds the use of historical rate rollovers because of the potential to alter a company's financial returns especially when used at the end of reporting periods like monthly, quarterly, half year or end of financial year.

Some jurisdictions also have limitations on the maximum duration of their use, for example a deal may not be rolled more than 12 months forward from original maturity date; however it is hard to foresee circumstances in which a shipment could be 12 months late. Equally, other authorities and banking institutions do not allow a rollover of a trade if it is more than 10% in or out of the money at the time the counterpart requests it be rolled, this is because the potential to hide a profit is viewed as the same as the potential to hide a loss. In the same vein "off –market" transactions, ones that are 10% away from the market are not allowed to be assumed by a bank, for example one bank cannot accept the trade from another bank on behalf of a customer when the deal is not at market rates.

Those jurisdictions that do allow its use are keen to ensure that rollovers are not used to extend speculative positions and those that do not allow the practice argue that it is just as easy to create a new contract that does the same job – by closing out the existing contract at current market rates and then enter into a new transaction. The "problem", such as it is, with this approach is that this means the corporation would potentially have to take a loss in its financial accounts due to delayed shipments, and some argue this creates an equally false financial picture because the corporation is not changing its manufacturing/shipping profile; it is merely a question of time.

It is believed in some quarters that the use of historical rate rollovers can also help corporations hit by large exchange rate movements, by enabling them to maintain a fixed spot rate. Companies such as Laker Airways, the UK Company that went bankrupt in the 1980's, could benefit from extending their hedges. Indeed the UK carrier's woes were exacerbated by a sharp decline in Sterling during 1982, which led to it having to pay more dollars for its oil and leasing agreements with US providers. This contributed to an increasing cash shortage and subsequent financial decline.

There is significant agreement around the world that the use of historical rate rollovers should not be used to transfer profits and losses from one financial or tax year, to another as this represents an attempt to manipulate the financial information of a company. As an example, in the past, it is believed that some trading desks have used rollovers to "smooth" profit profiles of the desk, by shifting a proportion of large profits from one financial year to another. This concern about the creep of the use of historical rate rollovers into the financial services world is one of the reasons the issue has been raised by the CFP.

The Model Code acknowledges that dealing at non-current rates is a contentious issue. It "strongly discourages" such activity but concedes that under certain "stringent conditions" the practice can be acceptable. Parties need to be aware that deals at non-current market rates may result in the concealment of a profit or loss; the perpetration of a fraud; tax evasion; and/or the giving of an unauthorised extension of credit.

The Model Code acknowledges that dealing at non-current rates is a contentious issue and it strongly discourages the practice...

The Model Code further stresses that where such transactions are required, they must only be entered into with the express permission of senior management of both counterparties, who should ensure that proper controls are in place with clear audit trails for the monitoring and reporting of such transactions to maintain transparency and ensure the avoidance of the aforementioned problems. It adds that cash flow implications should be taken into account in the pricing of the rollover trade.

Crucially, The Model Code recommends that the spot rate at the time of the rollover is used, therefore the cash flow implications are rolled forward to meet the changed circumstances of the corporate client, but that any profit or loss relating to that transaction is realised at the time of rollover.

Members can raise issues with the CFP by contacting their regional member or at www.aciforex.net/gb/aciforex-contact.cfm?contact=market_practices

Euribor ACI Reports

News from Euribor ACI

The Euribor ACI Money Market & Liquidity and Derivatives Working Group has submitted a joint response on behalf of the Brussels-based association to key consultations by both the European Commission and the Basel Committee of Banking supervision.

The European Commission's consultation on "Possible Further Changes to the Capital Requirements Directive ('CRD IV')" and the Discussion Paper – CD 165 re International framework for liquidity risk measurement, standards and monitoring from the Basel Committee of Banking supervision covered highly important topics for our members.

The joint Euribor ACI working groups focused on key issues and concerns that could have far-reaching effects on markets, pricing, banks' business models, concentration in the banking industry, and the economy as a whole

After a general overview of the potential effect on markets and the economy, the following specific issues are addressed:

Liquidity buffer and securities

Critical issues in general

Weaknesses in methodologies and inconsistencies

Both responses can be found on www.aciforex.org.

