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NEWS FROM THE FINANCIAL MARKETS ASSOCIATION

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Contents

Features:

Euribor ACI Group meets EU Commissioner	1
Final BIS Report Confirms Initial Findings	3
ACI Suisse Presents on Risk-Risk	4
ACI UK Prepares for Dealing Simulation Course	5
Gets New President	5
ACI, Telerate to Publish EONIA Swap Index	5
Conference Discusses Future of European Payments System	6
ACI President's First Visit to Russia	5
Every Issue:	
Web Listing	7

JOIN ACI

ACI - The Financial Markets Association is approaching its 50th anniversary and continues to work for its members in more than 66 countries. ACI is widely regarded as the leading association representing the interests of the financial markets and actively promotes the educational and professional interests of the markets and industry through its Board of Education and Committee for Professionalism.

If you would like to become a member of ACI, or are aware of somebody who would, contact ACI at secretariat@aciforex.com or phone +33 1 42 97 51 15 for further details.

Sweden Prepares to See in 50 Years of ACI

History beckons for ACI Sweden from May 26-28 when it not only hosts the 44th ACI World Congress, but also kicks off celebrations for ACI's 50th year of existence. The organisers report a very strong take up of delegate places, with in excess of 550 already signed up to attend, and exhibitor spaces – the exhibition hall is now full.

As one of the original members of the Association Cambiste International, as the organisation was known in 1955, ACI Sweden has a long and rich history. Indeed it was in 1960 – the last time Sweden hosted a World Congress – that Forex Sweden, as it was then

known, presented the original Forex flag (since replaced with the ACI flag) which has been passed from organising association to organising association in one of the most important and symbolic ceremonies of ACI congresses.

To reflect this history, the Association is organising an exhibition of ACI artefacts from its archives. ACI Sweden is also planning to mark the event by providing a history of the past 50 years in the financial markets.

The Congress will be held in and around the city of Stockholm. Congress hotels are all centrally located and the business sessions take place at the very well-appointed

CONTINUES ON PAGE 2 ▶

Euribor ACI EU Working Group Meets European Commissioner

At the initiative of Mr. Enrique Prados del Amo, Chair of the Euribor ACI EU Commission Working Group, a meeting took place on February 28th in Brussels, with the objective of formalising the links between the EU and ACI - The Financial Markets Association.

In the presence of Godfried De Vidts, President of ACI - The Financial Markets Association, and Thierry Cazaux, President of Euribor ACI, the members of the Working Group exchanged ideas with Joaquín Almunia, European Commissioner for Economic and Monetary Affairs, on how and why to increase the collaboration between the EU Commission and ACI.

The respective roles of both ACI and the Euribor ACI working groups were explained to the Commissioner.

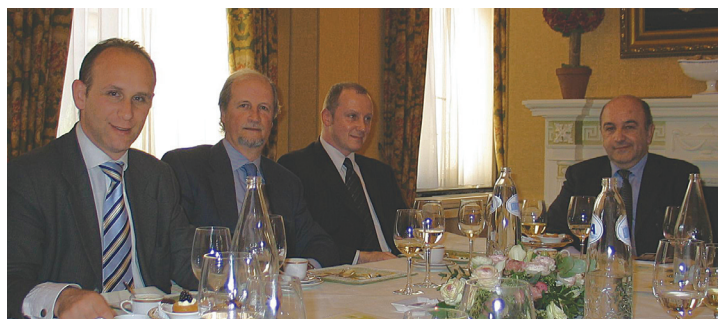
The group also explained to the Commissioner the reasons why ACI considers that more regular contacts should exist between our organisation and the EU. Among others, it was mentioned that taking the advice of the practitioners before issuing regulating directives could only be constructive as both the EU and ACI wish to strengthen the recognition of the Eurozone as a major market area. Being a worldwide organisation, ACI can

compare the EU regulation proposals with the existing regulations in USA, Asia, etc. and give valuable advice to the Commission. Mr Prados del Amo also informed Mr Almunia about the wish of the working group to meet, in the near future, with the Internal Market Commissioner, following his supportive introduction.

The Commissioner agreed on this and proposed to increase the level of collaboration between his cabinet (represented at the meeting by Maria Luisa Lamela, Head of Almunia's cabinet) and ACI.

Isabel Colina who is member of the Economic and Commercial Board of the Spanish Embassy in the EU also attended the meeting together with other members of the EU Working Group: Pier Mario Satta, Dominique Corombelle, Ralf Häuser, Aly Kohll and Etienne Jardel.

Pictured below (right to left): Mr. Joaquín Almunia, Mr. Dominique Corombelle, Mr. Enrique Prados and Mr. Thierry Cazaux.



