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Bank of Japan

**Keynote Speech Given by Akinari Horii,  
Assistant Governor of the Bank of Japan,  
to the Global Operations Managers' Conference in Tokyo**

**Akinari Horii**

*Assistant Governor of the Bank of Japan*

## **Introduction**

It is a great pleasure for the Bank of Japan to host the Tokyo meeting of the Global Operations Managers' Conference in collaboration with the Tokyo Foreign Exchange Market Committee. We offer a sincere welcome to both overseas and domestic participants. We appreciate that you are here at a time when financial markets are experiencing their strongest stresses in decades.

We would also like to thank our colleagues from overseas central banks for their extensive assistance in selecting panelists for this meeting and in organizing the topics of discussion. The help came while they made extraordinary efforts to prevent further deterioration of the financial markets.

## **I. Idea behind the conference**

Some of today's attendants may have participated in previous meetings of the Global Operations Managers' Conference held at the Federal Reserve Bank of New York, the Bank of England, and the European Central Bank. Nevertheless, it is worth reiterating the goal of the conference, since this is the first meeting in the Asian region.

Our primary focus is to exchange information and opinions on the recent evolution of the foreign exchange market and the common challenges faced by players around the world. Previous conferences were attended by participants in the foreign exchange market, including those from financial institutions, non-financial corporations, institutional

investors, trading platforms, settlement systems, and central banks.

Another important purpose of the conference is to develop and reinforce relationships between global foreign exchange committees. Faced with increasingly globalized foreign exchange markets, previous conferences supported the efforts of global committees to overcome common challenges by facilitating the exchange of information and opinions.

## **II. Goal of the Tokyo Meeting**

We would like this meeting to play a role common to that of the previous conferences, and to achieve the following specific objectives.

First, from a global perspective, we would like to address the features of the Tokyo foreign exchange market along with the challenges faced by market participants. This will be done by highlighting notable developments in recent years. One of these changes is the growth in the number of Japanese retail investors who have been actively investing in foreign-currency-denominated assets and dealing with foreign exchange margin trades, with increasing interest in Asian currencies and "commodity" currencies.

Second, we would like to help participants in the Tokyo market plan for the future by providing updates on developments in foreign exchange operations. These include the expansion of electronic transactions promoted by advances in information technology, and the evolution of

transaction processes such as matching, confirmation and settlement.

Third, we would like to promote a better understanding of the roles and significance of foreign exchange committees, and reinforce the momentum of activities of the Tokyo Foreign Exchange Markets Committee. For this purpose, this meeting will cover the major accomplishments of overseas and domestic committees.

In order to achieve the goals of this meeting, we have invited market participants and central bank officials from Asia and the Pacific, along with regular conference guests from the United States and Europe. Through the exchange of expert opinions from diverse viewpoints, we hope to chart the future of the Tokyo market and its role in international financial markets, with a particular emphasis on Asia. Moreover, we sincerely hope that the discussion here will pave the way for improved efficiency in foreign exchange markets in the Asian region.

### **III. Major Topics of the Tokyo Meeting**

We encourage the participants in this meeting to discuss the role of the Tokyo foreign exchange market and its desirable functions in reference to the developments in the global markets.

The global foreign exchange market has experienced major changes in recent years. The number of new entrants, such as hedge-funds, retail investors, and public-sector investors,

and public-sector players has grown rapidly. Consequently, the trading of emerging currencies has expanded, and global turnover has increased dramatically. According to the results of the most recent Bank for International Settlements triennial survey, which covers the transactions in April 2007, the annual global growth rate for the preceding three years was as high as 19 percent. The survey also noted a remarkable expansion in the volume of market transactions, not only in major economies but also in some emerging financial centers. Moreover, regional surveys conducted by foreign exchange committees show that this rapid growth in turnover continued until recent months.

The rapid growth seems to have been driven by several factors. These include cyclical factors, such as the "search for yield" strategies of investors and an international shift of wealth largely due to rising commodity prices. Structural factors have also been in play. These include the expansion of international trade and cross-border investments, spurred by growth in emerging economies. There has also been a reduction in transaction costs and growth of more sophisticated trading methods, driven by innovations in information technology.

