ACI Briefing is Published by profit & loss in the currency & derivative markets

WINTER 2005
VOL. 11 ISSUE 87
ISSN 1469-2031

ACI BRIEFING

NEWS FROM THE FINANCIAL MARKETS ASSOCIATION

http://www.aciforex.com

Contents

Features:

JOIN ACI

ACI - The Financial Markets Association is 50 years old 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.

Paris Event Shows ACI at its Best

ACI – The Financial Markets Association concluded its celebration of 50 years in appropriate style – by holding an event in the best traditions of the Association, in the city in which it was formed. The Paris event was also historic for it being held in the city's Bourse, the place where so many of the Association's founder members traded foreign exchange both before and during ACI's early days.

If any of the 500 registered delegates were in doubt about ACI's place in the history of the financial markets, they were soon to be reminded of the Association's rich history during an opening film produced by Reuters which chronicled the previous 50 years in both the wider world and ACI. Later in the business session, Colin Lambert, author of "Once a Dealer…50 Years of ACI", and Editor of *ACI Briefing*, reinforced the Reuters' film by presenting on the rich history and strength of the Association and its place at the centre of the markets' history.

The business session was kicked off by a brief address from President Godfried De Vidts, who spoke of the future of the Association and the importance of the work of the various ACI committees. He stressed the fact that ACI is still at the centre of efforts to continue the financial market's evolution through its work in education, professionalism and Euribor ACI.

The three keynote speakers were also in the finest tradition of ACI. Over its 50 years, the Association has hosted numerous high profile speakers from the financial markets as well as governments, and Paris was no different. Michel Pebereau, President of the European Banking Federation spoke on "Market Initiatives towards the Euro Zone Integration" and was followed by Fabrice Demarigny, Secretary-General of the Committee of European Securities Regulators, who addressed the issue of "The place of CESR in the World Regulatory Environment".

Rounding out the business session it was most appropriate that delegates were addressed by Jean Claude Trichet, President of the European Central Bank. The keynote speeches are covered elsewhere in this issue of *ACI Briefing*, however all three gentlemen highlighted the strength and commitment ACI has brought to the market. "ACI's aim of contributing to market developments through education, market practices and technical advice is most welcome and indeed essential," said Pebereau. "ACI's track record over the last half century is impressive. The work of ACI's Committee for Professionalism and the existence of the Model Code, deserves special praise here."

▲ FABRICE DEMARIGNY

▼ JEAN-CLAUDE TRICHET

Mr Trichet spoke predominantly on the STEP initiative, and made a ground breaking announcement to the audience. "I have the pleasure to inform you today that the work of the ECB and the national central banks in this respect is well advanced," he told delegates. "Just a few days ago, the Governing Council has approved the so-called efficiency check, i.e. the assessment of the costs and benefits related to the production of STEP statistics [which are produced by Euribor ACI], and decided that the Eurosystem will indeed produce such statistics."

The business sessions were interspersed with two musical intermezzos by the extremely talented Jan Van Hoecke, a flutist, and Pieter Dhoore, a pianist. At the conclusion of the business session, delegates partook of a cocktail reception before moving into the magnificent central hall of the Bourse de Paris for the evening's spectacular dinner.

After dinner, attendees were treated to a reprise of the wonderful show from the ACI Congress in Stockholm which chronicled the history of ACI in word and song; and fittingly events were closed out with a performance of "The ACI Song", which also made its debut in Stockholm.

ACI – The Financial Markets Association would like to thank the following sponsors for their support of the Paris event. Clearstream, Eurex, Euroclear, Euronext Liffe, LCH Clearnet, MTS Group and Reuters.

ACI Zambia Welcomed to ACI

ACI Zambia became the 65th National Association to be affiliated to ACI – The Financial Markets Association at the Paris Council Meeting. Following a presentation on the local markets by Miles Sampa, President of the Financial Markets Association of Zambia, Council unanimously voted the country in as FMAZ – ACI Zambia.

FMAZ was formed in December 2003 and has 43 members at time of inauguration. Sampa noted that membership of ACI and the holding of an ACI qualification is a requirement for all traders under central bank rules. Currently 14 commercial banks are active in the Zambian market, including Barclays Bank, Citibank, Standard Chartered Bank, Stanbic Bank from South Africa and India's Indo Bank.

Following the vote to accept Zambia as an affiliated National Association, ACI President Godfried De Vidts welcomed the association saying, "It is extremely rewarding to hear of the central bank's support for the ACI exams, we look forward to working with you to build your association further, to the benefit of the banking community of your country."

ACI Membership Fees

After lengthy discussion at the Paris meeting, ACI Council members agreed to raise the association's annual membership fee from EUR 31 to EUR 35. This is the first rise in membership fees since 1998 and comes after a lengthy study of ACI finances by Treasurer Armin Steppan.

ACI Briefing Goes Electronic

Following a presentation to Council, it has been decided that, in the interest of costs and efficient delivery, *ACI Briefing* will no longer be published in hard copy. The first issue of the New Year will be delivered electronically, with a Web version available on www.aciforex.com.

ACI SECRETARIAT. The secretariat's office is open daily from 9:00 am until 5:00 pm (Paris time):
ACI Secretariat, Attn: Natalie van Drenth
8 Rue du Mail, 75002, Paris, France
Tel: +33 1 42 97 51 15,
Secretariat@aciforex.com

For editorial or advertising enquiries, contact the editor on:
Tel: +44 (0) 20 7377 6716
Fax: +44 (0) 20 7426 0727
Email: colin_lambert@profit-loss.com
www.profit-loss.com

Changing of the Guard: Hahn Retires from the Fold…


Bill Hahn

ACI's Managing Director Bill Hahn retires at the end of 2005 after eight and a half years in the role. In a letter to ACI Council members, Hahn spoke of the many satisfying events during his tenure and picked out two in particular. "One of the biggest was undoubtedly working with Claude Schon and Ann McGoff to push through the move to the electronic delivery of ACI's suite of examinations," he wrote. "I can still recall the long battles we had, predominantly with the representatives from Forex Education London, who were convinced that this change would be the final nail in the coffin for the examinations and that numbers would decline dramatically. Luckily Claude, along with Ann and I, realised that if ACI wanted to develop the acceptance of its examinations in a cost-effective and global manner, then electronic delivery was the only route to take.