European Repo Market Report.

At the most recent European Repo Council (ERC) meeting on March 18th 2010 the results of the semi-annual ICMA-ERC repo survey showed a strong recovery in the European repo market. An increase of 14.7% on the previous figure put the baseline figure for the market size at euro 5,582 billion. The other findings of the survey: higher use of central counterparty clearing (already well established in repo); the greater focus on netting in general; and the reduction in undocumented transactions all provide a good example of where financial markets in general need to go. Liquidity and collateral management are very high on the list of priorities of banks, while a more robust clearing and settlement framework will eventually allow a wider range of bonds to be centrally cleared.

Two articles have recently been posted covering in detail the various issues that will influence the future development of the secured market in Europe.

You may find the articles on the following links:

The European membership of ACI has supported the ERC semi-annual repo survey. The details of this survey have become highly valuable in this crisis. The next survey is in June 9th. You may find the full details of the survey on http://www.icmagroup.org/getdoc/33d81528-dfe0-4b77-b92d-acb8162a285b/latest.aspx

Introducing Assiom Forex

ASSIOM FOREX – The Financial Markets Association of Italy was founded in Milan on 28 October 2009 by the merging of ASSIOM (Association of Capital Markets' Traders) and ATIC FOREX (The Financial Market Association of Italy).

ASSIOM FOREX's main body of membership now numbers more than 1,500 and comes from all sides of the financial markets industry. In all, about 450 financial institutions including Banks, SIM's, insurances, SGRs Funds, Financial Companies provide members, as well as the main regulators and market institutions.

The merged Association is non-political and non-profit, with no trade union ties, and works to promote and support the professional growth of financial dealers through training courses and by spreading technical expertise. It also promotes best market practices in order to contribute to the development and integrity of the domestic financial markets in both a European and international context that is extremely dynamic and competitive.

The Association promotes the analysis, study and research into techniques, tools and matters relevant to financial markets, it supports relations with national and international monetary authorities and supervisory bodies as well as with companies hedging their risks in the markets and other institutions operating in financial markets. It also reinforces ties with national, community and international bodies with the aim of improving the activities of its own members.

Thanks to the creation of a single body, market authorities and supervisory bodies have, in ASSIOM FOREX, a body that is as representative as possible of our financial system with which to discuss and share problematic issues, proposals and other matters. Globalised financial markets, even at a local level, need to be able to give global answers to investors and companies that require a knowledgeable and transparent approach from financial institutions ready to make a fundamental contribution to the economic growth of the country and the global economy.

The Association carries out its activities through specific committees and working groups.

The following permanent committees are already active:

a) Market Committee;

b) Training Committee;

c) Membership Relations, Events and Communication Committee;

d) Authorities and International Associations Relations Committee;

The Association has further plans to create and operate a Gold Committee, Insurance Committee, Statute and Rules Committee, and an Advisory and Asset Management Committee.

The aims of the Association are: to favour the adoption of indices relevant to the markets in which its Members operate; to promote and carry out initiatives aimed at improving the preparation and professional updating of the Associates; to share, using appropriate methods of communication, information and news relevant to the technical operating context of the markets, including problems relating to regulations and tax law and to support synergies with similar national and international Associations.

ASSIOM FOREX – The Financial Markets Association of Italy is affiliated with ACI – The Financial Markets Association as well as EURIBOR ACI. The Association arranges for its Ordinary and Aggregate Members, who are residents in Italy and meet the criteria, to be registered directly with ACI - The Financial Markets Association. Synergy on an international