Exhibition Full

All exhibition spaces have been allocated for the 44th ACI World Congress. In fact the exhibition will be one of the largest ever staged alongside an ACI event. The following organisations are confirmed exhibitors at time of going to press. The exhibition officially opens at 12.00 on Thursday May 26, and closes at 17.00 on Saturday May 28.

4Cast

Barclays Capital
Bloomberg
Calyon Corp & Inv Bank
Calypso Technology
Chicago Mercantile Exchange
Citigroup
Clearstream
Cognotec
Copp Clark Professional
Danske Markets
Deal Hub
Delta Community Ltd
Deutsche Bank
EBS Dealing Resources
eMID
eSpeed
Euroclear
Financial Software Systems
FNX Limited
Front Arena SunGard
FXall
FX Concepts
FX Week
GFI Group
Hotspot FXI
IDEA
Integral Dev. Corp
JP Morgan
Lava Trading
Microgen Ltd
Misys Wholesale Banking Systems
Murex
Nordea Markets
Profit & Loss Magazine
RADIANTZ
RCP Consultants
Reuters
Saxobank
SEB Merchant Banking
Summit Systems
SuperDerivatives Inc.
Swedbank Markets
Tieto Enator
Tullett Liberty
UBS
Wall Street Systems

Stockholmsmässan, a short ride from the city centre. ACI Sweden has secured sponsorship from several institutions, SEB Merchant Banking, Danske Bank and Handelsbanken Capital Markets are Platinum Sponsors; Swedbank Markets, UBS and Nordea, Reuters and e-Mid are Gold Sponsors; Front Arena SunGard, High Frequency Economics and Calyon are Silver Sponsors – the business programme has been organised in cooperation with *Profit & Loss* magazine.

ACI Committee meetings are scheduled to take place on Tuesday 24 and Wednesday 25 May, followed on Thursday 26 by ACI's Council Meeting. As far as delegates are concerned, the Congress gets underway with the welcome reception and opening ceremony at Münchenbryggeriet, which offers a wonderful waterfront location on Stockholm's South Island, overlooking City Hall.

The business sessions kick off on Friday morning with a panel in the best traditions of ACI congresses. Historically ACI has always provided a platform for central bankers and other authority figures to interact with market participants and the 44th Congress is no exception.

No fewer than seven central bankers make up the first panel, which will discuss "Monetary and Exchange Rate Policies in the Past and in the Future." The panel, which consists of: Gertrude Tumpel-Gugerell, Member of Executive Board at the European Central Bank; Rachel Lomax, Deputy Governor of the Bank of England; Sheryl Kennedy, Deputy Governor of the Bank of Canada; Christine Cumming, First Vice President, Federal Reserve Bank of New York; Eiji Hirano, Assistant Governor of the Bank of Japan; Ian Plenderleith, Deputy Governor of the South African Reserve Bank; and Lars Heikensten, Governor of the Sveriges Riksbank, will be moderated by Klas Eklund, Chief Economist of SEB.

Throughout the business programme, panels will be introduced and concluded by Kjell A Nordström, Professor and Doctor of Economics at the Stockholm School of Economics. Professor Nordström will not only introduce the many speakers slated to appear, but he will also offer a unique insight into the topics discussed by each panel at their closing.

The second panel of the Congress brings together leading figures from the corporate sector for a panel entitled "The Corporate Sector Challenges in an Environment with Accelerating Exchange and Interest Rate Volatility". Confirmed speakers include Tom Buschman, Treasury Development Manager at Shell International; Mark Kirkland, Global Head of Financial Risk and Cash Services at Philips Electronics; and Jan Gurander, CFO of Scania AB. The panel will be moderated by Jens Peter Neergaard, Vice President at Danske Markets.

Continuing the very impressive line up of speakers, Panel Three will discuss the wider implications of asset and liability

management in the current era. Entitled "Asset & Liability Management in an Ethical Perspective; A Contradiction or Lifeline?" and moderated by Jan Häggström, Chief Economist at Handelsbanken Capital Markets, this panel features Peter Norman of the Seventh Swedish Pension Fund; Frank Czichowski, SVP and Treasurer at KfW; and Bob Litterman, Managing Director of Singapore Web-Hosting company, GS.

Friday evening's reception takes place in the main hall of the magnificent Vasa Museum in Stockholm. Centrepiece of the museum is the beautifully reconstructed ship, the Vasa, which sank on her maiden voyage and has been the source of much good-natured debate between members of ACI Sweden and ACI Holland (where the original ship was built).

Saturday's session is highlighted by ACI's General Assembly, this is preceded by another interesting panel looking at the changing banking industry in the Internet age. David Clark, Honorary President of ACI, moderates Jörn Sodborg, Head of Trading at Jyske Bank, Silkeborg; Mark Robson Global Head of Treasury and Fixed Income at Reuters; Adam Burke, European Head of Currencies and Commodities at JP Morgan; and Jeremy Smart, Director of Global Currencies and Commodities at Deutsche Bank on a panel that asks the provocative question, "Will there still be a need for banks to provide financial services in a new platform-based market?"