"We may have lost a little in terms of academic quality, with the move from essay based examinations to a multiple-choice format, but I really doubt that we would be seeing the large number of examination candidates from Africa and Central and Eastern Europe that we are witnessing today, had we stuck with the old format," he added.

The other highlight, according to Hahn, was having the pleasure, over the years, to work with such a hardworking group of volunteers on the numerous working groups, in particular the Board of Education.

Hahn expressed his thanks to many people with whom he has worked over the eight-plus years but noted with sadness that two people, with whom he worked closely, Georges Zuber, former Chair of the CFP and Denis Nolan, the author of The Model Code, have passed away. "I recall the one-month period leading up to the publication of the Code when Denis and I worked together for almost a week, until the early hours of the morning, in order to meet the required deadline," he wrote.

"I shall miss ACI but am looking forward to some new challenges, starting in April/May 2006," said Hahn in closing. "I wish the Association well for the future. I am sure it will continue to change but sincerely hope that it retains its global vision and the commitment to friendship amongst dealers that most attracted me to the organisation in 1997."

President Godfried De Vidts spoke on behalf of ACI by stating, "I would like to express my gratitude to our outgoing Managing Director Bill Hahn for his devotion to our association. Any person involved for a long time in an organisation such as ours will leave footprints behind. This will certainly be the case for Bill who has continued to provide ACI with his professional knowledge and input for the well being of all. On behalf of all members, many thanks Bill for your contribution to the biggest wholesale trade association represented in 65 countries so far. I hope you will keep an eye on our website (that you created) so you can be proud of the future achievements of ACI."

At the Paris Council meeting a vote of thanks was proposed and accepted unanimously by Councillors in the traditional ACI manner of a round of applause.

…Ravisé Takes Over as MD


Jean-Pierre Ravisé

Jean-Pierre Ravisé is the new Managing Director of ACI – The Financial Markets Association after his appointment by Excom. Ravisé, an honorary member of the Association, has a long and distinguished involvement with ACI, being a member of ACI France for more than 30 years and taking the role of Secretary of Forex Club France from 1980 to 1984, Chairman of Forex Club France from 1984 to 1987, Chairman of AFTB from 1994 to 1997 and ACI Treasurer from 1987 to 1994. He was also a member of the Euribor committee from 1996 to 2002.

In his professional life he built up an impressive career starting at Credit Industriel et Commercial from where he moved to Credit du Nord in Paris where he was Executive Vice President and member of the Executive Committee – Member of the Managing Committee.

In recent years he was also Chairman of the Investment Committee of the Financial Service Compensation Scheme, an Independent Non-Executive Director and Member of the Board-Audit Committee member of LCH Clearnet SA and a Member of the Board as well as Chairman of the Committee for the Regional Expansion of the French Institute of Directors.

"I would like to welcome Mr Jean-Pierre Ravisé to ACI," says ACI President Godfried De Vidts. "I have full confidence in his capabilities and he will also be in touch with all national associations in the next few weeks to make sure he fully understands their local needs."

Ja

Oui

Si

Hai

Ne

Yes

Eurex is now fluent in FX futures.

Introducing FX futures on Eurex US. With a 23-hour trading day, significantly lower trading fees and contracts twice the size of other exchanges, Eurex offers unique advantages for FX Futures. If you'd like to know more, we invite you to call us at 312-544-1100 or visit www.eurexUS.com.

eurex

eurex us

"The Eurosystem and the integration of European financial markets"

A speech by Jean-Claude Trichet, President of the European Central Bank

Jean-Claude Trichet

I accepted with pleasure the invitation to speak to you today on the occasion of the 50th anniversary of ACI – The Financial Markets Association. First of all, I would like to congratulate your association – 50 years is an impressive length of time. The anniversary prompts us to look back in time.

When I think back to the 1950s, the year 1952 immediately comes to mind. It was the year when the European Union started out as the European Coal and Steel Community. As we know, the idea at that time was to better preserve peace by bringing together under a common European roof, with rules that were binding for all participating countries, those resources that had been decisive for the conduct of wars – coal and steel.

Encouraged by their success, the European countries decided to also integrate other sectors of their economies in order to form a common market. In the course of time, other countries joined the European Union – as it has been called since the Maastricht Treaty of 1992 – encompassing today 25 countries.

Key milestones have been successfully reached during these years. As President of the ECB, let me in particular highlight the fact that the euro indeed acted as a strong catalyst for the further integration of European financial markets. On the side of the ACI, allow me to mention that you founded in 1999, at the time of the launch of the euro, the Euribor ACI, which has since then led several initiatives – and I will later address some of them – that foster financial integration in Europe and in particular in the euro area.

Integration

This is actually the topic I would like to address today: European financial integration.

I will focus on a particular financial market, namely the money market, and on a particular kind of Eurosystem activity, namely our possible role to act as a catalyst for private sector activities to foster the integration of European financial markets.

Such initiatives involve close collaboration with market participants, among them the ACI and the Euribor ACI. The Eurosystem's interest in European financial integration is founded on three basic reasons.

First, the financial system is used for the conduct of monetary policy in the euro area, which is the basic task assigned to the Eurosystem under the Treaty establishing the European Community (the Treaty). A well-integrated financial system enhances the smooth and effective transmission of monetary policy impulses throughout the euro area.