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level is realised by the automatic recognition of a Member the Association as a pro-active spokesperson in ACI.
ASSIOM FOREX commenced activity with a celebration that took place in Naples at the Mostra d'Oltremare in mid-February. Some 1,400 delegates from both associations convened for this congress and further had the chance to visit and talk with 36 exhibitors on the latest market trends and developments in the exhibition area. The Governor of the Banca d'Italia, Prof. Mario Draghi, opened the congress and in his speech he provided an outlook on the financial markets for the euro area, the Italian banking system and the wider financial industry.
The election of the new board composition of ASSIOM FOREX Italy took place Saturday 13th of February and comprises of:
Executive Board:
President Guiseppe Attana, Intesa Sanpaolo
Senior Vice President Luigi Belluti, Unicredit Bank
Secretary General Claudia Segre, Abaxbank
Vice Presidents: Marco Messori, Banca Pop. Emilia Romagna; and Carlo Portoni, Banca Akros
Treasurers: Andrea Braga, HiMtf SIM; Marco Malavasi, BBVA; and Pier Mario Satta, Unicredit Bank AG

Other Members are :

Mario Angeli, Hypo Alpe Adria Bank
Antonio Attanasio, FMR Consulting
Marco Antonio Bertotti, Intesa Sanpaolo
Ugo Borgheresi, Banca Etruria
Gilberto Borghi, Banca Popolare Emilia Romagna
Mirco Brisighelli, Unicredit Group
Nicola Campione, Banca Popolare del Lazio
Raffaele Capasso, Banca di Credito Popolare
Andrea Ceriotti, Mediobanca
Sergio Colnaghi, Sella Holding Banca
Gianluigi D'amone, Banca delle Marche
Giuseppe Della Rocca, Banca IMI
Marco Elli, Unicredit Bank AG
Gabriele Giubilato, Banca IFIS
Renato Guarneroli, Bancaperta
Gherardo Lento Capoduri, Banca IMI
Francesco Limardo, Thomson Reuters
Giuliana Luzi, BNL BNP Paribas
Vincenzo Palli, ICCREA Holding
Nicola Pegoraro, Banca Carige
Francesco Polimeni, ICCREA
Cesare Pozzi, Banca Akros
Ivano Rach, Banca Mediolanum
Dario Sala Veni, IFP
Stefano Sardelli, Invest Banca
Marcello Satulli, DEXIA Crediop
Riccardo Tebaldini, BBVA
Filippo Viglongo, Alleanza Toro Assicurazioni
Massuni Villa, UBI Banca
Luca Zaccaria, Deutsche Bank
Auditors:
Bruni Giulia, Banca Popolare Emilia Romagna
Luca Cereghetti, Banca Popolare di Milano
Renato Prelli, Intesa Sanpaolo
One of the first events of ASSIOM FOREX will be to organise, with e-Mid, the Liquidity 2010 conference in Verona. The ninth edition of this annual cross-border meeting for money market professionals will be themed: "Money Markets Getting Closer to the Withdrawal of Unconventional Measures" and institutions providing the speakers will include; Bank of Italy, Prometeia, Credit Agricole, DZ Bank, AIB Dublin, BNY Mellon NY, and the European Central Bank.

Unsettled Foreign Exchange Transaction with Icelandic Banks

Last year, ACI – The Financial Markets Association was approached by an international bank concerning an unsettled foreign exchange transaction with an Icelandic bank.
What was the story? The international bank had entered into a simple foreign exchange swap whereby the parties agreed to purchase and to sell US-dollars versus Japanese yen at two different value dates in September and October 2008. The first half of this transaction proceeded as agreed in September 2008. Under the parties' agreement the international bank was obliged to deliver USD to the Icelandic counterparty in early October 2008. In exchange the Icelandic bank had to pay the same day the agreed countervalue in JPY. The international bank was to deliver the US funds to the Icelandic bank's correspondent account with a New York-based clearer, while the Icelandic bank was to deliver the JPY payment to the international bank through a Japanese clearer in Tokyo.
On October 6, Iceland enacted Act No 125/2008 authorising its Financial Supervisory Authority (the "FME") to take over the operations of an Icelandic bank if it was unable to meet its obligations. On October 7 the Icelandic bank involved issued a press release entitled "no Indication of Government Intervention" in which it stated "our bank has not been approached by the Icelandic FME regarding any intervention in the Icelandic bank's operations." The international bank finally learnt the next morning that the Icelandic banks had been placed into receivership and had failed to settle the JPY payment under the FX trade until after the international bank had transferred its funds to be paid to the US clearer of the Icelandic bank.
Again in October the US clearer asked the Icelandic bank to return the paid funds, but some days later the same month the US clearer advised the international bank that "return of funds was not authorised by the committee appointed by the FME".
Up to the point of writing ACI has been contacted by three international banks and asked for assistance and help with unsettled foreign exchange transactions with Icelandic banks. ACI – The Financial Markets Association considers this behaviour as a clear breach of all international rules and, of course, of the best market practices governed by its Model Code.
ACI's Executive Board established contact with the Iceland Ministry of Finance, the Central Bank of Iceland, an Iceland Resolution Committee, the European Commission, as well as the Institute of International Finance.
The cases are still open and ACI will report on further developments.

