



MESSAGE FROM THE PRESIDENT



“ACI is increasing efforts to certify our industry and is improving our education database”

**Dear ACI Members
Dear Readers**

The past year was again full of challenges for all of us. I remember how hectic the days were in November and December 2008 after Lehman collapsed, when money market traders were seeking liquidity for their banks and just trying to keep the markets going – at the time we were happy to keep things going to the year’s end. One year on, and there

are signs that the worst of the crisis might be over. The money supply has grown considerably in the past few months and central banks which were providing the financial system with fresh capital through low interest rates, are seeking and discussing exit strategies. Some central banks have already raised interest

rates, which probably further indicates a turnaround in the market’s fortunes.

Nevertheless, 2010 will still be challenging (stay tuned) for all of us; Trader, Risk Manager – anyone involved in the industry – as well as for all ACI representatives, locally, regionally and at international level. Together we will be called upon to address market and policy events and to react accordingly.

ACI – The Financial Markets Association was, and still is, carefully monitoring developments throughout the crisis and over the last year has increased its efforts and contacts with the world’s central banks and monetary authorities. I think I can describe 2009 as a year of fact finding, but also a *tour de raison* of ACI.

ACI has trimmed itself fit for the new environment by strengthening the regions (our four blocks: Asia, Europe, Middle East & Africa and Americas). On the education side, ACI is increasing efforts to certify our industry and is improving our education database, strengthening our cooperation with FSFM, the Frankfurt School of Finance and Management, and has also entered into a new cooperation with the SMU, the Singapore Management University in the Asian Region. We have also continued to inform our members through our delivery of daily market top stories – both regulatory and market themed – via

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our web page.

ACI's public mission started with the *tour de raison*, which also can be called *From Paris to Paris*. Starting in Paris in January with a visit to the Banque de France, meeting the Deputy Governor Jean-Paul Redouin, we finished the year by meeting, again in Paris, Jacques de Larosière, the "grey eminence" in the economic-policy world, being the Chairman of the high-level group on financial supervision in Europe. In between were meetings and talks with Banca d'Italia, the South African Reserve Bank, Central Bank of Turkey, the European Central Bank, Bank of Japan, Central Bank of Qatar, Central Bank of Bahrain, National Bank of Austria, Danmarks Nationalbank, National Bank of Belarus, Central Bank of Syria, Banque du Liban, Austrian Ministry of Finance and on occasion, at different ACI meetings, with representatives from the central banks of Sweden, Portugal, Germany and Switzerland.

We had an excellent Congress in Cape Town, ACI was also in Beijing after being invited to the China International Capital Market Forum and we were observers at the EUROFI meeting in Goteborg.

This is a very busy schedule and we will continue to increase our level of interaction with the world's monetary authorities in 2010.

As we look ahead to 2010, many issues need to be addressed. Our industry remains in the headlines over bonus payments; recently politicians have re-discovered a potential source of funding via a financial transaction tax on trades, and want to curb speculation. We need to ensure that our industry communicates effectively and positively with the media. We need to define what is appropriate reporting and what is merely scare-mongering.

All of this means that for ACI there will be a lot to do in 2010 and your representatives are prepared to take on these challenges and try to help shape the future of our industry. The 49th ACI International Congress will take place in Sydney (25 – 28 March 2010) and will provide excellent opportunity for networking. We shall have a lot discuss together and I encourage you to register, take the early bird bonus if possible – valid until 8 January 2010! – www.acicongress2010.com.

On behalf of ACI'S Executive Board,
We wish you festive days and serenity throughout the coming year.

Manfred Wiebogen
President ACI – The Financial Markets Association

SYDNEY 2010

SYDNEY GEARS UP FOR ACI CONGRESS

Registrations are now open for the 49th ACI World Congress and ACI Australia is promising an ACI Congress with a difference when it hosts the event in Sydney from March 25-29 2010. The Congress has attracted platinum sponsorship from three of Australia's domestic banks, ANZ, Commonwealth Bank and Westpac, as well as HSBC Australia.

In recognition of the evolution of Australian markets, the opening ceremony on March 25 will be addressed by Paul Keating, former Prime Minister of Australia and the nation's Treasurer responsible for the floating of the Australian dollar and the granting of banking licenses to foreign banks in the early 1980s. Keating will set the scene for two lively days of debate by offering a perspective on where Australasian markets have come from in the last 25-30 years.

The business programme on March 26 follows up the opening ceremony by offering a current perspective on financial markets and economic conditions through a keynote address from Glenn Stevens, Governor of the Reserve Bank of Australia.

The first panel of the business session will focus on the future of the trading business. This will incorporate a look at the traditional fixed income model as well as the opportunities in new markets such as carbon trading, water and other commodities. Confirmed speakers; Shayne Elliot, Head of ANZ's Institutional Division, Ian Saines, Group Executive, Institutional Banking and Markets at Commonwealth Bank, Tony Cripps,



Head of Global Banking and Markets at HSBC Australia, and Rob Whitfield, Group Executive of Westpac Institutional Bank, will offer their perspectives.

In keeping with the wide-ranging theme of the Congress, a keynote address follows the first panel with Dr Megan Clark, Chief Executive of Australia's Commonwealth Scientific and Industrial Research Organisation (CSIRO), who will discuss Climate Change – Where Science Meets Markets.

For the first time an ACI Congress will include a full buy side

panel as a group of global investors come together to discuss the challenges and opportunities facing their businesses, as well as the evolving industry landscape and the range of styles evident in the asset management world from discretionary to systematic and from long term to high frequency trading. This investor panel, will feature Leda Braga, Head of Quantitative Trading at BlueCrest Capital Management in London, Tony Kaiser, Managing Director of Kaiser Trading in Melbourne and Erik Lehtis, Head of Foreign Exchange at Wolverine Trading in Chicago.

A panel of global asset managers will follow the investor panel, bringing their unique perspective on the financial markets to delegates. Together, the afternoon will offer delegates the opportunity to hear from, and mix with, their clients.

In keeping with ACI – The Financial Markets Association’s mission to fully engage global regulators in the evolving regulatory environment, ACI Australia will kick off Saturday’s events with a panel featuring four global oversight organisations. Brian Sack, Head of the Markets Group at the Federal Reserve Bank of New York, will open proceedings with a keynote address and will be followed by a panel which will look at the evolving regulatory environment from a global and regional perspective. Confirmed panellists are Tony D’Aloisio, Chairman of the Australian Securities and Investments Commission, Lyndon Nelson, Director of the Risk Management division at the UK’s Financial Services Authority, and Eddie Yue, Deputy Chief Executive of the Hong Kong Monetary Authority. The Congress business sessions close out with what promises to be another first for an ACI Congress, the ACI Forum. Details are being kept quiet at this stage, but organisers stress that it will be a one of a kind discussion which will embrace the latest technology changes, as well as address the key issues facing the industry at the time.

“The financial markets are facing a number of challenges as we

come out of the global financial crisis and it is more important than ever to keep up to date with events and to discuss those events with our peers,” says Jack Richards, Chairman of the Organising Committee, ACI 2010 World Congress. “By fully incorporating the buy side, technology firms, banks and the regulators into our panel discussions we are breaking new ground for ACI congresses and hope to build delegates’ understanding of the key issues facing our industry.” Network Events. In keeping with one of the core values of ACI – The Financial Markets Association, the ability to meet new and old business acquaintances and friends, ACI Australia has developed an extensive social programme which will showcase Sydney as well as offer outstanding networking opportunities. Alongside the Opening Address by Paul Keating, a welcome reception in the Congress exhibition hall will offer exhibitors an early chance to show off their wares and discuss trends with delegates – following that a welcome event will take place for delegates at Doltone House on Sydney’s Darling Harbour.