In Japan, growth of portfolio investment by retail investors and overseas activities by non-financial business corporations appears to have increased the need for trading of broader-based currencies, of Asia in particular. Furthermore, annual surveys by the Tokyo Foreign Exchange Market Committee imply the expansion of electronic trading in the

inter-bank market and retail transactions. While retail investors have boosted their presence, trading activities of overseas investors such as hedge-funds in the Tokyo market seem to have been limited. This may have resulted in less remarkable turnover growth in recent years than in other international financial centers.

It would be productive if we could identify in the discussions today what participants require of the Tokyo foreign exchange market, in light of common and different features across various foreign exchange markets.

We believe the future of the Tokyo foreign exchange market should be examined from multiple perspectives. In the context of the conference, the following issues could be raised for discussion:

- the potential impact of expanding foreign exchange e-commerce on businesses and foreign exchange transactions;
- the outlook of trading in emerging currencies and their contributions to "revitalization" of the market;
- the prospective revisions of best practices in accordance with the growing presence of new market players; and
- the facilitation of a business continuity plan for the maintenance of market functions in contingent situations.

We expect that participants will exchange opinions actively from global viewpoints based on your expertise and experience in the foreign exchange market.

#### **IV. Interim Implications of the Global Financial Crisis**

We think it is equally important for this meeting to cover the interim implications of the current global financial crisis.

Generally, foreign exchange markets, including emerging currencies, have weathered the storm and maintained "in-depth liquidity". The market has a large number of diverse participants, who together trade over 3 trillion U.S. dollars per day, greasing the economic wheels of the global economy.

In fact, even after the international financial markets began to lose stability in the summer of 2007, participants expressed confidence in the resiliency of the foreign exchange market. We observed the orderly execution of foreign exchange for the most part, even under the stress of a heavy volume of transactions. This increase in transactions was due to changes in the direction of cross-border capital flows, caused by the shift of investments to emerging economies in earlier months and the repatriation of funds to the United States more recently.

Thus, market liquidity has been relatively well-maintained so far. But we are starting to see vulnerabilities in some segments, most typically the foreign exchange swap market, where rates have become unstable. At times, the market conditions appear to have deteriorated. This has been triggered by the heightened sensitiveness to counterparty risk and the corresponding dislocations in money markets, making price-discovery difficult for foreign exchange swap

contracts. This has created difficulties for some global institutions' funding operations, because dysfunctions in the foreign exchange swap market have prevented them from raising funds in one currency and converting them into another. This is most notable in foreign exchange swap contracts involving U.S. dollars. It is one reason why central banks around the world are providing dollars across geographical borders and time zones.

Furthermore, in foreign exchange transactions outside the foreign exchange swap market, our contacts have more recently seen signs of a reduction in market liquidity. For example, bid-ask spreads in inter-bank markets widened occasionally, even when large volumes of transactions were executed. Concerns about counterparty risks and cautiousness surrounding liquidity, as well as reduction in risk appetite by investors, are pointed to as the reasons.

Thus, the foreign exchange market has come to share problems common to international financial markets, such as a reduction in market liquidity. Moreover, because diverse currencies are traded by global players, the foreign exchange market is not immune to global proliferation of dysfunctions in financial markets.

Reductions in liquidity in foreign exchange markets, including in the foreign exchange swap market, raise several important issues relating to the restoration of market functions.

As a background to our discussion, it would be useful to have a

better understanding of the supports and stresses created by the growing new players and the evolving trading methods. It would also be helpful to review, in the context of the resiliency of market functions, the stresses related to broking and market making, which are essential elements of the market. We would also like to hear views concerning the impacts of U.S. dollar funding operations by central banks, including Bank of Japan, on the foreign exchange swap market.

Settlement issues are no less important. In order to maintain resiliency even under stressful conditions, it is now all the more important to promote a reduction in the settlement risk of foreign exchange transactions of major currencies and emerging currencies.

It is not easy to discuss comprehensive issues about solutions to the current financial turmoil when complex problems are still plaguing global financial markets. Nevertheless, starting our discussion at this meeting may well be an important step towards identifying issues that should be collectively addressed and designing effective measures for the future.

## **Conclusion**

In conclusion, we sincerely hope that the Tokyo meeting today will help participants better manage the foreign exchange market in the future and provide opportunities for a frank exchange of views.

Thank you very much for your attention.

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## (Attachment) Program

### Opening Remarks (9:00-9:15)

Mr. Akinari Horii, Assistant Governor, Bank of Japan

### Panel I. Challenges Facing the Tokyo FX Market: Its Role in Asia (9:15-10:45)

Mr. John F. Vail, Chief Global Strategist, Nikko Asset Management Co., Ltd.