HKMA Summarises Renminbi Rules in Hong Kong

The Hong Kong Monetary Authority (HKMA) has responded to the increase in demand for Chinese renminbi business in Hong Kong by issuing, in the form of a circular from Chief Executive Norman Chan, a summary of the operational arrangements and supervisory principles regarding this business.

Since its commencement in July 2009, the business of cross-border trade settlement in renminbi (RMB) has been developing steadily. There has been a gradual increase of the demand by customers for RMB-denominated financial services, while the banking industry has also deepened its understanding of the policy framework as set out by the Mainland's Administrative Rules for the Pilot Scheme on RMB cross-border trade settlement and the relevant Clearing Agreement.

In accordance with the Administrative Rules and the Clearing Agreement and having regard to the views of the industry, the HKMA has undertaken a review on how to simplify the operational procedures to increase the flexibility in developing diversified RMB-denominated financial services within the existing policy framework.

The purpose of the Circular is to provide a clarification by the HKMA on the supervisory principles and the operational arrangements regarding the cross-border fund flows of RMB and the development of RMB business in Hong Kong.

Supervisory Principles for Cross-border Flows of RMB Funds

2: The guiding principles for the supervisory arrangements for RMB trade settlement transactions and other RMB businesses are as follows:-

(i) Cross-border flows of RMB funds into and out of the Mainland should comply with the rules and requirements in the Mainland. The Mainland Authorities and banks are responsible for verifying whether transactions undertaken by the Mainland counterparts are in compliance with the relevant rules and requirements in the Mainland, while participating Authorized Institutions (Participating AIs) in Hong Kong will process the RMB transactions in accordance with the usual banking practices in Hong Kong.

(ii) With regard to the RMB funds that have flowed into Hong Kong, Participating AIs can develop RMB businesses based on the regulatory requirements and market conditions in Hong Kong, as long as these businesses do not entail the flow of RMB funds back to the Mainland. In other words, apart from those restrictions mentioned in paragraph 3 below, Participating AIs can conduct RMB businesses in accordance with the prevailing banking practices applicable to the businesses conducted in other foreign currencies.

Operational Arrangements

3: Specifically, the above two supervisory principles will be applied to the day-to-day operations of Participating AIs in the following manner:-

i) Deposit-taking: Participating AIs can open RMB deposit accounts for corporate customers to conduct trade settlement transactions in accordance with the usual requirements in Hong Kong, including anti-money laundering requirements. The opening of RMB deposit accounts for individuals and Designated Business Customers continue to be subject to the relevant requirements of the Clearing Agreement. Participating AIs and their customers can determine the use of their RMB funds as long as it does not involve the flow of these funds back to the Mainland.

(ii) Conversion: Participating AIs should continue to conduct RMB conversions against other currencies in accordance with the existing requirements.

(iii) Remittance: RMB remittances to and out of the Mainland must comply with the rules and requirements stipulated by the Mainland Authorities. Whether the transactions undertaken by the Mainland counterparts are in compliance with the relevant rules and requirements are to be verified by the Mainland Authorities and banks. Nevertheless, Participating AIs should remain vigilant, and make enquiries with customers as necessary, so as to guard against money laundering or other activities that violate Hong Kong or overseas laws and regulations.