After the extensive business sessions on Friday, delegates can unwind with a spectacular evening aboard the Sydney Starship – which will spend the evening showing those onboard the spectacular Sydney Harbour. Saturday evening is the traditional Gala Dinner, at which the ACI flag will be handed over the Hungary for 2011.

Typically, the Saturday evening event closes out the Congress, however ACI Australia has revived a tradition from when it last hosted ACI world and regional events – a Sunday morning brunch. The brunch, in Darling Harbour, will offer one last chance for delegates to cement relationships, and make plans for Hungary 2011.

Details of how to attend, accompanying partner tours and a whole range of information including pre- and post-Congress tour options, can be found from the Congress website, www.acicongress2010.com.

INSIDE ACI

ACI ATTENDS EUROFI FINANCIAL FORUM



Philippe Jeanne Jaques de Larosière Manfred Wiebogen
... at an informal meeting in Paris December 9, 2009

European leaders have called for measures to improve the equality and consistency of supervision to ensure more effective rulemaking and enforcement, and better identify risks in the financial system. In doing so, Europe is clearly seeking ways to improve financial stability within its markets.

The EUROFI Financial Forum 2009 took place 29 September – 1 October in Göteborg, Sweden ahead of the Eurogroup and the informal ECOFIN Council Meeting. 100 distinguished speakers offered a unique opportunity to industry and political decision makers to clarify the main regulatory measures and the changes required. Some 700 delegates from the financial industry participated at the symposium.

“After EU commitments of €3 trillion in guarantees and €310bn to recapitalise banks, stress indicators suggest a return



to more normal conditions,” said John Berrigan, Head of Unit Financial Sector Analysis, Director General Economic and Financial Affairs, European Commission. “The risk of global meltdown has been averted and the acute phase of the crisis is over, but it would be a mistake to say the crisis is over.”

“On credit rating agencies, the EU has already adopted regulation that will subject credit rating agencies to mandatory registration and oversight, to increase transparency and reduce conflicts of interest in the rating process,” Jean-Claude Trichet, President of the European Central Bank added.

Trichet further highlighted three areas where the EU has been frontrunner – credit rating agencies, hedge funds and compensation practices. “Authorities will not always come to rescue banks (size does not matter) – next years will be less competitive in the banking sector building and we have to deliver a much more resilience system the years ahead,” he observed.

“We have learnt that this is a truly global crisis and the answers have to be developed on a global scale. No one state – or even the EU on its own – can deal with this,” said Wolf Kniz, MEP, European Parliament.

An overview of the main discussions can be taken from www.eurofi.net.

ACI’s reflection of the symposium in short is:

- There is a need of a **new institutional framework for financial supervision** at EU level
- **ESRB – European System Risk Board**
 - With a need to move from micro to more macro supervision
 - To monitor and assess the risks to the stability of the financial system as a whole
 - With early warning of systemic risk and presentation of recommendations for action to deal with these risks
- **ESFS – European System of Financial Supervisors**
 - The ESFS consisting of a network of national financial supervisors working with the ESAs – European Supervisory Authority (for banking, securities and insurance and occupational pensions)
- **Colleges of Supervisors:** Axel Weber, Governor Deutsche Bundesbank, declared it as a ‘cornerstone of better coordination and cooperation - whereof the CRD (Capital Requirements Directive) gives supervisory colleges a legal basis in the EU’.

Some of the critical remarks made during the symposium were:

- the recent crisis reflected excessive leverage and risk appetite; was facilitated by the combination of an extended period of unusually low interest rates and a large global imbalances (all by Jaime Caruana, General Manager at Bank for International Settlements)
- total evaporation of liquidity in the markets for complex instruments
- securitised products must be much more transparent concerning the structure, the underlying instruments on which they are based and the data and models used by credit rating agencies (by Malcolm Knight, Vice Chairman Deutsche Bank Global Group)

The following keywords were highlighted during the symposium:

- the markets need transparency
- governance and education
- investor protection
- but also we can’t regulate everything
- we need international rules, we need one definition of rules, we are moving to a universal system of rules
- increase of capital on banks trading books
- there is a need for more capital requirement
- lessons learnt: even the fail of a small bank (not systemic one) can cause huge problems to the financial system
- the society has the right to demand stress tests – why not making them public
- We have to restart securitisation or the banks balance sheet have to grow enormously
- Covered bonds in Scandinavia were liquid during the crisis, because of extremely standardisation
- The state intervention should have a price, if not they are destroying competitiveness.
- P&L income: some ‘mono-liners’ went bankrupt => therefore diversification
- We need more ‘patient capital’ – the risk is to be qualified on quarterly results

ACI met December 9th with the man tasked with fixing Europe’s financial supervision in Paris. ACI President Manfred Wiebogen, ACI Europe President Jean Philippe and ACI’s Managing Director Jean-Pierre Ravisé discussed with Jacques de Larosière the financial markets, presented and explained ACI – The Financial Markets Association and also offered additional assistance in its aim to provide value to the financial markets.

Jacques de Larosière is the “grey eminence” in the economic policy world today. Born in 1929 in Paris, he “is called in when political and economic problems are deemed either intractable or scary”, according to Tom Judd.

José Manuel Barroso, the president of the European Commission, tapped the Frenchman to chair his high-level group on financial supervision. His experience is incredible. Amongst many other posts of political and financial influence he was the Managing Director of the International Monetary Fund, Governor of the Banque de France and President of the European Bank of Reconstruction and Development. Currently he is the Chairman of the high-level group on financial supervision.



Eurofi is a European think tank dedicated to financial services, with the aim of helping to build a fluid, efficient and secure EU Single Capital Market.

Eurofi addresses prospective regulatory or industry driven subjects, as well as contentious issues which are currently debated at EU level or are particular interest to EU industry

ACI'S PRESIDENT ON FACT-FINDING MISSION TO CHINA

At the invitation of the China International Capital Markets Forum, organised by the Securities Association of China, ACI's President, Manfred Wiebogen, attended and spoke at the event on November 6, at the Westin Beijing.

The event has proven itself one of the premier forums in capital markets in China and was the room was once again full with 450 executives from financial institutions, listed companies and the media. Wiebogen delivered a presentation on Foreign Exchange Reserves: Policy and its Challenges, which was very well received. Taking into account the enormous volumes of currency reserves held by China, the topic was of great interest to the audience.

He further participated in a panel discussion on Global Fund

Asset Allocation. "The audience is incredibly observant and listens carefully to every word," Wiebogen says.

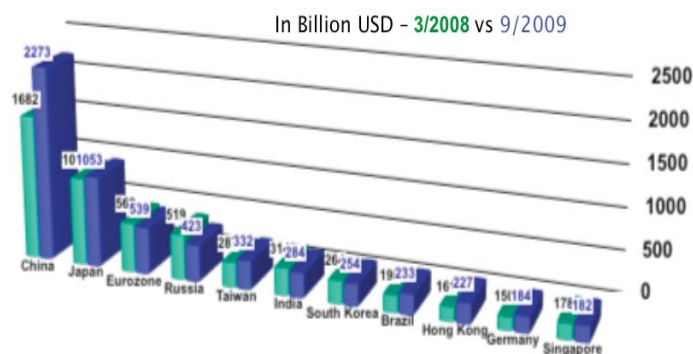
In collaboration with ACI Asia, the President also paid a visit to the National Association of Financial Market Institutional Investors, whose almost 900 members mainly come from banks and companies. It is a self-regulatory organisation which covers FX and bond markets, among other asset classes, and plays a central role in developing the local economy in China. It is highly appreciated by the Peoples' Bank of China, but remains a nascent organisation, being formed in 2007.