Second, financial integration has implications for the Eurosystem's task of safeguarding financial stability in the euro area and the EU, as laid down in the Treaty. The pursuit of financial integration can have very beneficial effects on financial stability as more integrated financial markets could provide the necessary conditions for the smoother absorption of financial shocks. It may also help financial institutions to better manage and diversify their risks and realise economies of scale, which may, in turn, lead to greater efficiency.

"The Governing Council welcomed the STEP initiative and took a favourable attitude towards its aim to ease the convergence of standards and to foster the integration of the fragmented European short-term paper markets through a market-led initiative. "

At the same time, it is necessary to closely monitor the profound changes in the nature of financial stability challenges due to the structural transformation of the financial system, including intensified cross-border links.

Third, financial integration can generally help to promote the development of financial markets, institutions and infrastructures, thereby helping to support economic activity and to raise the potential for economic growth. According to the Treaty, the Eurosystem shall "without prejudice to the objective of price stability, support the general economic policies in the Community". The Eurosystem is fully committed to supporting the general economic policies of the Community, with a view to contributing to the achievement of its objectives. This includes financial integration, which is a priority Community objective.

I recall in this respect the findings of a recent study that quantified the macro-economic impact of the integration of European bond and equity markets. The study found that such financial integration would result in additional EU GDP growth of around 1% – i.e. around EUR 100 billion – over a 10-year period.

On a more general note, I would like to recall another principle, laid down in the Treaty, that states that the Eurosystem "shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources". This also determines the Eurosystem's view that financial integration is first and foremost a market-driven process. In addition to this, the Eurosystem sees it as a basic task of public authorities to create a framework conducive to fostering financial integration. If the opportunities thus created have been exploited by market forces, true financial integration will have been achieved and its benefits can be reaped.

Contribution

As we see it, the basic task of public authorities with regard to the process of financial integration is to create a framework whereby, generally speaking, all potential market participants in a given financial instruments or services market are subject to a single set of rules when they decide to deal with those financial instruments or services, have equal access to this set of financial instruments or services and are treated equally when they operate in the market.

The Eurosystem generally distinguishes between four types of activity through which it contributes to fostering financial integration. First, we provide central banking services that are conducive to European financial integration. An example of this is the TARGET system that we run, which today handles around 90% of large-value euro payment traffic.

TARGET is one of the two largest wholesale payment systems in the world, the other being Fedwire in the United States. TARGET2 – the launch of the single shared platform is planned for November 2007 – will foster financial integration even more.

TARGET2 will enable the provision of a harmonised level of services across Europe, supported by a single technical platform and a single price structure for domestic and cross-border payments, and it will have new functionalities for banks to better integrate their euro liquidity management.

Second, we give advice on shaping the legislative and regulatory framework for the financial system. As an example, I would like to mention the Eurosystem's contribution to the European Commission's consultation on the priorities for financial services policy over the next five years. In this contribution, the Eurosystem expresses its support to the key policy orientations of the Green Paper, which focuses on the consolidation, and consistent implementation of the legislative framework for financial services to be achieved by exploiting the potential of the existing institutional set-up and by a profound assessment – both ex ante and ex post – of new legislative initiatives.

The Eurosystem also supports the strands of action suggested by the Commission in the area of financial regulation and supervision, in particular the importance attached to the objective of rationalising the existing regulatory framework and the pursuit of supervisory convergence.

Third, we try to enhance knowledge and raise awareness of the state of and need for European financial integration, and we measure the progress made towards its achievement.

And fourth, we can act as a catalyst for private-sector activities by facilitating collective action and assisting with possible coordination problems.

I would like to concentrate more particularly on these last two kinds of activity, namely measuring the state of financial integration and acting as a catalyst for private-sector activities. The basic starting point for any possible action is to first assess the state of affairs in order to gather the evidence upon which the decision to undertake a certain activity can be based. For a financial instrument or financial service, a price normally exists, so one can use quantitative indicators, based on the law of one price, to measure the degree of integration. In this respect, let me draw your attention to the ECB's report on *Indicators of Financial Integration in the Euro Area* that was published at the end of last month.

This report provides an assessment of the degree of financial integration in the main segments of the euro area financial market, covering the money market, the government and corporate bond markets, the equity market and banking markets. I should also like to point out that while this first report, which covers financial and banking markets, already focuses on important dimensions of the financial system, the coverage of the indicators will be further developed; in particular, it is envisaged to add indicators of the underlying factors of integration related to financial institutions and market infrastructures.

The ECB report provides, on the basis of 20 quantitative indicators, an overall assessment of the degree of financial integration in the main financial market segments. It is shown that the degree of integration differs from market segment to market segment, with integration being more advanced in those market segments that are closer to the single monetary policy. Today, I will concentrate on the most integrated market, namely the money market, and I would like to refer you to the report for our assessment of the other financial markets.

As regards the money market, the various indicators presented in the ECB report measure financial integration based on the dispersion of lending rates – namely overnight rates, unsecured lending rates and repo rates – offered by banks in euro area countries, with the data referring to actual transactions or rates offered by EONIA, EURIBOR and EUREPO panel banks.

Also the different segments of the money market show different degrees of integration.

The unsecured interbank market has, since shortly after the introduction of the euro, been integrated to a nearly perfect extent. In fact, our indicators display a euro area cross-country standard deviation for the overnight maturity of around three basis points shortly after the start of 1999 and only around one basis point by today. As a comparison to these impressive figures, just recall that one year before the start of monetary union, in January 1998, the cross-country standard deviation of the average overnight lending rates among euro area countries still stood at more than 130 basis points.

As a first example of the Eurosystem's contributions to fostering financial integration by acting as a catalyst for private-sector activities, I would like to mention the ECB's calculation and publication of the EONIA rate. The technical definition and the procedures for the calculation of the EONIA rate were defined by market participants through a series of market conventions.