(iv) Lending: When extending RMB loans or financing to corporate customers, Participating AIs should observe prudent credit standards and ensure that the associated RMB liquidity risk is managed properly.

(v) RMB bonds: The range of eligible issuers, issue arrangements and target investors can be determined in accordance with the applicable regulations and market conditions in Hong Kong. Participating AIs can also provide their customers with related services such as account-opening, bond trading, custodial and financing in accordance with usual banking practices in Hong Kong. Bond issuance by Mainland entities will continue to be governed by the relevant regulations and requirements in the Mainland.

(vi) Cheque and credit card services: Participating AIs can offer these services to corporate customers in accordance with usual banking practices in Hong Kong. If cross-border payments are involved, the offer of these services must satisfy the relevant requirements stipulated by the Mainland Authorities.

FX Turnover Bounces

The latest round of semi-annual FX turnover surveys conducted by the world's foreign exchange committees in October 2009 indicate that volumes are rising nicely. With very few exceptions, volumes are up on April 2009 levels across products and regions.

In the October 2009 surveys, turnover in the UK, as reported by the FX Joint Standing Committee (JSC), registered $1.43 trillion per day in cash products and $119 billion per day in derivatives. This is higher than $1.269 trillion and $87 billion in April 2009, but below October 2008 ($1.554 trillion and $126 billion) and even further below April 2008 when the two measures were $1.696 trillion and $136 billion per day respectively.

In the US, the Foreign Exchange Committee (FXC) reports a similar picture. Average daily volume surged in October 2009 to $659.7 billion per day in cash products and $25.1 billion in derivatives. Again this is higher than April 2009's $509.1 billion and $17.8 billion, but it also remains significantly below turnover registered in October 2008 of $730 billion and $31.6 billion.

Completing the picture from the three

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FX Turnover Bounces. Continued from p.11

largest centres to report turnover, the Singapore Foreign Exchange Markets Committee (SFEMC) survey offers a very similar picture. Turnover in October 2009 rose to $231.2 billion per day in cash products and $31 billion in derivatives from $204.9 billion and $24.2 billion in April of that year. Volumes were lower than in October 2008 in all categories except for FX swaps, where turnover was just about 2% higher in October 2009.
Look back to April 2008, however, and the picture reverts to "normal", traditional turnover was $264.3 billion per day and derivatives business was at $34.9 billion per day.
Two other centres report. In Australia, turnover rose to $134.2 billion per day in traditional turnover, and $7.5 billion per day in OTC derivatives, up from $119.9 billion and $4.2 billion in April 2009.
Compared to April 2008, turnover remains low in traditional products, in that survey average daily turnover was $157.5 billion. It is not all bad news for the centre, however, for OTC derivatives turnover has fully recovered from pre-Lehman levels, in the April 2008 survey this was at $5.5 billion.
In Canada, the global trend is evident – traditional turnover in October 2009 was $59.9 billion per day, up from April 2009's $56.4 billion, but down from April 2008's $63.6 billion. In OTC derivatives, turnover was unchanged between April and October 2009 at $2.2 billion, down from April 2008's $2.7 billion.