NAFMII showed great interest in ACI's Model Code and our education programme, thus ACI will maintain close contact with the association going forward.

CHINA CURRENCY RESERVES – Time to realise the changes in the world

On July 15th, 2009 the People's Bank of China announced China's foreign exchange reserves had reached \$2.132 trillion – making it by far the largest holder of foreign exchange reserves and the first time a country had surpassed the \$2 trillion benchmark.

Currency Reserves by Country in comparison 3/2008 - 9/2009:

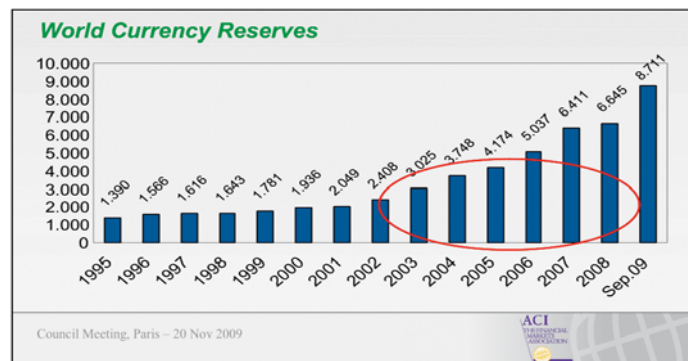


The above graph shows Asian strength as currency reserves holders within the top 10. This picture underlines the superlative position of China as the by far biggest currency reserves holder. Even in times of world economic and financial crisis China managed an increase of 35% in its reserves during the past 18 months and even shows an increase of some 49% since the end of 2007 in comparison to September 2009.

1995	2000	2004	2007	9/2009
75,4 bn	165,6 bn	609,9 bn	1.528,2 bn	2.272,6 bn
Development of China Currency Reserves in USD			+151% vs 2004	+49% vs 2007

China counts now for some \$2.273 billion in currency reserves as of September 2009. This volume is more than 12 times bigger than that of Germany (which is the number one ranked among Western countries) – and last year China's growth was almost 10 times that of Germany! China on its own holds more than 26% of the world's foreign exchange reserves reported by countries, followed by Japan, which accounts for some 12%.

The graph below shows a summary of all reported currency reserves held by central banks or other authorities. For quite a long period, reserves were maintained at a stable level of approximately \$1.5 trillion in the early 1990's. This stability only changed in the wake of the Asian crisis of 1997/1998, when central banks around the world began to accumulate massive currency reserves. Between 2001 and 2008, global currency reserves literally exploded from around \$2 trillion in 2001 to approximately \$6.7 trillion in 2008 – an increase of 235%.



The reasons for this strong growth might be explained by the Asian crisis in the late 90's which encouraged Central banks to accumulate currency reserves; the rise in oil prices during recent years, which increased revenues in petrodollars; strong world wide demand in general in other commodities; and the Chinese example of a very strong export-orientated economy, leading to a flood of mainly dollars into the country. Foreign Exchange and Money Market are the origin of our association. The dramatic increase of FX reserves over the years held by the central banks may have an impact on our FX markets, but so too could the increased amounts executed daily. ACI – The Financial Markets Association will continue to monitor developments in the markets and will keep its members updated.

35TH INTERARAB CAMBIST ASSOCIATION CONGRESS

– Beirut, 22-25 October 2009

“A place that treasurers bonds”

The 35th ICA Congress was held at the Hotel InterContinental Phoenicia Beirut from 22-25 October, 2009. This event brought together 545 delegates and guests and 32 exhibitors from around the globe. It was a perfect forum to ameliorate existing friendships and develop new ones in ‘A Place that Treasures Bonds’.



Opening Ceremony

The kick-off of the business sessions came after the official inauguration of the exhibition hosting 20 banks, financial institutions and service providers. As for the working panels, speakers shared their views and expertise with the audience through their presentations centred on ‘Global and Regional Economic Outlook’, ‘Currencies, Interest rates and Commodities strategies’ and ‘Surviving in an Uncertain Environment’. Attendees resumed networking during business lunches held on Friday (Oct 23) and Saturday (Oct 24).



Mr. N. Khoneisser, President ACI Lebanon

Evening dinners were designed to entertain Congress attendees in the Lebanese way. Saturday evening witnessed the hand-over of the ICA flag from ACI Lebanon to Mr. Abdullah Al-Ahmadi, new ICA Chairman who will chair the Organising Committee of the 36th ICA Congress – Istanbul 2010.



ACI Stand – N. v. Drenth & A. Emser

Prior to the Congress, ICA’s Executive and Administrative committees convened on October 22 for their annual meetings. New members of ICA’s Executive were elected as follows:

- Abdullah Al-Ahmadi (KSA), Chairman
- Amr Bahaa (Egypt), Vice Chairman
- Chakib Erquizi (Morocco), General Secretary
- Mu’taz Barbour (Jordan), Treasurer
- Nakhle Khoneisser (Lebanon), Ass. General Secretary



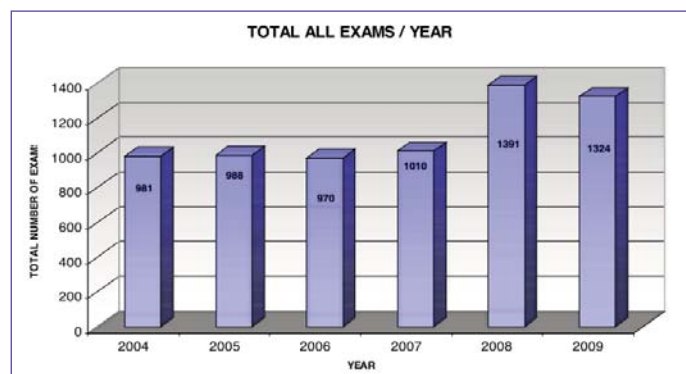
M. Wiebogen, President ACI International congratulates Mr. Abdulla Al-Ahmadi, the new ICA Chairman

ACI EDUCATION IN 2009

The global financial crisis was a dominant theme in 2009 but it did not adversely affect the ACI education programme.

Although statistics show the number of exam-takers decreased for the ACI Dealing Certificate, the total numbers of exams taken nearly equalled the 2008 figure, due to an increase in the numbers for the ACI Operations Certificate and the new ACI Diploma. In particular, the re-launch of the ACI Diploma in English and German led to a near 50% increase in Diploma exam numbers.

The implementation of a new exam appeal process and appeal committee as well as the enrolment of new training bodies have added to the quality of our education programme. The recognition of our ACI Operations Certificate by the UK-based Securities Institute and the formal recognition of the ACI Deal-



ing and Operations Certificate by the Central Bank of Sri Lanka exemplify the potential of ACI exams to become a global benchmark.