The EONIA rate is a concrete example how market participants play an important role in fostering financial integration through the adoption of market conventions, facilitated by the ECB acting as a catalyst. A consistent picture of a highly integrated unsecured money market is also painted by the indicators for the maturities longer than overnight. Both the cross-country standard deviation of EURIBOR lending rates among euro area countries for

> "The urgent priority is to complete the STEP Market Convention, which is the cornerstone of the whole project."

the one-month and for the 12-month maturity stood even below one basis point shortly after the introduction of the euro and remained stable thereafter. This compares with the respective values in January 1998, i.e. one year before the start of monetary union, of more than 100 basis points for the one-month rates and of around 50 basis points for the 12-month rates.

The growing repo market is still somewhat less integrated than the unsecured segment, but integration is progressing. The creation of the EUREPO index – the benchmark for secured money market transactions in the euro area – in 2002, was an important market initiative to further promote the integration of the repo market. Our indicators for the integration of the repo market reveal that the euro area cross-country standard deviation of the one-month EUREPO rates was around, and normally below, one basis point and today stands at around 0.5 basis point.

The indicator for the 12-month EUREPO rates shows larger movements, in part reflecting the lower liquidity of this market. Still, with a standard deviation always below 2.5 basis points, and today standing at around 1.5 basis points, the indicators suggest that there is a relatively high degree of integration also in the euro area repo market.

The major role of the euro in enhancing financial market integration is also visible in the interest rate derivatives markets. The total of euro interest rate OTC derivatives contracts reaches a daily turnover of around EUR 380 billion, thereby being larger than the US dollar segment, with a daily turnover of around EUR 290 billion. A particularly important part of this is the euro interest rate swap market, with a daily turnover of almost EUR 250 billion. It is the largest interest rate swap market in the world, i.e. also larger than the equivalent US dollar segment that has a daily turnover of around EUR 160 billion.

Let me in this respect also highlight the success of the euro overnight index swap market, where contracts are exchanged in which one party pays a fixed rate of interest for the duration of the contract, while the other party pays an average of the overnight EONIA rate realised over the period. The launch, conducted jointly by Euribor FBE (European Banking Federation) and Euribor ACI, of the EONIA Swap Index in June this year is evidence of both the importance and the further potential of this market segment.

I now turn to the least integrated money market segment, namely the one for short-term securities. Compared with the equivalent US commercial paper market, which has an outstanding amount of around EUR 1.3 trillion, the aggregate size of the commercial paper and certificates of deposit markets in Europe is around EUR 0.8 trillion.

In addition, while the US market is integrated, the short-term securities markets in Europe continue to be segmented, with *de facto* several markets based in several market places. Issuers and investors in the European short-term paper markets are therefore confronted with reduced depth and liquidity, and they have less diversification opportunities than in the US. The Short-Term European Paper (STEP) initiative, which was set up and is being led by ACI – The Financial Markets Association, aims to overcome such fragmentation and to promote the development of a pan-European short-term paper market.

STEP specifically aims to promote the convergence of the standards and practices prevailing in the European short-term securities markets through market players' voluntary compliance with the standards set out in the STEP Market Convention, which covers aspects like information disclosure, documentation, settlement, and the provision of data for the production of STEP statistics.

Since May this year, the European Banking Federation has been very fruitfully supporting the ACI in the completion of the preparatory work. Moreover, the European Banking Federation will directly contribute to the functioning of the STEP market, once in operation. The promoters are at present finalising the STEP convention and expect to see the first STEP-labelled programme in early 2006.

As with the example of the ECB calculating and publishing the EONIA rate, which I mentioned earlier, the ECB has supported the STEP initiative since its inception by acting as a catalyst for private-sector activities. Back in 2001, the first discussions on STEP took place at the meetings of the ECB Money Market Contact

Group. In 2002, the ECB hosted on its website the ACI's public consultation on the first STEP report. And, finally, ECB staff has contributed to the work of the Euribor ACI STEP Task Force since its creation.

The Eurosystem will also provide operational support to the functioning of the STEP market. In July 2004, the Governing Council of the ECB discussed the recommendations addressed to the European System of Central Banks in the final report of the Euribor ACI STEP Task Force.

The Governing Council welcomed the STEP initiative and took a favourable attitude towards its aim to ease the convergence of standards and to foster the integration of the fragmented European short-term paper markets through a market-led initiative. Specifically, the Governing Council decided to support, in principle, the activities pertaining to the introduction of a STEP label, which will acknowledge the adoption of the STEP standards, for the first two years after its launch.

The STEP Secretariat, which will be created and managed by the European Banking Federation, will perform the STEP labelling with the support of the Eurosystem and, in particular, of several of its national central banks. Such a technical contribution to the labelling process would, however, not lead to a national central bank taking any action, such as the prohibition or suspension of issuance, in the event of non-compliance by an issuer with the convention's requirements. In such a case, the only consequence would be that the STEP Secretariat would withdraw the STEP label from the issuance programme in question.

Moreover, the Governing Council of the ECB decided, subject to a final check regarding the efficiency of the collection process, to accept the request put forward in the Euribor ACI STEP Task Force report, to produce and publish STEP statistics on yields and volumes on an ongoing basis, which would foster integration and reduce issuers' costs through greater market transparency.

I have the pleasure to inform you today that the work of the ECB and the national central banks in this respect is well advanced. Just a few days ago, the Governing Council has approved the so-called efficiency check, i.e. the assessment of the costs and benefits related to the production of STEP statistics, and decided that the Eurosystem will indeed produce such statistics.

Now, after a long preparatory phase, the urgent priority is to complete the STEP Market Convention, which is the cornerstone of the whole project and the last step to be overcome to achieve its successful completion.