Fittingly, given the historic nature of this year's Congress, ACI Sweden has secured a historic location for the Gala Dinner and Closing Ceremony. This will take place at Stockholm City Hall in the rooms at which the prestigious Nobel prizes are presented annually.

With excellent support from local and international institutions, a very impressive range of speakers from the buy and sell sides of the market (not to mention a strong central bank panel), the Congress to mark the 50th anniversary of ACI will be a momentous and tremendously well-attended event. Above all, the Congress to mark ACI's half century reflects the best traditions of its predecessors and will reinforce ACI Sweden's place in the Association's history.

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Final BIS Report Confirms Initial Findings

Turnover in the foreign exchange markets has been confirmed at a daily average of \$1.88 trillion by the Bank for International Settlements (BIS) in its final report – volume data in the cash markets remains unchanged from the preliminary data released at the end of September 2004. Fifty-two central banks took part in the survey, which saw average daily turnover increase from 2001's \$1.2 trillion.

In its final report, the BIS says that the April 2004 data highlight several important changes in the period since the 2001 survey. Aside from the large increase in the headline data, these changes include, the BIS says, increased investor interest in FX as an asset class alternative to equity and fixed income markets, as well as the more active role played by asset managers.

Notwithstanding this, the growth in turnover was driven by all types of counterparty, most strongly in the bank to other financial segment of the survey. This segment includes the fund management and broker/dealer community, however it should be noted that it also includes a number of banks that were previously categorised under the "reporting banks" label.

The presence of a clear trend and higher volatility between the two reporting periods was also a factor in volume growth, the BIS continues, leading as they did to a greater instance of momentum trading on the part of the speculative community and also of hedging activity by corporations and real money managers. Carry trading was also a factor in the increased activity in a weak US dollar environment, with activity in currencies such as the Australian and New Zealand dollars benefiting. These factors outstripped continuing developments that the BIS believes have a detrimental impact on volumes, namely banking consolidation and electronic broking – as well as consolidation in the corporate world where dozens of multinationals are centralising their treasuries and taking advantage of internal netting technologies.

In the final data, 53% of turnover is between reporting dealers, 33% with other financial institutions and 14% with non-financial institutions such as corporates and other Government agencies. Reflecting the greater internationalisation of the FX markets, 38% of business was traded with local counterparties, and 62% with cross border. This compares to 43% and 57% respectively in 2001, which in itself was a shift from 46% and 54% registered in the 1995 and 1998 surveys.

The BIS report also provides statistics reflecting the aforementioned banking industry consolidation by publishing the number of banks responsible for 75% of turnover in a given financial centre. In each of the top five financial centres (the UK, US, Japan, Hong Kong and Singapore), 11 banks are responsible for 75% of turnover, save for the UK, where 16 banks hold that share between them. This data reflects a continuing decline. It is inter-

esting that the UK appears to have suffered the least in terms of the number of banks dominating the market, this is probably due to the fact that as the leading FX centre, many banks have stationed their entire FX operation in that centre and thus have managed to retain market share. No centre saw the number of banks sharing 75% of the business increase from the 2001 survey.

DERIVATIVES DATA VERY STRONG

Also confirming the initial report, data on OTC derivatives collated in April 2004 shows a strong and growing market. Total reported gross turnover was estimated by the BIS at \$2,410 billion per day a huge 74% increase on the 2001 survey. As is the case in the cash report, the majority of OTC derivatives turnover was cross border, except for in the non-financial FX turnover segment, where local relationships continued to hold sway.

Both FX (from \$875 billion to \$1,345 billion per average day) and interest rate products (\$512 billion to \$1,065 billion) saw very strong growth (FX data include FX swaps and outright forwards). Trading was strongest between reporting dealers, followed by other financials. The BIS says that the strong business in interest rate derivatives derived from changes in both hedging and trading practices in the swap market, as well as a consequence of events which noticeably increased hedge-related demand.

As is the case in the semi-annual BIS survey of outstanding balances of OTC derivatives, the cash data is dwarfed by estimated volumes on exchanges. The BIS estimates that average daily turnover in exchange traded derivatives stood at \$4,657 billion per day, of this just \$23 billion per day was in FX-related contracts.

Interest rate swaps dominated the interest rate data, followed by FRAs and options. In the currency data, outright forwards and FX swaps dominate, with FX options registering just \$117 billion per day and currency swaps \$21 billion per day. In terms of notional amounts, the total of reported positions by notional amount, stood at \$220,070 billion after adjustment for possible double counting. Of this \$31,500 billion was in FX, the balance interest rate products. By contrast, positions outstanding in exchange traded contracts stood at \$49,483 billion.