Setting global standards and certifying for the financial industry are our key goals. In 2010 our strategic focus is to integrate and build on the market expertise of our association as well as to achieve broader recognition of our exams. The collaboration

with regional and local education partners like the SMU will help us empower training and promote learning opportunities. The co-operation with our global academic partner the Frankfurt School of Finance & Management has turned out to be of great value for ACI and it has led to very positive results in the areas of quality assurance, education management and reputational enhancement.

THE NEED FOR CLARITY ON ORDERS

For as long as the foreign exchange market has existed there have probably been disputes emanating from the use of take profit and, in particular, stop loss orders. The problem has eased to an extent over the past few years as greater transparency and wider acceptance of what is an acceptable amount or number of trades executed at a particular rate, has clarified issues, however ACI's Committee for Professionalism continues to be asked to advice on individual issues surrounding stop orders. The key issue is that the various types of orders can have different conditions that will trigger them and varying ramifications for any slippage likely to be incurred or the level of discretion that is implied. Solving this issue requires a clear understanding of these conditions and ramifications between the two parties – these should be stressed and accepted by both parties before an order can go live.

This means that the conditions should be explicitly identified, specifying any time validity or any other constraints agreed by the two parties – and these conditions must be within management criteria on such orders.

Clearly, the over-riding requirement when leaving or accepting stop orders, is that there is no room for misunderstanding between the two parties as to the term under which the order is placed and accepted. Clarity of communication is critical to this process, as is a fully-transparent procedure within both parties. To avoid unnecessary disputes, further clarity is required when accepting orders, for example, does “one touch” require a minimum amount to be traded at the level and does it have to be on a public trading venue it can it be on the accepting party's trad-

ing desk? If the client asks for the order to be executed at “all given/taken”, how many trading venues are required to have executed a trade at the order level before “all” can be quantified. Equally, does the client have a clear understanding of what “bid/offered stop” means compared to “all given/taken”. Is the market required to be bid or offered at the order level on just one venue for the order to go live?

It is probably also wise for the executing institution to clarify the client's wishes regarding a bid/offered stop. For example, is it better for the bank to execute a buy order at the offered rate once the market goes bid at the order level, or should the bank strive to improve the client's execution by bidding the middle of the market. It should be noted that while the market can go bid/offered at the order rate, there may be difficulties if the executing institution bids or offers at the order rate because that could be construed in some quarters as the order being “forced”.

ACI's CFP stresses the need for clarity and preciseness when accepting and placing orders. Specifically the more conditions that can be met by both parties to the order, the less chance there is for dispute, this is especially true in “fast” markets. These recommendations should be adhered to whether an order is placed manually with a trader or salesperson, or if the order is placed on an order management system that is part of a bank's trading platform. If the latter does not meet the conditions of the order, i.e. if the order management system is not flexible enough, the order should be placed with a trader/salesperson.

BULGARIA WELCOMED TO ACI

At the latest Council meeting of ACI – The Financial Markets Association, ACI Bulgaria was formally accepted as the 63rd National Association to affiliate.

ACI Bulgaria has the strong support of its central bank and bankers association and joins ACI with 130 members.

“The affiliation of ACI Bulgaria to our international financial markets association provides a huge opportunity to help the development of an emerging country in this difficult market environment,” says Manfred Wiebogen, President of ACI – The Financial Markets Association. “ACI Bulgaria will, with ACI International's assistance, promote the moral and ethical standards of ACI's The Model Code, as well as our international traders and back office certification programme to the

local financial markets community.”

Nikolay Kolev has been appointed President of the new National Association, and will be assisted by

Secretary Emil Asparouhov and Treasurer Georgi Kissov.

“I am proud to bring the Bulgarian dealers community closer to the international traders' network,” says Kolev. “Certifying our members by ACI standards will be one of our first tasks. The treasury business is a matter of trust and personal contacts, and ACI's network will help us enormously in these markets.”



A FAREWELL TO SAVIOUR BRIFFA



The President of ACI Malta, Saviour Briffa, retired from work on 3 September 2009 after more than 41 years of continuous service with the Central Bank of Malta. For the last 25 years, Briffa worked within the Financial Markets Division of the Bank and ended his career as the Senior Manager and Head of the Reserve Management Department of the Central Bank.

Briffa was very instrumental in the setting up of ACI Malta in June 1995 when he occupied the position of Secretary. During that time both foreign exchange and also interest rates were not yet liberalised in Malta, and consequently there were only a handful of dealers working with the local banks. This made it very difficult for ACI Malta to get full recognition from ACI in Paris. However, with the full backing of the Central Bank, Briffa organised a number of seminars and workshops for banks' employees who had an interest in becoming dealers.

In January 1998, when the number of dealers and officers working within the dealing environment on the island increased to 50 (at the time that was the minimum number required), ACI Malta was officially affiliated and recognised by ACI International. For that occasion, Briffa accompanied the then President, David Pullicino to Paris to officially represent ACI Malta at the Annual Council meeting.

In 1998 Briffa was appointed President of ACI Malta and had occupied that position to date. During his tenure he attended various Council Meetings and other activities organised by ACI International. The main objective of ACI Malta had always been to be regarded within the business community, media and financial services industry as the leading association representing the interests of the international financial markets, and to actively promote the educational and professional interests of the markets and the industry.

Thanks to Briffa's continuous personal involvement and support, the committee of ACI Malta managed to increase the interest and subsequently membership with ACI Malta. The committee is always proud to say that it organises between five and six activities annually and that these are attended by an average of 85% of its members.

"We cannot forget Mr Briffa's support to promote the ACI Examinations," states ACI Malta. "In fact more than 50% of ACI Malta's annual budget is spent on Education, by inviting foreign experts to run 'crash courses' ahead of the examinations. In fact, in the last five years there is a very good number of members who have successfully passed the ACI Certificate and others obtained also the ACI Diploma.

"Finally, we would like to thank Mr Briffa for his full support and commitment towards ACI and wish him a happy retirement."

Saviour Briffa ended his career Head of Reserve Management Central Bank of Malta and as President ACI Malta.