I am confident that the promoters of the initiative, foremost the ACI, will find the necessary drive to overcome the last technical difficulties in the preparation of this document and will successfully launch STEP early next year. This will bring about the necessary integration and development in this market, surpassing the remaining current segmentation between the part of this market.

"The success of STEP...should show that self-regulation – to which the Eurosystem attaches significant importance – complements and can even, in some respects, be a substitute for public regulation. "

The success of the STEP initiative will also be proof that market-led initiatives are essential for the benefits of integrated financial markets in Europe to be reaped. Furthermore, it should show that self-regulation – to which the Eurosystem, like yourselves, attaches significant importance – complements and can even, in some respects, be a substitute for public regulation. Markets obviously do not function only on the basis of public regulation: they also need rules devised by the market players themselves, who know best which standards and business practices would lead to efficient outcomes.

In view of the potential to realise economies of scale and scope inherent in an integrated European financial market, the private sector should accordingly contribute to establish such rules at the European level. Market forces alone may not always be able to drive financial integration forward or towards an optimal outcome. In areas such as standard setting or the establishment of common infrastructures, the cooperation between private agents of the financial sector is as necessary as competition. Also, there is still a need for market participants to further develop the coordination of joint interests. Market associations, such as the ACI, have an important role to play in this respect.

The function of a catalyst can help coordination. A central bank can perform this role thanks to its acknowledged competence and objectivity, its direct participation in financial markets and its numerous contacts with market participants which ensue from its basic tasks. In fact, I consider the catalyst function of the ECB and the Eurosystem in fostering European financial integration to be a major responsibility at the current juncture.

I would like to conclude my remarks by stressing that progress in European financial integration requires an effective interplay between market forces and action by public authorities. The ECB and the Eurosystem prefer a market-first approach in this process, with a significant role given to self-regulation. Examples like the STEP initiative show that the private sector can contribute substantially to the integration of the European financial system and that the Eurosystem supports such market-led initiatives.

While expressing my congratulations to ACI – The Financial Markets Association on its 50th anniversary, I would also like to encourage you all to take up the challenges that lie ahead of us. STEP-like initiatives should become a more widely used approach to fostering financial integration in Europe.

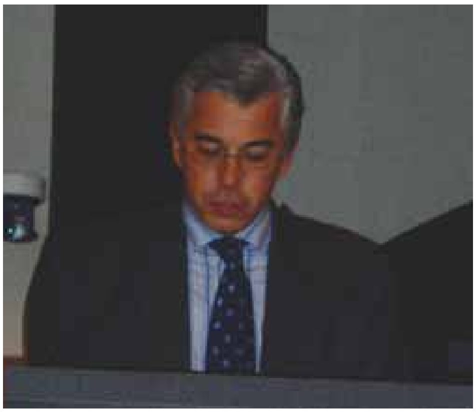
A lot has been achieved, but just as much remains to be done.

Web Listing

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

“The place of CESR in the World Regulatory Environment”

A Speech by Fabrice Demarigny, Secretary General, CESR



FABRICE DEMARIGNY

Let me start by saying that it is a real honour to be invited to speak on such an important occasion: the 50th anniversary of ACI, the “Association Cambiste Internationale”.

I have to admit that I am deeply impressed. Despite its pompous name, CESR, The Committee of European Securities Regulators, is only four years old, covering 27 countries. Compared to your 50 years of existence, and a presence in more than 60 countries, we can only be in admiration.

My admiration comes from your impressive achievements, starting from your contribution to the financing of the post-war reconstruction of Europe, and ending by your current critical role in the allocation of financial resources in the global economy.

Indeed, the financial market has dramatically changed since the first ages of your association. In that regard, the European Union has played a very active role with the creation of the euro, but Europe is not stopping there. We have the ambition of becoming the most competitive economy in 2010, and one of the tools to achieve this is the creation of a real Single Market for Financial Services. For that purpose the European Union agreed in 2000 a Financial Services Action Plan, comprising more than 40 measures to modernise EU legislation and make the cross-border provision of services more fluid and secure in Europe. Most of that legislation has now been passed and is progressively entering into force.

It is in this context that CESR has been created by the Heads of State and Government in 2001, following the wise report of someone you know well: Baron Lamfalussy. CESR regroups the chairs of the 25 securities supervisors of the European Union (plus the supervisors of Norway and Iceland) and has a twin role:

• To advise the EU Commission and other EU institutions on the elaboration of EU legislation and subsequent implementing measures.

• To coordinate the activities of the national supervisors so as to ensure that Financial Markets work in Europe in a transparent, protective and fair manner.

We report to the European Commission, the ECOFIN and the European Parliament. CESR has its headquarters in Paris, and I am therefore coming here as a neighbour. During its first years of existence, CESR has indeed concentrated its efforts on the elaboration of the legal framework of the Single Market. In no more than four years, almost the whole range of areas of securities activities now has a legal basis in EU law:

- The Prospectus Directive: so as to provide issuers with the possibility to extend public offers and listing all across the EU with one single prospectus;
- The adoption of IFRS: for investors globally to be able to understand and compare the Financial figures of the 8000 listed companies in the EU;
- The Transparency Directive: to provide easy access to the financial and price sensitive information disclosed by those listed companies;
- The Market in Financial Instruments Directive (MiFID): to enhance the possibilities to provide cross-border financial services in the EU and multiply the possibilities to establish trading facilities;
- The Market Abuse Directive: to condemn insider dealing, price manipulations and the dissemination of false or misleading information in order preserve confidence in markets;
- Finally, the UCITS Directives: to provide investors a capacity to participate in the single market through mutual funds.

With all this, our hope is that market participants will use these new freedoms to provide services, and consider that their “home market” has the size of the continent. For that to happen, a lot still needs to be done. We fully agree with Commissioner McCreevy on the fact that there is no need for a new wave of legislation and that now the priority is on making this set of laws work.