Gross market values of positions outstanding was estimated at \$6,391 billion, with a gross credit exposure – the gross market value after taking into account legally enforceable netting agreements – of \$1,478 billion. All reported data is significantly higher than that reported in 2001.

Interestingly, the \$30,500 billion-worth of outstanding positions in the FX OTC derivative market are reasonably spread, with \$12,473 billion between reporting dealers, \$11,939 billion with other financial institutions and \$7,080 billion with non-financial customers.

The majority of these positions (\$24,706 billion) have maturities under one year, \$4,712 billion between one and five years and the balance over five years.

It is a different picture in the interest rate segment of the report, where although the customer segment split is similar to the FX data (\$78,999 billion between reporting dealers, \$74,573 billion with other financials and \$23,860 billion with non-financials), the maturity split differs. The majority of outstanding positions (\$71,275 billion) were in the one to five year span, followed by \$61,909 billion under one year and \$44,241 billion over five years.

PLATEAU?

Although the preliminary data was widely known in the market ahead of release at the end of September 2004, there were still questions over whether or not, by coincidence of timing, the BIS had hit a "sweet spot" in terms of turnover. Anecdotal evidence since from several central banks suggests the April 2004 data was representative of a busier market, although hard evidence is difficult to pin down.

The 52 central banks all asked the responding institutions to provide an assessment as to the nature of turnover both in the survey month and also in the preceding six months. These results find that seven countries' banks felt that turnover was below normal in April 2004. These are Argentina, Czech Republic, Greece, Luxembourg, Mexico, Norway and Peru. Meanwhile, five report April 2004 turnover above normal, they are Denmark, Israel, Japan, Philippines and Taiwan.

In terms of the preceding six months, only one centre, Saudi Arabia, reported declining turnover levels, although three (Czech Republic, New Zealand and Sweden) reported a steady to decreasing trend. Nine centres reported steady to increasing turnover, eight reported increasing turnover during the previous six months, the balance reporting steady turnover during the period.

For the top 10 financial centres the picture has two sides – although unsurprisingly given the general increase in turnover, all report steady turnover at a minimum. Australia, Germany, Hong Kong and Switzerland reported steady turnover; Canada, France, Singapore and the UK reported steady to increasing turnover in the previous six months; while Japan and the US reported increasing turnover. All except Japan reported April turnover as normal.

Overall the report contains few surprises given that the data is unchanged, however it does offer confirmation that the 2001 data was probably more of a "blip" than the 2004 data, as was suggested in some circles. Although the data is collated in an entirely different manner, eyes now turn to the release of the next survey of turnover conducted by the New York FX Committee and UK's Joint Standing FX Committee which takes place this month.

ACI Suisse Presents on Risk-Risk

The Swiss National Bank recently hosted a meeting with ACI Suisse at which Dr. Otmar Issing, Chief Economist of the European Central Bank, gave the keynote address. Also presenting at the meeting was Daniel Corbaz, Acting President of ACI Suisse, who gave an address entitled "Risk, Risk – The Risk of Not Knowing a Risk Exists". His presentation is reproduced here.

INTRODUCTION

It is hard to pin down precisely what a risk is: the term is used today to describe uncertainty of any type regarding the future. If we are to understand risk risk, we need to first define risk in general, before talking through risk risk one step at a time.

WHAT IS RISK?

There is no escaping risk in life, no matter whether you are trading on the forex market, setting up your own business, asking the boss for a rise, proposing to your girlfriend or buying a car. The list goes on...

All of these situations have some elements in common:

1. The people involved want to achieve a particular outcome. The moment anyone has a personal interest in a particular outcome, then they are exposed.
2. The people involved do not know what the outcome will be: the outcome is uncertain.

A general definition of risk therefore combines two essential components:

- exposure
- uncertainty

If we extend the concept of risk to the world of banking, we can describe it as, "An expression for the danger that the actual future outcome might be more negative than that which is planned or expected. The risk is not of an expected loss, but the danger that the actual loss could be greater than anticipated, planned or factored into prices."

Risks and returns cannot be looked at in isolation from each other. If a bank were to invest all its deposits in government bonds, both risk and reward would be low. The same would be true if it were to invest all its deposits in repos.

We can conclude that:

- Risk management should be among a bank's core competencies
- Reward needs to be looked at in relation to risk

RISK MANAGEMENT

Risk management is a broad term that encompasses:

- Risk policy
- Practical risk management
- Risk controlling

A company's risk policy lays down the principles of risk organisation, limitation and controlling. It involves periodically defining the risk capacity in the form of equity capital and the risk appetite in the form of limits on potential losses, and setting return targets.

Practical risk management may only be carried out by authorised departments and specialists, whose activities may not diverge from the established risk policy. The risk controlling department should ideally report directly to the most senior level of management, making it independent. It is responsible for monitoring in detail the day-to-day activities of the authorised risk departments and specialists.