Shifting Trends

Comparing the latest surveys to the last available data pre-Lehman, the JSC and FXC reports suggest one impact of the credit crunch – a more democratic approach on the part of customers as to who they deal with.
While the market share of the top group of banks remains strong and continues to grow – the FXC survey finds that the share of the top six dealers grew from April 2008 in all but outright forwards – much more business is coming from non-reporting banks.
In the UK survey, the picture is more uniform, with turnover declining across all counterparty segments. Between reporting dealers it registered $804.1 billion per day, down from April 2008's $831.8 billion, while other banks' turnover fell from $684.6 billion to $548.4 billion. With other financial institutions, typically money managers, turnover in the latest survey is $307.1 billion, down from $394.6 billion in April 2008 and with non-financials it has dropped over the same period from $132 billion per day to $113.9 billion.
By contrast, in the US survey, while turnover fell between reporting dealers (from $229.8 billion in April 2008 to $209.6 billion in October 2009), with other financial institutions (from $233.6 billion to $201.4 billion) and non-financial institutions ($49.7 billion to $31.6 billion), it rose with other banks from $316.7 billion in April 2008 to $336.9 billion in the latest survey. This probably reflects the "Lehman effect", wherein customers preferred to move business away from what were feared to be troubled institutions, several of whom sat in the top group, to smaller, but more creditworthy institutions.
It is interesting that for the first time since the surveys began, there is a real divergence between the US and UK surveys. As noted above, there was a rise in other banks' business in the US, and a similar divergence is evident in how people executed their business.
In the UK, from April 2008 to October 2009, turnover across every electronic mechanism fell between the surveys, however in the US, the share of electronic trading systems actually rose.
In the UK, the JSC reports that single bank platforms grabbed a 9.7% of turnover in October 2009, from 10.3% in April 2008. The multibank portals had 5.2% from 7.3% 18 months previous, while the electronic broking systems' share was 23.6%, down from 25.4%. The beneficiaries of much of this shift were the voice brokers, who grabbed an 18% share in the latest survey from 16.9% in April 2008.
In spot terms, there was a sharp drop in the share of single bank portals, from 16.4% of turnover, to 11.3%. The multibanks had 9.1% from 11.2%, and the broking systems were roughly steady at 41.1%, down slightly from 41.2% in April 2008.
As far as client activity is concerned, other financials institutions executed 40% of their business online in October 2009, compared to 43% in April 2008. There was a rise, however, in the ratio of business executed by non-financials, between the two surveys – in October 2009 51.9% of this client segment's business was executed online, compared to 46.2% in April 2008. Overall, clients executed 43.2% of business online in October 2009, down slightly from April 2008's 43.8%.
The FXC survey does not break out single and multibank platforms, however, it does indicate a significant shift away from the broking systems to the portals – probably indicating the banks' reluctance to stream liquidity to public platforms during illiquid periods such as late in the North American day.
The share of broking systems fell from 21.9% in the April 2008 survey, to 16.8% in October 2009. Meanwhile, electronic trading systems, saw their share of volume rise from 22.2% to 26% in the latest survey.
As far as customers are concerned, the electronic platforms are attracting more business – in October 2009 47.6% of total client business was executed online, up significantly from 39.8% in April 2008. Breaking down the client segments, other financials executed 51.4% of business online in the latest survey, a strong rise from 43.7% in the April 2008 survey, while non-financials' use of the e-channel declined from 30.2% to 23.8% of the segment's volume.

Electronic platforms are attracting more customer business

Overall the surveys indicate that market volume probably bottomed out in April 2009 as the impact of the Lehman's collapse and the subsequent credit crunch hit their peak. The fact that the US appears to be coming back quicker than the UK may well be a result of the UK's extended economic troubles.
It may also reflect the early signs of a shift to Europe on the part of several financial institutions. Several hedge funds have, or are in the process of shifting their business to Europe from London as threatened tax rules make staying in London less attractive. Allied to this, some banks are also said to be studying the value in shifting their operations to Switzerland in particular. Should this continue, it could be that the share of London will continue to decline and therefore a more accurate picture of the market will only be provided if the European Central Bank and Swiss National Bank release semi-annual data.

ACI Europe – Defining Risk/Return

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The Chinese write the word “ crisis” as “danger”, plus “opportunity”. Risk and return are linked, and because the markets forgot this and focused for years on returns only, we faced two years of crisis where, on the contrary, only risks were the motto. Hopefully the future will provide a better balance, and re-state the fundamental bond between the two indicators: no return without risk, but no risk taken if the return is not there.

This redefinition of the rules will go far, it will affect markets, products, clients, regulators, and, as the recent past has shown, governments, politics, budgets.