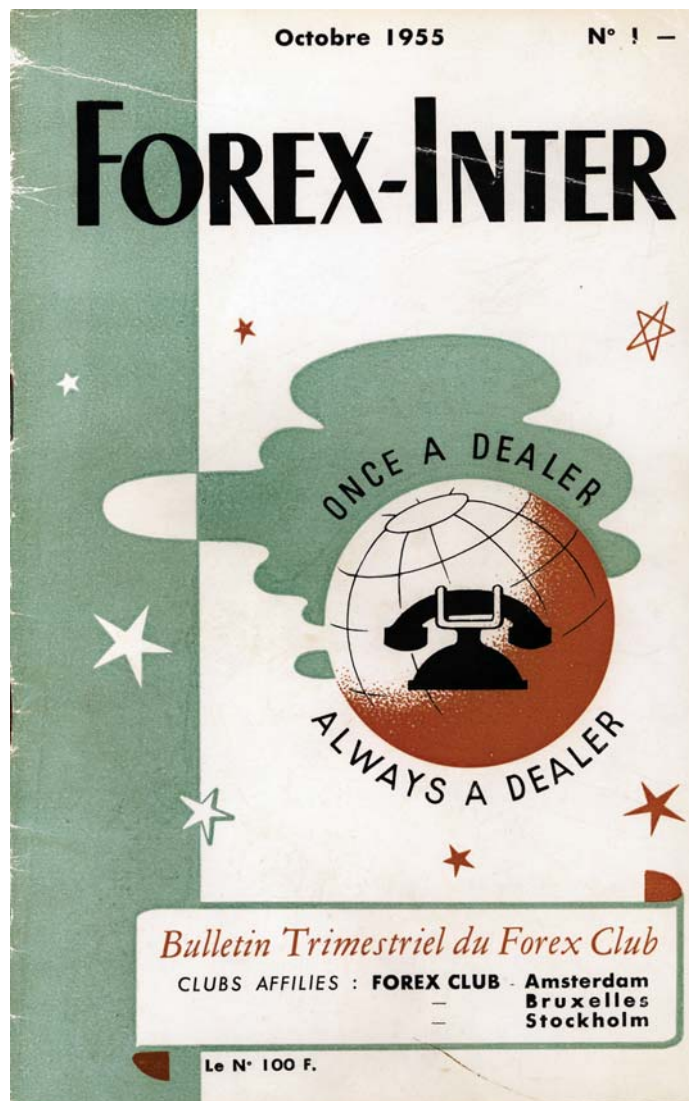
IN MEMORIAM ALBERT MICHEL



It is with great sadness that we report the passing of Albert Michel, who dies on November 24 at 83 years old. Albert was a longstanding member of ACI France and was bestowed with the honour of being an ACI Honorary Member at his retirement.

Albert was a key element of the Associations' development being Editor of FOREX INTER magazine, the forerunner to ACI Briefing. Albert held this position from 1966 to 1981.

Our condolences go to his family and many friends.



Financial Transaction Tax THE SCARECROW



Florin Aftalion
Emeritus Professor at
ESSEC Business School, Paris

In 1972, James Tobin, an American economist, imagined taxing every foreign exchange transaction. He thought this would slow speculation on currencies down. But the world has become more complex since then, and Tobin broke away from those who use his name with reference to a tax that became absurd, anti-economic and hard to apply. However, other economists, most of them close to the American Democrats (Stiglitz and Summers to name two) took the proposal back in their names, as did some French politicians, wanting to show their determination to “fight against capitalism“ from time to time. But until now their attempts to impose such a tax have been ignored.

Things may be changing, however. For the first time, a politico-economic decision maker, Lord Adair Turner, Chairman of the British banking authority, the Financial Services Authority (FSA), recently proposed, with the support of Prime Minister Gordon Brown, the introduction of a Tobin tax. Several heads of state and European governments were quick to lend their support. The objective announced by this assembly of political leaders is to reduce the size of a financial sector, that is overdeveloped in their eyes. By reducing the profits of banks, this would indirectly limit the excessive bonuses that are said to generate unrestrained risk taking. This motive has a few other motives as well: reducing market volatility, collecting a painless tax (low rate, but broad base), and charging banks for the

public help that was given to them during the crisis.

All these reasons are arbitrary or even misleading, especially those related to the crisis. The latter is explained by a chain of events that happen to be very different from those presented to the public: "affordable housing" policies implemented by the US government, excessive creation of mortgage “sub-prime”, sustained under-pricing of short-term Fed rates, the sudden rise of those very rates, the monopoly granted to three rating agencies, and, finally, implementation of financial technology resulting in instruments whose risk is difficult to interpret.

Avoiding a future financial crisis means preventing such a scenario from repeating. A Tobin tax would not contribute to that objective by any means. Neither would it contribute to decreasing the volatility in the markets (as shown by several studies). But a Tobin tax would be expensive for the end users of financial markets: businesses. Contrary to what some believe, the world of finance is not independent from the world of 'real' production. By punishing banks and slowing hedge fund speculation, we could cripple industrial and commercial firms that extensively use financial tools to reduce their costs and risks. If a Tobin tax was ever applied to over the counter transactions, its financial implications would be heavier than its proponents expect. Indeed, one has to know that on these markets each operator acts as a market maker. They must give a price whenever this is requested, and then, if necessary, execute the trade with the counterparty. Of course, this creates a position which has to be hedged, so another trade is executed with another counterparty, and so on and so forth. Studies show that on the foreign exchange market, each autonomous trade generates about ten further trades. This would increase the cost of the tax tenfold! In addition, markets would lose some of their liquidity. Fortunately, preventing financial centres from migrating to countries that do not impose a Tobin tax would require the entire planet to be forced to adopt such a tax. This seems unlikely in the foreseeable future.

Florin Aftalion, Emeritus Professor at ESSEC Business School

ACI is concerned about the recent political developments and many of the unqualified comments on this issue.

The global financial crisis has revived the discussion on a financial transaction tax as a means of discouraging international currency speculation, help shrink ‘a swollen financial sector’ and perhaps simply to raise funds as an international (or national) source of revenue. One of the main arguments for such a tax is the debacle of the past two years in the financial markets. But ACI argues that the supporters of the Tobin Tax are showing a misunderstanding of the various financial instruments and markets. Many arguments are influenced by the enormous volumes traded in the daily FX markets. The truth is, the money markets and foreign exchange markets did trigger the current financial crisis and aren't guilty in any aspect for it. To further explain ACI's position, figures estimated by ACI show that a 0.1% transaction tax at daily global FX traded volume of USD 3.2 trillion could equal USD 3.2 billion a day – (or just half the amount by a reduced rate of 0.05%).

	Daily traded volume in US-\$	0.1% transaction tax revenue
Global FX	3,200 bn	\$ 3,200,000,000
OTC IR	1,350 bn	\$ 1,350,000,000
US Treasuries	675 bn	\$ 675,000,000
US Equities	105 bn	\$ 105,000,000
EMEA Equities	70 bn	\$ 70,000,000
		\$ 5,400,000,000 / day

Source: BIS report

ACI The Financial Markets Association is calling for more rational and responsible discussions about financial markets and taxation. What the markets need now is trust! However we have to face the truth and understand that is a problem – trust was lost on September 15 2008, when Lehman Brothers was allowed to collapse. A new tax will not bring back trust. ACI (www.aciforex.org) would be more than happy to obtain your point of view. Should you have any comments or proposals on this topic you can contact managingdirector@aciforex.org.

DERIVATIVES MARKET BUILDS ON EFFICIENCY

Fifteen of the biggest derivatives dealers have committed to route nearly all interest rate and credit derivatives transactions through clearinghouses by the end of the year in a step towards reducing risk in over-the-counter markets. At the same time, the volume of business in the CDS market shrunk by 19% as dealers tore up offsetting trades and ICE launched a trade date clearing service of for the buy side.

In a letter to the Federal Reserve Bank of New York the dealers set targets both for submitting new trades to central counterparties (CCPs) and for clearing historical trades.

Calling themselves the G15, the dealers say the moves “will significantly reduce the systemic risk profile of the OTC derivatives market. We have set the initial performance targets as a demonstration of that commitment.”

The dealers say they will collectively clear 80% of all eligible CDS trades beginning next month. Individually, they will submit 95% of the notional value of “new eligible trades” for central clearing.

As for interest rate derivatives, by far the largest OTC segment, the banks will begin clearing in December 70% of new eligible trades and 60% of historical eligible trades. Individually, they will submit 90% of the notional value of new eligible trades by December.

The banks also agreed to begin submitting to regulators monthly reports detailing new transactions and outstanding trades. The Obama administration wants standardised derivatives handled by central counterparties to absorb the losses if one player defaults on trading obligations.

“These targets will push major dealers to accelerate their progress,” New York Fed president William Dudley says. “We also expect them to work with central counterparties to rapidly expand the universe of eligible products and to continue to increase clearing levels beyond these initial targets.”