What will be CESR’s role in this next phase?

Instead of boring you to death with the fine print of CESR’s activities (for which I refer to our recently published half-yearly report which can be found on our website), I will simply talk you through a number of common denominators in our work programme which will characterise CESR’s activities in 2006. For our future activities, I envisage a diminishing, if not disappearing, outlook on the provision of Level 2 advice to the EU Commission in the course of the coming year; more operational work at Level 3 in CESR-Pol, CESR-Fin, on prospectus, credit rating agencies and most likely also on investment management; the preparation of further operational and common approaches for MiFID, once Level 2 measures will be in place; the development of concrete Level 3 tools such as a mediation mechanism and the refocusing of the Review Panel; and more coordinated work with the other L3 committees on cross-sector issues CEBS/CEIOPS (3L3) as well as with our US counterparts the SEC and the CFTC.

I will touch upon most of these areas in the next few minutes. I will first shed some light on the latest developments in the preparations for the MiFID, more particularly on the timetable.

MiFID

In the past months there have been some intense discussions between CESR and the Commission on the basis of our advice for MiFID Level 2 implementing measures with a view to the objectives we all are trying to achieve with this Directive and its future implementing measures. What CESR is expecting is a reasonable level of investor protection, taking into account the administrative burden the industry will have to shoulder in order to implement this. Since March of this year, the Commission has been having informal discussions in the European Securities Committee in order to prepare its position, including discussions and comments by stakeholders. Formal proposals in the ESC are expected towards the end of the year. Voting on those proposals in the ESC is not expected to take place before early spring next year. Time is running out as Member States are expected to implement the full MiFID package by October 2006. The industry will have another six months until April 2007 to adapt their structures and procedures. Serious concerns remain whether these deadlines suffice for an orderly preparation. In the meeting of CESR last week, the Commission has shown its willingness to extend transposition deadlines even further in order to have a smooth transition from the old ISD to the new MiFID regime.

Mediation Mechanism

Next, I want to touch briefly on a general CESR exercise, which will affect CESR’s role, in particular at Level 3. A few weeks ago, CESR published a draft consultative paper on a proposed mediation mechanism to be established amongst EU securities supervisors. The decision of CESR to work in this area follows a report by the EU Financial Services Committee which called for CESR to establish a general mediation mechanism going beyond the Market Abuse Directive.

The objective of the proposed CESR mediation mechanism is to facilitate supervisory convergence at Level 3 by reaching a common understanding amongst CESR members. The process is intended to concentrate on cross-border cases in a rapid, efficient and fair manner, respecting all applicable confidentiality and professional secrecy requirements. The outcome of the mediation process will not be binding, but CESR members will nevertheless be expected to accept mediation requests, especially in disputes related to co-operation and exchange of information. The mediation mechanism will respect the limits of the EU institutional framework, in particular the prerogatives of the European Commission and the European Court of Justice. The mediation mechanism will be designed as a "peer mechanism" among CESR members, but market participants will be entitled to bring to the attention of their national securities supervisors issues that the latter might decide to submit to the mediation mechanism.

"In both the FSC and the Ecofin there is broad support for making rapid progress in the area of strengthening European supervisory cooperation and convergence."

The CESR mediation mechanism will cover cross-border disputes related to co-operation and exchange of information between securities regulators, enforcement of financial information, as well as operational disputes, especially those related to mutual recognition of decisions. This would cover all applicable EU legislation in the securities field, as well as CESR Level 3 measures. An exception would be issues where legal proceedings have already been initiated at EU or national level; where the issue in dispute is being dealt with by CESR at Level 2 or Level 3; or, where national legislation does not provide any leeway for the CESR member concerned to accommodate the demands from the CESR member requesting mediation.

I expect that the mediation mechanism will in the future significantly facilitate the proper functioning of the legislative framework of the single market.

Himalaya report

Let me now refer to the current state of debate about the future of the European supervisory structure, in order to give you some flavour of this debate. The main goal for CESR with the publication, last autumn, of our so-called Himalaya report "Which supervisory tools?" was to participate in this debate.

On substance, the supervisory system can be visualised as a 4 floor pyramid:

- The basis of the pyramid are the national supervisors.
- On the second floor the supervisors co-operate. This floor is what we now generally see as the level 3 of the Lamfalussy-system.
- The third floor is again co-operation but now with the possibility to delegate tasks or even powers to each other. This is now only provided for in the prospective directives; but we might start feasibility studies in other fields, if only to streamline all sorts of different information requirements.
- The fourth (top) floor is about pan-European decisions. At this stage there are none, and nobody has made a strong case for this. It might be necessary for IFRS decisions, but then we must see to it that we do not weaken the role of IFRIC, the global interpretations committee of IAS. It might be necessary for credit-rating agencies to be supervised, but until now we think that self-regulation and an open relation with supervisors is enough.

All in all the top of the pyramid is, so to speak, shrouded in nebula, the nebula of the future. So let us go back to what is clear, to the basics. Using this vision again makes absolutely clear that equivalence of supervisory powers given to the national supervisors is a *conditio sine qua non*, to creating an effective operational co-operation system on a home/host, multilateral and even pan-European basis.

In both the FSC and the Ecofin there is broad support for making rapid progress in the area of strengthening European supervisory cooperation and convergence. As the next step, further analysis will be conducted in order to allow for the development of more firm political views in the spring of next year.

Let me finish with some remarks about our working relationship with other sector committees and our US counterparts.

In the ongoing dialogue with our "sister" committees we have found out that the list of items of common interest is extensive. The committees should in general strive to align work on these subjects. The results need to be consistent and/or take into account the effect in other sectors of such work.