The bank manages risk on the basis of its capacity to bear risk, its risk appetite and its earnings potential. One effect of limiting these is to safeguard its credit quality.

Risk management can be either active or passive:

Active risk management...

- entails consciously entering into risks where the conditions for long-term returns in excess of those on secure investments are in place, e.g. not investing in government bonds.
- requires expertise in managing the risks in question. This creates an environment in which stable and sustainable long-term excess returns can be achieved while keeping risk within acceptable limits.

Passive risk management...

- entails consciously avoiding or hedging risks when the conditions for generating stable and sustainable long-term excess returns are not in place, e.g. investing in repos or government bonds.
- is practised where the bank has no core expertise in managing the types of risk in question. Such risks should therefore be avoided or hedged against where they fit with customer transactions.
- in no way means that these risks are overlooked, but instead that no exposure is entered into with the aim of generating excess returns.

WHAT DOES RISK RISK MEAN?

Risk risk is neither active nor passive. It can arise anywhere that exposure with an uncertain outcome is not identified or is misunderstood. In other words, risk risk can arise anywhere that we identify a risk and believe we have it under control. It is often associated with ignorance or arrogance in relation to risk.

Risk risk means that the bank either fails to recognise a risk (effectively risk ignorance) or misjudges it (effectively risk arrogance).

Risk ignorance might represent a risk risk

where new products are launched or processes introduced within a bank, for example.

Risk arrogance might represent a risk risk in the calculation of adequate risk premiums, for example. If yours is the only bank to correctly calculate the risk premium on a given product and you choose to operate in the market at that level, but the market ignores the risk premium, then you will not be able to win business.

Risk risk can be minimised by means of internal and external risk management, but cannot be wholly eliminated, as numerous examples have illustrated in recent years.

RISK RISK AND CREDIT RISK MANAGEMENT AT A COMMERCIAL BANK

Despite what rating agencies and research departments were saying, the market did not (correctly) recognise the risk associated with SAirGroup. Other examples include Enron (fraudulent accounting), ABB (class actions), etc.

Banks today use internal models to rate counterparties and calculate risk premiums. These risk premiums tend to be set against the risk-free interest rate that could be achieved. But these models can prove wrong under certain market conditions, in which case the premium may not cover the bank's losses, or the bank may never be able to conclude a transaction because its competitors are using more accurate models. The money market puts low estimates on risk premiums. This suggests that the methods currently used to calculate risk premiums are incorrect.

ELIMINATION AND MINIMISATION OF RISK RISK IN RESPECT OF LIQUIDITY AND CREDIT RISK MANAGEMENT AT COMMERCIAL BANKS

Various routes are open:

- Collateral management
Collateral is already required in various areas of banking, e.g. in mortgage lending. Risk risk is "eliminated", i.e. the risk of default is covered by the collateral.
- Raising awareness and experience

It is essential to raise awareness among and train employees, and to turn experience into best practice. This should be done today, without waiting for crisis to strike! External input should also be drawn upon to avoid the danger of "operational blindness".

- Ongoing Training

SUMMARY

Risk is exposure + uncertainty
Risk risk is not (correctly) identifying risk = risk ignorance or arrogance

Risk risk can not be eliminated, but can be minimised through;

- collateral management
- raising awareness and experience
- ongoing training

ACI UK PREPARES FOR DEALING SIMULATION COURSE

ACI Australia's Dealing Simulation Course is to be hosted by ACI UK from May 16-20 at the Novotel Tower Bridge in the City of London. This will be the third time the course has been held in the UK, a diary of the last course was published in the Winter 2005 edition of *ACI Briefing*.

The course, which involves a blend of hands on "live" dealing sessions as well as technical sessions, has been run by ACI Australia for more than 12 years and is a residential seminar which tests the endurance and learning capabilities of the delegates to the limit. Previous delegates have described it as one of the most challenging educational events they have attended.

A series of excellent lecturers has been lined up by ACI UK, including Bill Allen from Brevan Howard, one of the largest hedge funds in the UK; Jim Trott, Partner in hedge fund Par Asset Management; and Martin Mallett, Chief Dealer of the Bank of England, as well as representatives of several top banks.

ACI UK reports that places are filling up quickly for the course but that a few are still open, further details and registration forms can be obtained from aciukmembers@aol.com.

The prizes for the winning teams on the Dealing Simulation Course will be presented at one of the major events in the ACI UK calendar, its annual charity ball. ACI UK supports the Variety Club in its Sunshine Coach programme by providing funds for minibuses. These minibuses enable disadvantaged children to explore a bigger and better world. Coaches have been given to schools with special needs pupils, to children's hospitals and hospices and to organisations striving to improve the quality of life for young people. Over the last 18 years ACI UK has provided the funding for 36 Sunshine Coaches.