Mr. Yoichi Shimoyama, Head of Treasury and Foreign Exchange, Treasurer Office, Mitsubishi Corporation

Mr. Koichi Kubo, General Manager, Forex Division, Mizuho Corporate Bank, Ltd.

(Deputy Chairman of the Tokyo Foreign Exchange Market Committee)

Mr. Steve Rinoie, Head of Currency Business-Japan, JPMorgan Chase Bank, N.A.

Mr. Andrew Ng, Head of Treasury and Markets, DBS Bank Ltd

Mr. Hiroshi Nakaso, Director-General, Financial Markets Department,

Bank of Japan <Moderator>

### Panel II. Measures Taken by Global FX Committees (11:00-12:15)

Singapore: Mr. Andrew Ng, Head of Treasury and Markets, DBS Bank Ltd

Sydney: Mr. Paul Verschuier, Managing Director,

Foreign Exchange and Commodities, Westpac Institutional Bank

Toronto: Mr. Rob Ogrodnick, Senior Analyst, Financial Markets Department, Bank of Canada

Frankfurt: Mr. Rene Steenhardt, Global Head of Operations, Rabobank International

Hong Kong: Mr. Stephen Ng, Chief Operations Officer, Treasury Markets Association(Hong Kong)

New York: Mr. Alejandro Latorre, Director, Global Markets, Federal Reserve Bank of New York

London: Mr. Derrick Pearson, Head of Trading and Sales Support, Lloyds TSB Bank plc

Tokyo: Mr. Satoshi Inoue, General Manager, Global Markets Sales and Trading Division, Bank of Tokyo-Mitsubishi UFJ (Chairman of the Tokyo Foreign Exchange Market Committee)

<Moderator>

**Panel III. Business Continuity Plan (BCP): Issues to Be Addressed regarding Market-Wide BCPs(13:15-14:35)**

Mr. Kiyoshi Morofushi, General Manager, Asia Pacific, CLS UK Intermediate Holdings Ltd.  
Mr. Koichi Takenaka, Deputy General Manager, Forex Division, Mizuho Corporate Bank, Ltd.  
(Member of Sub-Committee of BCP, Tokyo Foreign Exchange Market Committee)  
Mr. Derrick Pearson, Head of Trading and Sales Support, Lloyds TSB Bank plc  
Mr. Hiroyasu Sato, Director, Deputy Head of Business Continuity Section,  
Payment and Settlement Systems Department, Bank of Japan  
Mr. Hidetsugu Chida, Head of Market Infrastructure and Operations Planning Section, Financial Markets Department, Bank of Japan

**Panel IV. Asian Currency Trading: The Prospects of Trading in the Tokyo FX Market (14:35-15:55)**

Ms. Atsuko Murakami, General Manager, Finance Planning Department,  
Sony Corporation  
Mr. Kosuke Hanao, Head of FX Sales,  
The Hong Kong and Shanghai Banking Corporation Limited  
Mr. Katsunori Tanizaki, General Manager, Trading Department,  
Sumitomo Mitsui Banking Corporation  
Mr. Stephen Ng, Chief Operations Officer, Treasury Markets Association  
(Hong Kong)  
Tetsuya Inoue, Mr., Associate Director-General, International Financial Markets, Financial Markets Department, Bank of Japan<Moderator>

**Panel V. Trading Platforms for FX: Diversification of Participants and Resilience of Functions (16:10-17:30)**

Mr. Drew Bradford, Managing Director,  
Global Finance and Foreign Exchange, Deutsche Securities Inc.  
Mr. Tadahiko Nashimoto, Director, Barclays Bank PLC  
(Deputy Chairman of Tokyo Foreign Exchange Market Committee)  
Mr. Todd Miller, Head of Foreign Exchange-Asia, Morgan Stanley  
Mr. Kazuhiro Ooki, Regional Sales Manager, ICAP EBS  
Mr. Clifford Lewis, Chief Executive Officer, Currenex

**Concluding Remarks (17:30-17:45)**

Mr. Satoshi Inoue, General Manager,  
Global Markets Sales and Trading Division, Bank of Tokyo-Mitsubishi  
UFJ

(Chairman of the Tokyo Foreign Exchange Market Committee)

Tetsuya Inoue, Mr., Associate Director-General, International Financial  
Markets, Financial Markets Department, Bank of Japan