The three level 3 committees are currently working to define more precisely their cooperative framework. Already significant common projects have been conducted. I especially want to mention our recent joint report on cross-sector risks to the Financial Stability Table of the Economic and Financial Committee, building on the joint work already developed on issues such as credit risk transfers and off-shore financial centres.

An example of the issues raised is cross-sector consistency, e.g. with regard to outsourcing of business activities. The committees find it important to minimise the potential inconsistencies in the supervisory treatment across the three sectors. This would reduce the risk that some areas of business are shifted from one legal environment to another in order to obtain a more preferential treatment and reduce compliance costs. As cross-sector participations increase, the importance of consistent (though not necessarily identical) supervisory practices across sectors increases.

As regards the global market, we noticed in the responses to the Commission's Green Paper on Financial Services Policy for 2005 – 2010 that many representatives of financial institutions have called upon the authorities to enter into, or to intensify, the dialogue with authorities of emerging financial markets such as Brazil, Russia, India and China. CESR is very much aware of the importance of these dialogues and will play its part. CESR's chairman is participating in an EU–China Roundtable in Shanghai on Financial Services and Regulation to exchange views on regulatory issues with Chinese authorities.

With regards to the dialogue with our US counterparts, I can tell you that we are making good progress. I have to underline that CESR's dialogue with our fellow US supervisors is only one of the trans-Atlantic dialogues. The Commission and the US Treasury are having discussions of their own at a political level. A US delegation of supervisors met with the Financial Services Committee in Brussels last month. At a supervisory level, CESR agreed terms of references for the dialogue with the SEC in June last year. This agreement has developed into a discussion at technical level on a number of areas of mutual interest (i.e. credit-rating agencies, IFRS enforcement co-operation and mutual funds legislation).

With regard to the CFTC we have agreed upon a common work programme, on the basis of market input, to facilitate trans-Atlantic derivatives business. In this programme, enhancing transparency (availability of market information and accessibility of rules) and a review of simplified access or recognition procedures are high on the agenda.

In addition to this, the CESR chair has personally contributed in this area; with a number of meetings with US representatives, including the US Senate Banking Committee and Treasury Secretary John Snow. I do hope that all these activities in our US dialogue will lead to tangible results.

In conclusion, I have tried with my remarks to set the scene with regard to the future of the Single Market for Financial Services. We are firmly convinced that this new framework will create new opportunities and that you will play a key role in this. I thank you very much for you attention and what else can I say than: "Happy Birthday".

"Market Initiatives Towards the Euro Zone Integration"

A Speech by Mr Michel Pébereau, Chairman of BNP Paribas and Chairman of the French Banking Association (AFB)

Michel Pébereau

50 years is a long period indeed. Needless to say financial markets have undergone tremendous changes over that period and the pace of change is accelerating. Banks, and financial institutions in general, were at the heart of this process from the very beginning.

European banks and financial companies played a crucial role in the emergence and rapid growth of the Eurodollar market from the 1950s onwards. They helped shape a new political and economic landscape, by allowing US dollar deposits to flow to Europe and to international borrowers, stimulating economic development globally. Partly this development reflected the stricter regulation applicable in the US market, notably the Fed's Regulation Q that limited the interest payable on dollars deposited in the US. But partly it also reflected the ingenuity of private operators, who provided more attractive products, which became a magnet drawing funds overseas. I have no doubt that the development of the Eurodollar market triggered the creation of the globalised financial markets, which we now take for granted.

Financial market integration in Europe has advanced slowly but steadily. It began to intensify with the foundation of the Economic Monetary System in 1979, through the Programme of Liberalisation of Capital Movements in the Community, agreed in 1986. Then with the full liberalisation of capital movements in the EU in 1990, it came to one of the historically most meaningful events – the introduction of a common currency, the euro, in 1999.

Without the active involvement of the financial services industry, this would not have been possible. Our industry not only advised policy makers on how to introduce the euro on the financial markets. It also made possible the physical introduction of euro notes and coins.

The adoption of the euro and the subsequent introduction of euro notes and coins undoubtedly offered strong incentives and an unprecedented means to continue, and even speed-up, the integration of Europe's financial markets.

Now, after almost seven years of the euro and the euro area it is clear that this process has led to better, deeper and more integrated financial markets.

This has especially been the case in wholesale markets, such as money market and related interest rate derivatives markets; similarly in the government bond market, where integration has been almost fully achieved. Progress has also occurred, although to a lesser extent, in the European corporate bond market and it is finally advancing in the equity market.

On the other hand, integration is still generally lagging behind in the areas of retail banking and financial infrastructures. The latest available data shows that cross-border retail bank lending activity in the euro area remains very limited, accounting for only 3.5% of the total lending volume. Also cross-country differences in bank interest rates remain relatively high. It is well known that cross-border merger and acquisition activity is relatively low in EU financial services, too. This is partly because of legal and institutional impediments that make it difficult to complete a deal or reduce the synergies to be obtained. So, there is obviously still some work to do to improve the overall situation further and to achieve truly integrated financial markets in all segments.

It is primarily up to market participants – and not legislators – to drive those changes. Market developments should be driven by market participants. This is not to say that legislators have no role to play. At European level for example, regulatory intervention may be needed: to open up markets and facilitate the provision of services, but also, to ensure financial stability, fair competition and appropriate investor protection.

In that context, ACI's aim of contributing to market developments through education, market practices and technical advice is most welcome and indeed essential. ACI's track record over the last half century is impressive. The work of ACI's Committee for Professionalism and the existence of the Model Code deserve special praise.

In the wholesale market in general, numerous market initiatives have helped to create more efficient, better functioning and more integrated markets. Standardised documentation for OTC derivatives has contributed a lot to the development and liquidity of that market, credit derivatives being one example. The European-based international bond market, which started with the Eurobond market 42 years ago and its self-regulatory framework, is another good example.