NEW PRESIDENT FOR ACI UK

Alan Atwood has taken over as interim President of ACI UK following the decision of Pinder Grewal to step down from the post earlier this year. Atwood has been a member of ACI UK since 1978 and first served on the Association's committee in 1984. He was Sub-Regional Executive for ACI Channel Islands, Ireland and UK, serving on ACI's Executive Committee for two terms of three years which ended in December 2004.

Aside from his extensive efforts, travelling for ACI UK to congresses and local Annual General meetings of other Associations, Attwood's other claim to fame is that he designed two Forex London ties, which he is proud to say are being worn by the more "mature" members of the Association.

In a separate move, ACI UK has announced that Honorary President of ACI - The Financial Markets Association, David Clark, has accepted a similar position within the UK Association. Clark joins an illustrious list of Honorary Presidents of ACI UK and succeeds Michael Foot from the UK's Financial Services Authority.

ACI, Telerate to Publish EONIA Swap Index

ACI - The Financial Markets Association, in the form of the Euribor ACI Group is to launch an EONIA Swaps Index later this year. Telerate will be the official fixing agent and will calculate the index across the yield curve and publish the resultant prices.

With the start of the euro, the transformation into a single currency market has provided an excellent opportunity for the development of new benchmarks such as the EURIBOR (unsecured) and EUREPO (secured) indices for the money markets. The new situation led to an increasingly homogenous and integrated market in the euro area, which provides market participants with more transparency and fairly efficient priced products.

The EONIA swap market is one of the most positively affected sectors within the financial markets. Since 2000, its total trading volume has increased rapidly from €100 billion in Q2/2000 to €280 billion in Q2/2003. The sharp increase in volume over this time horizon reflects the benchmark character of the EONIA swap market in the money market derivatives area.

The prospective development of new products that derive from the EONIA swap market may benefit additionally from the creation of a new tailored benchmark. Basis for the implementation of the new EONIA Swap Index was the excellent relationship between Euribor-ACI and the European Banking Federation (FBE) that has already driven the creation of EURIBOR and EUREPO indices, which are both important benchmarks in their respective sectors. Both institutions have supported this project with their excellent know-how and worked with their associations and working groups on important details to create the index in the most efficient design.

The EONIA Swap Index is the mid market rate at which EONIA swaps are quoted between prime banks that are actively providing prices in the EONIA swap market. It will be fixed daily on an

act/360 day count basis and is set on 3 decimal places. Telerate will publish on every target business day at 16.30 CET. The EONIA Swap Index is expected to go live in the second quarter of 2005. From there onwards, this new derivative benchmark for money market derivatives will complete the range of the existing money market benchmarks (EURIBOR and EUREPO).

Potential benefits of the new EONIA SWAP INDEX are:

- It will lead to new product development and market enhancement.
- A new EONIA swap Forward Rate Agreement (FRA) product, in which two counterparties are contracting an EONIA swap rate for an agreed period and notional amount, cash settling at a future date against the EONIA Swap Index, is already planned.
- The new index will be used as a reference rate for longer dated interest rate swaps. A revival of the very active pre-euro French TAM swap market is conceivable.
- Additional flow volumes for the basis swap market are expected. This results from a precise basis perception of the market participants.
- It serves as a benchmarking tool for the derivative markets and creates a clear spread definition to the EURIBOR and EUREPO indices at the short end of the European yield curves.
- The index can be used as a controlling and valuation tool. It will set the basis for market conformity checks and allow banks and their clients, like money market funds, to run their revaluation against an official reference rate. The fixing time 16.30 CET does ideally support this function.

"The new EONIA Swap Index will serve various areas of the Global Markets business," says ACI. "It provides major opportunities for the participants of the Financial Markets to increase the professional set-up and the profitability of their business. We are looking forward to the launch of the EONIA Swap Index in Q2/2005."

ACI PORTUGAL SWITCHES AGM DATE

The Annual General meeting of Forex-ACI Portugal which was due to be held on April 23-25, has been postponed. The meeting will now take place on May 12 in Lisbon, further details can be obtained from the Association's website or by contacting the Secretary of ACI Portugal.

NEW WEBSITE FOR POLAND

ACI Poland has a new website on www.acipolska.pl. This has been added to the Web Listing published in every issue of *ACI Briefing*. Any National Associations wishing to add their Web address to this listing should contact the Editor at colin_lambert@profit-loss.com.

Conference Discusses Future of European Payments System

ACI President, Godfried De Vidts recently attended a conference in Luxembourg organised by Eurofi which looked at Europe's Single Capital Market and was entitled, "Time to tackle the toughest challenges". The conference was attended by many VIP's and had three key note speakers:

Jean-Claude Juncker, President of the European Council and Prime Minister of Luxembourg;

Charlie McCreevy, EU Commissioner for Internal Market & Services;

Jean Claude Trichet, President of the ECB.