The commitments follow a June 2, 2009 letter from market participants to regulators in which market participants outlined a series of steps to expand the use of CCPs for OTC derivatives. It continues a process started in 2005.

The commitments came as the Bank for International Settlements released data showing that the notional amount of OTC derivatives trades outstanding bounced back to reach \$605 trillion by the end of June. The figure is up 10% on the previous survey, which was released in May. Despite the rebound in notional recorded in the latest survey, the total market value of trades decreased by 21% to \$25 trillion at the end of June.

In foreign exchange derivatives, increased market activity led notional outstanding to rise 10% to \$49 trillion at the end of June. But the BIS survey reports the total market value of forex derivatives decreased by 31% to \$2.5 trillion, partly reversing the 59% increase in the second half of 2008. This reflects the declines registered by the various FX committees in their semi-annual turnover surveys.

In interest rates, the notional value of trades outstanding increased by 13% to \$437 trillion. Gross market value of trades decreased by 14% to \$15 trillion. According to the BIS, the rise in the notional value of interest rate derivatives was mostly due to trades with a maturity of more than five years.

The survey also reports the notional outstanding value of interest rate options grew 18% to \$49 trillion, but gross market val-

ues declined 2%. The amounts of outstanding forward rate agreements (FRAs) went up by 34% to \$47 trillion, while gross market values declined 7% to \$130 billion.

The outstanding values of credit default swaps (CDS) shrank by 14% to \$36 trillion in the first half of 2009 as confidence began to return to markets, pushing down the costs of taking insurance against default. The data shows that notional amounts outstanding of CDS fell for the second half-year period in succession, but far more slowly than in the second half of 2008. The gross market value of CDS contracts declined 42% due to declines in inter-dealer business and contracts with other financial institutions.

Elsewhere, the notional outstanding value of commodity derivatives contracts stabilised in June 2009 at \$3.7 trillion, after a 71% freefall in the second half of 2008. While gold contracts recovered 28%, to stand at \$0.4 trillion outstanding at the end of June 2009, other commodity derivatives continued to slide, falling 5% to \$3.3 trillion. Gross market values of commodity contracts declined by 17% by the end of June, BIS reports.

Meanwhile, global credit derivative volumes fell 19% to \$31.2

“These targets will push major dealers to accelerate their progress. We also expect them to work with central counterparties to rapidly expand the universe of eligible products”

*William Dudley,
President, Federal Reserve Bank of New York*

trillion in the first half of 2009 as dealers and investors tore up offsetting trades, according to the International Swaps and Derivatives Association.

Over the preceding 12 months, credit derivative notional amounts decreased by 43% from \$54.6 trillion at mid-year 2008, according to the ISDA mid-year market survey of privately negotiated derivatives.

“The reduction in CDS outstanding highlights the great progress made through the industry’s implementation of operational enhancements, in particular through its achievements in portfolio compression,” says Robert Pickel, executive director and CEO, ISDA.

Volumes in interest-rate derivatives rose by 3% in the first half of 2009 to \$414.1 trillion, from \$403.1 trillion at the end of 2008, according to the survey. This compares with a 13% decrease from \$464.7 trillion during the second half of 2008.

Over the preceding 12 months, IRDs, which include interest rate swaps and options and cross-currency swaps, decreased by 11% from \$464.7 trillion in mid-2008.

Volumes in equity derivatives were relatively unchanged at \$8.8 trillion, ISDA says.

The notional amounts, which total \$454.1 trillion across asset classes, are an approximate measure of derivatives activity, and reflect both new transactions and existing transactions.

FX COMMITTEE PAPERS STUDY THE MARKET LANDSCAPE

As the debate over the evolving regulatory environment continues, two of the world's FX committee – the UK's FX Joint Standing Committee (JSC) and the US Foreign Exchange Committee (FXC), have released Working Papers which study the various options available to decision makers.

In its paper, the JSC notes that, "There is a broad consensus that the crisis conditions that prevailed in many parts of the financial system were exacerbated by structural vulnerabilities and limitations within the system itself."

It also adds that work is underway to highlight, and solve, the problems that have been exposed. It warns, however, that this work is a "significant challenge" because the complex and inter-connected nature of the financial markets means that "any changes aimed at addressing specific issues in a given area are likely to have a wider Impact".

The committee stresses what appears to be a widely-held view – that the foreign exchange markets generally functioned well during the crisis, however it adds that "lessons have been learned and there is scope to mitigate risks further".

It also highlights that FX transaction documentation is "generally highly standardised" because the key economic parameters for most FX contracts are widely understood in common, consistent terms, and the legal and contractual framework within which contracts are formed is well established. It does warn, however, that the high degree of standardisation does not imply that contracts are in any way limited. "FX contracts are as infinitely variable as the specific needs of each of the multitude of users of the FX market," the JSC states. "There is still scope for improving standardisation for a small range of products at the margins of the FX market including fixing conventions for cross-currency NDFs/NDOs and confirmation standardisation for some complex exotics."

It concludes that several of the world's FX committees are currently working with ISDA and EMTA to increase standardisation.

In order to highlight the work the FX market is conducting, the JSC paper stresses that to further increase efficiency and control, the industry has a number of initiatives underway to further improve post-trade affirmation and confirmation. It reinforces the point by stressing that as an industry, the FX market has committed to increased transparency for regulators and the expanded use of electronic confirmation solutions. The JSC and its counterpart in the US, the New York Foreign Exchange Committee, have public commitments to increase the ratio of trades that are confirmed or affirmed electronically. By December 31, 2009, the committees have pledged to increase the ratio of NDF transactions covered from 25% to 50%, that of NDOs to 25% from zero and that of barrier options to 10% from zero. The JSC says the market is on course to meet all of these commitments.

A key element of meeting these commitments – and of meeting subsequent increases – is seen by the JSC as engaging the buy side fully in the process. It says that the US committee will create a Buy Side Working Group, which will meet with the major dealers to target increased efficiency. Targets have also been set, specifically to increase the electronic process-

ing of deliverable option and NDFs to 40% of electronically eligible volume.

On the subject of netting, the JSC report states, "Recent experience, and in particular during the market turbulence of the past couple of years, has shown that the mechanism for 'close-out' netting of FX products has been robust, partly because the relatively simple nature of most FX products which has meant that trade portfolios were easy to reconcile and value."

As far as collateral management is concerned, it adds that ISDA and the financial industry are currently reviewing the entire process for bilateral collateralisation to improve efficiency and effectiveness, especially in stress scenarios.

The main areas being addressed include:

- Developing standard electronic mechanisms for communicating margin calls and interest payments.
- Achieving more effective and efficient portfolio reconciliation.
- Devising a better, faster process for dispute resolution.

"Although much of this work is focused on solving issues that are more prominent in other asset classes than FX (in particular valuation disputes), the large proportion of FX trading performed within the ISDA CSA framework means that the FX market will certainly be a beneficiary of any improvements that are implemented," the JSC states.

Settlement and Clearing

The paper asserts that arguably the most significant source of systemic risk in the FX market arises from the arrangements used to settle trades. It highlights the successful operation of CLS during the recent financial crisis and stresses that a series of initiatives are currently underway to further extend the use and impact of CLS. These include additional currencies on the system by 2011, the wider use of third party settlement services, the introduction of same day settlement in USD/CAD and the settlement of the "out" leg of "in/out swaps between CLS members. The paper also says that for ineligible currencies, CLS is considering introducing a matching and pre-settlement netting service.