The challenge is large for Europe, and the volatility that in the past used to be focused on currencies now materialises in government debts. More parameters emerge as important – growth, employment, but also levels of debt, rating, liquidity, delivery risk, and so on – that were taken for granted before.

At the same time, the role of the financial markets themselves are being brought into question. Some financial markets for the global crisis, others think that on the contrary they merely revealed structural problems that were previously hidden.

Whatever happens next, the markets will not look like the past: they will be reshaped in many ways; clients will act differently, requiring new hedges and investment opportunities; and regulators will enforce new rules.

Within ACI Europe we want to be part of this effort to rebuild trust in the way financial markets function, and use the expertise of all our members to participate in working groups with regulators, central banks, and other market participants, to improve transparency and allow markets to be efficient in transferring risk and return to who can manage them best. Hedgers, investors, market-makers have different objectives, and the markets intermediate them.

We have mapped the working groups, developed an efficient website to exchange documents between members, and reorganised the Head Office to provide more support.

Now, for ACI as well, danger means opportunity. In this crisis it is all the more important for members to participate much more in working groups, promote the association and its education and certification programmes, as well as its ethics. We have a wide diversity of expertise in European countries that will be very valuable in the near future, and the strength of the association is that all members are market participants.

ACI Europe wants to be at the forefront of the redefinition of risk/return rules.

News from the Associations

Daniel Koh, Standard Chartered Bank, has been elected as the new ACI Singapore President at the General Assembly held on January 28, 2010. Bryan Yap, Daun Consulting Singapore Ltd, the Secretary, was appointed to a second mandate.

ACI Malta welcomed a new President in February with the appointment of Vincent Pace from the Central Bank of Malta. Rosalie Gauci from HSBC Bank Malta has been appointed Secretary, Margaret Vassallo from Bank of Valletta as Treasurer and Josette Psailla from Central Bank of Malta as Education Officer.

In February 2010, at the occasion of the General Assembly held in Naples, Assiom and Atic Forex Italy merged into a single Association: Assiom Forex The Financial Markets Association of Italy was born. Giuseppe Attana, Intesa Sanpaolo has been re-elected for a second mandate. By his side, Luigi Belluti, Unicredit Bank AG is Vice President, Claudia Segre, Abaxbank is Secretary and Braga Andrea Hi MTF Sim is Treasurer.

Mladen Miler, from OTP Invest, ACI Croatia President, has been re-elected for another term of three years, supported by a new Secretary, Marko Germin of Raiffeisenbank Austria.

At the beginning of March 2010, Nigel Gallienne from Bank Julius Baer, ACI Channel Islands President, left the association after a three year term.

On the March 11, 2010 a new Board was elected at the ACI Ireland General Assembly. The new Board has been set up with Ger O’Brien, Bank of Ireland Global Markets, as President, Ciaran Barry, Danske Markets, as Secretary, Enda Homan, Allied Irish Bank, as Treasurer and Russell Waide, Anglo Irish Bank, as Education Officer.

ACI Thailand also welcolmed a new Board in March 2010: Thiti Tantikulanan, Kasikorn Bank, as President, Anchalee Besuwan, Siam City Bank, as First Vice President, Nopadol Prateepratana, Standard Chartered Bank, as Second Vice President, Saovarod Hansompob, Bank of Ayudhya, as Secretary and Wisar Peerawit, Siam Commercial Bank, as Treasurer.

In April 2010, The Financial Markets Association of Mauritius elected a new Executive Committee. Parik Tulsidas, Standard Bank, 1s President, Shalinee Ramphul, State Bank, Jean Pierre Jerome, MCB, is Treasurer, Patrice Ho Man Cheong, HSBC, is assistant Treasurer, Hema Kishto, Barclays Bank, is Secretary and Seeddick Mooraby, Shibani Finance, is Assistant Secretary.

Alexandre Seignat, Crédit Agricole, was nominated on April 30 as the AFTB, ACI France, President for the next three years. He will have by his side, Thierry Cazaux, Aurel BGC, as Secretary who keeps his position. Franck Hebeisen, Société Générale, will participate actively on the AFTB as a member of the Board.