Consultations are very much part of the process in Europe and the banking industry, including ACI, has been called upon to take up their responsibilities. The Lisbonne Accord and Stability Pact are very well known, however it was noted at the conference that while much is talked about, little action is taken. It was agreed that the reform of the Stability Pact is necessary but that its goals should remain the same i.e. stronger economic growth without a negative impact on its social and economic goals. The governments of Europe believe one will lead to the other.

Jean-Claude Juncker spoke about the discussions around the Stability Pact. He is the only original member from the EU Member states that was around when the Maastricht Treaty was signed. He insisted that the Stability Pact was the cornerstone for Europe and as a consequence said he was fully committed to make sure the basis of this pact would not be eroded.

Charlie McCreevy insisted on the development of a good policy and that the governments stick to it. "We need to leave the patchwork of national interests behind and make one union to get the full economic benefits for integration," he said. "Excessive creation of rules can sink the ship. We need sufficient, reasonable and cost effective rules while keeping innovation and risk taking in the financial markets. Stronger competition will benefit prices for the consumers. There is a need for global convergence to basic rules, so the EU-US dialogue as well as with Japan and China is of utmost importance."

McCreevy added that over the next five years he hopes to see consolidation of existing regulations and stressed he will monitor the implementation in national legislations. He noted that he wants to complete unfinished business as he sees the banking industry as being behind schedule for the payment infrastructure, which aims at a single payment area by 2010.

The conference also noted that consumer behaviour has changed through the wider use of the Internet, in that all services are open for all. More education in schools will help the consumer know what is on offer, McCreevy said, adding that he also sees new legislation being introduced in the asset management industry. A comprehensive review will be published in July that will once again be open to consultations.

Jean Claude Trichet spoke of some catalysts for initiatives by the market. In particular he mentioned ACI STEP, and said that with the support of the ECB's Governing Council the STEP label had been introduced. The ECB has given the support to ACI STEP for an initial two years with statistical support on an ongoing basis. Trichet also made an assessment of the wholesale market where unsecured lending is fully integrated (Target). He noted that debt issues are one area where equity is hardly integrated at all. Euro issues of the private sector

"The STEP initiative is a good example where the ECB can and will continue to help the market towards full integration in Europe."

in 2003 are only two-thirds of US volume. The STEP initiative is a good example where the ECB can and will continue to help the market towards full integration in Europe, he added.

"This is well deserved publicity for ACI STEP," says De Vidts. "The audience of over 200 included many ambassadors from all over the world, top representatives from the banking industry involved in clearing and settlement as well as many banking associations and officials from the European Commission and central banks of Europe."

On the Stability Pact, Trichet pointed out that it is well known to the members of the Eurozone, that the ECB insists on the 3% norm in the Stability Pact and that it cannot be changed if the Eurozone is to maintain price stability and confidence in the euro currency.

Other speakers also provided insight at the conference. Philippe Maystadt, President of the European Investment Bank commented that the short term paper market is underdeveloped. The initiative taken by the

STEP group will advance the market in order to create more liquidity, he said, adding that the EIB is a big user of this market.

Thomas Seale, CEO of European Fund Administration and Chairman of the Association of the Luxembourg Fund Industry looked at the cost of distribution of funds. One simple notification instead of registration under the European passport would increase competition and widen cross-border distribution, he observed.

Sir Nigel Wicks, Deputy Chairman of Euroclear, sees successful cross-border mergers if Europe has a highly developed and integrated IT infrastructure. Fixed costs in banks has risen by 10% to 25% of operation costs, he noted, all because of IT. Two major steps that push for more cross-border mergers lie in IAS 39 and Basle II, as both projects call for economies of scale.

David Wright, Director, Financial Markets, DG Internal Market & Services at the European Commission, called for more time for the implementation of the Mifid projects, and said that more time for consultations will be made available. In these consultations, market participants should play a major role, he said. Euribor ACI's EU Commission Working Group is looking into this document and will be involved in the consultation process.

Kees Van Dijkhuizen, President of the Financial Services Committee, ECOFIN Council, explained the role of this group that has only been in existence for two years. Membership consists of Director Generals of all Ministries of Finances of the EU, David Wright and other members of DG Internal Market and the ECB, represented by Mr Chiopa. They advise, develop strategy and topics for Ecofin and make reflections to the EU Finance Ministers on all matters including financial integration.

"As a member of the Giovannini Group and member of staff of Fortis Bank in the EU Commission CESAME group, I am fully committed to remain involved in the development and discussions of a single capital market for Europe," concludes De Vidts.