Initiatives are also underway in collateral and credit risk management, the paper reports. These include the strengthening of existing credit risk mitigation tools, the introduction of a central mechanism where participants can multi-laterally "flatten" the bilateral FX delta associated with their FX options portfolios and the introduction of a central clearing counterparty (CCP) mechanism.

On the subject of CCPs, the JSC paper acknowledges the potential benefits such a mechanism can provide, specifically the potential for multi-lateral netting and the reduction of systemic risk levels, however it points out that in the FX space, in spite of being around for many years, "their take up has been limited, even during periods of heightened market stress."

It continues by arguing that "it is important to consider what the key characteristics of a FX CCP would need to be to ensure that

it reduces credit risk while taking into account the specific characteristics of the FX market”.

It views these as:

Coverage: While FX spot and swaps account for the biggest proportion of the daily UK FX market turnover, the benefits of a CCP would arguably be more pronounced in longer-dated currency products such as FX forwards, FX options and in particular cross-currency swaps (although cross-currency swaps are usually considered to be interest rate rather than FX instruments). However, some of these longer-dated products are sometimes less standardised, possibly making them less suitable for CCP clearing. Moreover, a CCP that focuses solely on sub-set of FX products (such as spot or forwards) might have an adverse impact on FX hedging strategies and inadvertently increase individual credit exposures.

CCP participation model: Existing CCPs for other asset classes tend to use a third-party participation model, whereby the clearing members of the CCP can provide third-party clearing services to non-members. There is some concern in the FX community that such a model may lead to an increased concentration of counterparty risk for the core players in the system, who perform the clearing member role, in respect of the large number of non-members.

Links with existing infrastructure: There is a strong desire to reuse as much of the existing infrastructure as possible (e.g. for trading matching, payment routing, settlement etc).

Global nature of FX: Given the global nature of the FX market, a CCP that only clears currency transactions effected within a particular jurisdiction will only be able to capture a portion of any FX product (for example spot USD/GBP can trade out of Europe, Asia or the US depending on the time of day). Were an FX CCP to transcend different jurisdictions and avoid fragmenting the FX market, which would be needed to secure the risk reduction benefits of the CCP, an international regulatory framework would need to be considered to ensure its robustness in times of crisis.

Non-financial companies: for non-financial companies that use FX instruments, introducing a CCP with its associated margin requirements may increase the complexity of hedging their exposures. Furthermore, under certain circumstances it may be that their counterparty risk increases, especially if they can only gain access to the CCP through third parties to whom, out of necessity, they would acquire a credit exposure.

“Given the specificities of the foreign exchange market it may be, therefore, that pursuing the agenda of credit risk reduction mechanisms that stops short of an FX market CCP is more appropriate at this stage,” the paper further states.” The FX market community globally is actively looking at all alternatives including potential commercial CCP offerings being developed by a number of commercial vendors.”

While the launch of the paper has been welcomed in most circles of the FX market, there is also the belief being expressed that this should merely be the start of a fuller process of engagement with the world’s financial authorities and regional

governments. The paper lays out the argument extremely lucidly, and to that end provides a valuable resource. The reinforcement of this process should come, according to several market participants spoken to on this subject, with the appearance of senior FX committee personnel at many of the government hearings being staged around the world. That way, the sources insist, the message that the FX market works well, will be heard loud and clear.

FXC Chips In

A short while after the JSC released its paper, the New York-based FXC released its own study of the evolving market landscape. The paper sees opportunities to “further bolster the strength of the OTC FX market”.

The FXC paper reaches very much the same conclusion as the JSC’s – the FX market functioned well during the crisis and people were able to execute their risk, albeit in thinner market conditions.

The FXC highlights the fact that corporations and investors use the foreign exchange market on a daily basis for non-speculative reasons and states “it is critical for corporations and investors to access a wide range of OTC FX products and to tailor the settlement dates of such products to their business requirements. The flexibility of OTC FX markets and products allows these corporations and investors to manage their risk and their day-to-day business operations, more effectively.”

The paper also highlights some of the functions that served to mitigate risk levels during the crisis, the most obvious being that CLS was available and that following the announcement of the imminent default of Lehman Brothers it “served its stated function”.

The paper adds that over the past two years it has become clear that use of CLS’s services has been “critical to maintaining market integrity and functioning and to preventing further spread of the financial crisis”.

The FXC also observes that a great many FX trades are under one year in term and as such have “relatively less credit risk associated with them”. It adds that the level of transparency and liquidity in the FX markets also helps risk managers to accurately calculate the open exposures within the FX book and as such they can have greater confidence that the collateral posted can cover outstanding exposures.

The exchange of collateral itself is also a risk mitigant and the FXC argues that credit support annexes (CSAs) provide “many” of the risk reducing benefits of a central exchange while maintaining the flexibility of an OTC market. It also make the argument that CSAs are transnational, whereas there could be “practical challenges” associated with a country-specific central counterparty model.

The paper reiterates the commitments to improving operational processes made by the major participants to the US authorities over the past four years and that industry best practices are often cited as a benchmarking tool.

Having highlighted the market’s strengths, the FXC, alongside its Buy Side Sub-Committee, goes on to highlight priorities for the industry that can further bolster its operational strength.

These break down into five key areas. Firstly, the extension of CLS into new currencies, geographies and products - the FXC states that all the largest market-makers should be “encouraged” to become direct members of CLS as long as they

are eligible to do so, and that any large or significant counterparties that indirectly participate in CLS through a member institution should have a collateralised line in place to cover the exposure.

The committee also calls for the use of CSAs to be expanded to include clients that trade FX as an asset class to ensure their speculative or highly-leveraged positions are adequately collateralised. It adds that ongoing efforts to standardise documentation and to improve operational efficiency are critical and must continue to be a priority.

The fourth priority highlighted is actually a message to the authorities. "It is imperative that any efforts to improve the resilience of the marketplace take into account the global and

twenty-four-hour nature of the foreign exchange market," the paper states. "Each foreign exchange transaction involves at least two sovereign currencies. The marketplace itself is spread across a series of liquid trading centres in different time zones and operates twenty-four hours a day, each business day. Absent such consideration of these key characteristics of the foreign exchange market, the potential for negative unintended consequences of any efforts to improve market resiliency is quite large."

The FXC also reiterates a longstanding policy by stressing that the recommendations in the paper are targeted at the wholesale market and that the retail FX market "requires prudent regulation".

NEWS FROM THE ASSOCIATIONS

ACI AUSTRIA CELEBRATES 50 YEARS



above: F. Ramberger, HP – G. Novy, HP – JP Ravisé MD – M. Wiebogen President ACI – A. Bortolotti, Treasurer – F. Gruber, President ACI Austria – P. Fischer, HP – G. de Vids, President Euribor ACI
 right top: Palais Coburg right: Musical: Money Makes the world goes around

In 1959 the Osterreichische Forex Club became the 14th association to affiliate to ACI – The Financial Markets Association, and in October, its successor, ACI Austria, celebrated its 50th anniversary with three days of celebration.

The event kicked off with a VIP dinner in the magnificent surroundings of Vienna’s Palais Coburg. The next day the Association held its General Assembly at the historical Palais Niederosterreich, and was followed by the Gala Dinner at the

Hofburg – the former seat of the Austrian Emperor.