The European Commission established an expert group to study issues relating to clearing and settlement within Europe. This group, The European Commission's Clearing and Settlement Advisory and Monitoring Expert group (the "CESAME" group), advises and assists the Commission in the integration of EU securities clearing and settlement systems. The Group is chaired by the Commission and is composed of around 20 high level representatives of various mainly private bodies involved in clearing and settlement, along with four observers from public authorities, Alberto Giovannini acts as Principal Policy Advisor. Further information can be found at www.europa.eu.int/comm/internal_market/financial-markets/clearing/cesame

ACI President's First Visit to Russia

Godfried De Vidts recently became the first ACI President to visit Russia, following the official affiliation of the Association in 2004.

On March 31, along with ACI Russia President Igor Souzdaltsev, he met with Alexey Ulyukaev, the First Deputy Chairman of the Central Bank of the Russian Federation to discuss the role of ACI and in particular its work aimed at building professionalism in the global markets through the implementation of The Model Code. During the meeting, De Vidts presented the Deputy Chairman with a copy of The Model Code. ACI's educational efforts were also discussed, in particular ACI's examination suite as well as forthcoming plans to hold a conference on Basel II and the academic session planned to celebrate ACI's 50th anniversary in Paris in October.

De Vidts further met with Andrei Cherepanov, Chairman, and Alexei Mamontov, President, of the Moscow International Currency Association (MICA). ACI Russia is cooperating with MICA in the development of a bilateral platform for commercial banks to trade rouble FX and money markets.

A further meeting was held with Konstantin Volkov, the President of the Russian National Security Markets Association (NSMA), the state-owned organisation charged with regulating participants in the financial markets. NSMA is currently working to develop the Russian repo markets, which were first launched by the Bank of Russia in 2001.

Following these meetings, ACI's President took part in the first Annual General Meeting of ACI Russia where he delivered a speech on the current work and future plans of ACI,



ACI PRESIDENT GODFRIED DE VIDTS WITH ALEXEY ULYUKAEV, FIRST DEPUTY CHAIRMAN OF THE CENTRAL BANK OF THE RUSSIAN FEDERATION

after which he met with ACI Russia members. At the meeting it was decided to pursue educational seminars for traders in Moscow, the first courses are to be held in

“[This visit] demonstrates the need for ACI to continue our focus on educational projects and our exams.”

September, details can be obtained from www.aciforex.com/education/trainingprus.htm. ACI's work in Russia will be reinforced by recent comments from the Chairman of the

Bank of Russia who told a recent meeting that Russia needs to be a part of the world's financial system and as such it must respect its rules.

“My visit to ACI Russia's first AGM and meetings with various officials and members highlights the importance ACI enjoys in emerging markets,” says De Vidts. “It also demonstrates the need for ACI to continue our focus on educational projects and our exams. It is encouraging, as it always is during my visits to all ACI National Associations, that so many volunteers are working to achieve a better financial market environment and that ACI is playing a central role in this. Its 13,000-plus members represent the heart of the global FX and money markets.”

Web Listing

ACI - The Financial Markets Association	www.aciforex.com	ACI Lebanon	www.acilebanon.com
Forex Club Argentina	www.forexclubargentino.com.ar	ACI Luxembourg	www.acilux.com
ACI Australia	www.aciaustralia.com.au	The Macau Financial Markets Association	www.mfma.org.mo
ACI Austria	www.aci-austria.com	Financial Markets Association- Malaysia	www.ppkm.net
ACI Forex Belgium	www.acibelgium.com	ACI Monaco	www.acimonaco.com
Financial Markets Association of Canada	www.fmac.ca	ACI Nederland	www.aciforex.nl
ACI Channel Islands	www.acici.com	ACI Norway	www.acinorge.com
Forex Croatia	www.banka.hr/forex	ACI Philippines	www.aciphils.com
ACI Czech Republic	www.aciforex.cz	ACI Poland	www.acipolska.pl
ACI Forex Denmark	www.aciforexdanmark.dk	Forex ACI Portugal	www.forex-aciportugal.com.pt
AFTB	www.acifrance.net	ACI Romania	www.aciromania.ro
ACI Germany	www.aci-germany.de	Forex Slovenia	www.forex-club.si
Forex Greece	www.forexhellas.gr	ACI South Africa	www.aciforex.co.za
ACI-The Financial Markets Association of Hong Kong	www.acihk.org.hk	ACI Sweden	www.acisweden.com
Hungarian Forex	www.huforex.com	AMF/ACI Spain	www.asociacionmercadosfinancieros.com
Forex India	www.forexindia.org	ACI Singapore - The Financial Markets Association	www.acisin.com
ACI Ireland	www.aciireland.com	ACI Suisse - The Financial Markets Association	www.acisuisse.ch
ATIC forex (Italy)	www.aticforex.com	United Arab Emirates Financial Markets Association	www.uaefma.com
Kuwait Financial Markets Association	www.kfma.org.kw	ACI UK - The Financial Markets Association	www.aci-uk.com
		Financial Markets Association - USA	www.fma-usa.org