Speeches were delivered by Franz Gruber, President of ACI Austria, Manfred Kunert, former President ACI Austria, and Manfred Wiebogen, President of ACI – The Financial Markets Association. The latter recalled the early days of formation as well as summarised current market issues.

Some 350 delegates, members, honorary members and overseas guests attended the event.

ACI SRI LANKA APPOINTS NEW BOARD

At its recent Annual General Meeting, ACI Sri Lanka members voted the following changes to its Board, and unveiled its education plans for early 2010.

The association says it is planning an ACI Dealing Certificate and ACI Operations Certificate course during the first quarter of 2010.

The new Board has Perry Savundranayagam as President; Prasantha De Silva and P.A. Lionel as Vice Presidents; Haren Obeyesekere as Secretary; Chandhika Liyanage as Treasurer with Tharusha Ekanayake as Assistant Treasurer; and Kasun Pathirage as Assistant Secretary. T Thayalan and Niupan Wijeyanathan were appointed Committee Members.

ACI FRANCE DISCUSSES CHANGE



“What must change, what will change.”



Jacques de Larosière

ACI France AFTB, in association with ICMA France, recently organised a first meeting of professionals from across the debt, credit and foreign exchange markets to discuss the theme; “What must change, what will change”.

A broad section of the financial markets was represented at the event, including corporate treasurers, bankers, fund managers, investors and operations professionals, and the event attracted institutional sponsorship from l’AGEFI, Thomson Reuters, Telekurs, LCH Clearnet, NYSE Euronext, Euroclear and e-Mid.

Attendees heard from several high level speakers from institutions such as the French Ministry of Economy, Industry and

Employment, as well as the Governor of the Banque de France. Debates were organised on various subjects such as Monetary Indices: Weakened or Strengthened by the Crisis? Organised Markets versus OTC: What Role for Clearers? The Evolution of Liquidity on the Secondary Bond Market.

Jacques de Larosière, former IMF President and current participant in the World Market Group in Regulation delivered an address to close the formal proceedings.

The event was followed by a cocktail party to enable participants to continue the debate and to meet in the friendly and prestigious venue of the Maison d’Amérique Latine, located in the centre of Paris.

ACI MEETS IN BELARUS



At the National Bank of Belarus: Jan Lomoz, Thomson Reuters / Dmitry A. Ostanin, NB Belarus / Dr. Vasily S. Matyushevsky, Deputy Chairman of the Board NB Belarus / Manfred Wiebogen, President ACI / Evgene Rasskaya, Thomson Reuters



ACI’s Model Code – available in English (the origin version), German, Italian, Polish, Romanian, Russian, Traditional and Simplified Chinese language – free download from www.aciforex.org

At a joint meeting with Thomson Reuters, ACI – The Financial Markets Association, met with the local banking community in Minsk, Belarus, and also with the National Bank of the Republic of Belarus.

Discussions were held with Vasily Matyushevsky, Deputy Chairman of the Board of the National Bank; Dmitry Ostanin, Treasury Department; and Victor Perepelitsa PhD, from the bank’s Risk Department. Conditions in global, regional and

local markets were a central theme of the discussion, along with the evolving regulatory environment.

ACI also presented on The Model Code and its global education programme, and was followed by Thomson Reuters’ officials, headed by Jan Lomoz, Head of Ukraine and Belarus, who presented on the latest technological developments.

ACI would like to express its appreciation to Magda Bialecka for organising the event.

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- Dr Megan Clark, Chief Executive, CSIRO

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- The Buy Side – ‘Real Money’ Panel
- The Trading Room: A Global Investor Perspective
- Business Session – Regulators
- Evolution or Revolution? The Industry Forum

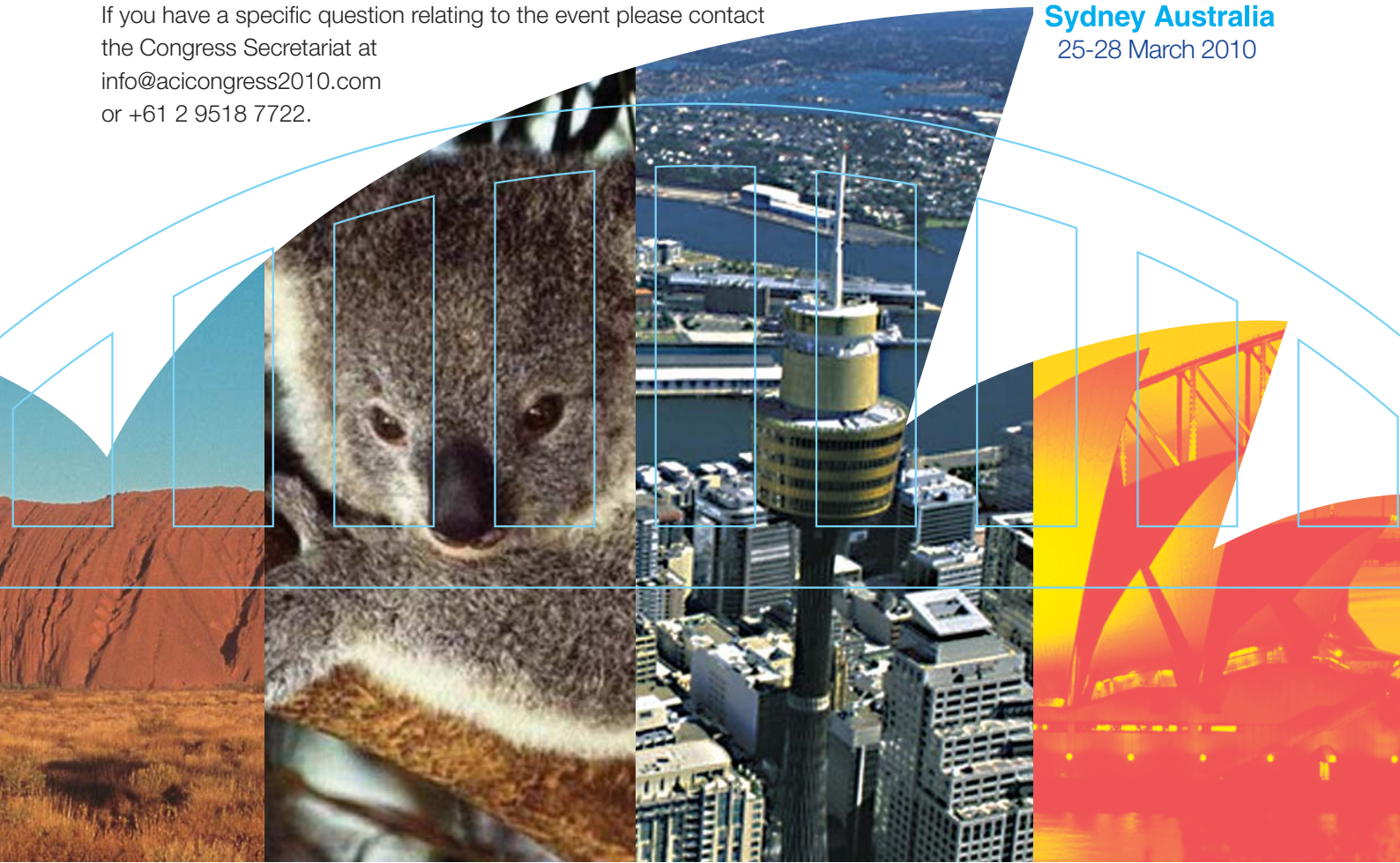
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