Other market initiatives include the establishment of EURIBOR and EONIA, the money market reference rates for the euro; EUREPO, the benchmark rate for secured money market transactions in the euro area; and EONIA Swap Index, the new derivatives market reference rate for the euro.

While it is still early days to make an assessment of the impact of the EONIA Swap Index on the market, it is very clear that the EURIBOR and EONIA rates have been big successes and have substantially contributed to the integration of the money market following the introduction of the euro. They are illustrative examples of the fruitful collaboration between ACI and FBE.

STEP Initiative

Let me now move to another initiative: STEP, which was also initiated by EURIBOR ACI. STEP is geared towards short-term securities in Europe and is based on two elements.

The STEP Market Convention that sets out a number of specific industry best-practice standards to be adhered to by issuers and other market participants., and the STEP Label that will be granted to the programs that demonstrate they meet the standards set in the Market Convention.

Once implemented, this project will therefore create a *de facto* integrated pan-European market for short-term securities. This will be achieved within the existing legislative and regulatory frameworks, which currently prevail at national and European level.

The STEP initiative illustrates the willingness of the FBE to act and help market-driven initiatives fostering integration of the financial market and in particular the money market in cooperation with ACI and with the contribution of the ESCB.

I cannot conclude without saying a few words about a topic that will soon be at the top of our agenda. Price discovery, transparency and best execution for bonds.

The most important pieces of future legislation concern the pre- and post-trade transparency rules for intermediaries. These rules currently apply to shares only and are untested, but might be extended to bonds and derivatives even before they are actually applied in equity markets.

I know that some member states are in favour of such action due to a perceived lack of transparency in their own markets and recent corporate scandals involving bond issuers. However, many in the industry are against such an extension on the grounds that the characteristics of bond markets are still very different from equity markets a fact that should be borne out by their respective regulatory treatment.

These issues have been left out of the transparency requirements imposed by MIFID, pending further assessment by the Commission. Looking at the future, the industry is expected to provide self-regulatory answers to these questions by 2007. The challenge to all of us will be to have a clear and constructive debate in the intervening period around the issues that face us in the bond markets; a debate that is not clouded by past experience but defined by a vision of where we want Europe's bond markets to be in 10 or 20 year's time. We can already foresee the continuation of the fruitful cooperation between the ACI and the FBE to define views on these important matters now and in the future.

I started by saluting the long life ACI has already enjoyed; please allow me to conclude by wishing it – at least – another 50 years of success!

ACI Stages Basel II Seminars in Asia & Australia

▲The Hong Kong Speakers Take a Bow

▼Simon Topping Takes Questions

ACI – The Financial Markets Association held three seminars recently in Singapore, Hong Kong and Sydney aimed at raising awareness of the impact of the impending Basel II legislation. More than 330 delegates attended the seminars, which were managed by David Clark, Honorary President of ACI, who recognises the work of the relevant national associations. "I would like to express my sincere thanks to the organising committees and ACI staff in Australia, Hong Kong and Singapore for the considerable effort that they put into arranging the seminars in their centres," he says.

Clark says the reaction to the seminars has been "extremely positive" and that the feedback from delegates indicates a high degree of satisfaction with the content and structure of the seminars. He suggests a primary reason for this was the high calibre of speakers and the detail into which they went. "ACI can be proud that it had very conspicuous support from the Hong Kong Monetary Authority (HKMA), Financial Services Authority (FSA), HSBC, Bank of New York, Deutsche Bank, Commonwealth Bank of Australia, National Australia Bank, Westpac, ANZ, Clayton Utz, KPMG, PwC and Deloittes," he stresses.

The staging of the seminars was helped by the fact that the HKMA and the FSA are very engaged with Pillar two issues, even though the Federal Reserve Bank has decided to postpone compliance. At the same time, the EU has passed the CRD which means that European financial institutions will have to comply with a parallel set of rules. The progress of Basel II is not static and other opportunities for ACI will present themselves, he believes.

Delegates to the seminars came from front, middle and back offices and there were also some lawyers in attendance. "It is clear that getting front office attention is still difficult, but much depends on the institution," observes Clark. "The concept of focussing on what Basel II means for trading businesses was, however, widely applauded, and the consultancy companies felt that we had hit on the right theme."

There were two different structures for the seminars, to reflect the level of interest from different areas of the local institutions. In Hong Kong and Singapore, the scene was set by one of the consultancy companies (after a keynote speech by the HKMA in HK) with a presentation describing the whole of Basel II. The objective of this was to make sure that the delegates were as equally informed as possible about the details. After that there were presentations on trading book issues and the Operational Risk charge. This was followed by case studies by banks and the seminar ended with a wide-ranging panel discussion.

ACI Hong Kong also held a press conference, which was well attended by the local media, who had a lively question and answer session with Clark and Simon Topping, Executive Director of HKMA.

In Sydney, a keynote speech by the UK's FSA was followed by a panel discussion on credit issues and then by a consultant's presentation on the impact on the trading book. This was followed by a legal presentation on the implications for securitisation and then a panel discussion on operational risk. In the afternoon there was a presentation on value, a detailed look at advanced metrics for credit and operational risk and the final panel and Q&A session.

"Both structures worked well and reflected the level of knowledge of the participants as well as the major local focus points," says Clark. "We were extremely fortunate with the speakers. Those who came from London (FSA, HSBC and BoNY) were global experts on the subject, and those sourced locally had a real knowledge of the implications."

Clark is firmly of the belief that the seminar programme initiative is a progressive one for ACI that fits into the educational objectives as well as its desire to raise the ACI profile in the professional market. "The next step is to identify the topics that would most appeal to our members and those close to our businesses," he says. "Basel II (as well as the CRD) will be with us for at least the next year or two, and the repo seminars are already underway as well. Seminars in emerging market areas are probably the top priority, and perhaps we should consider asking the associations what particular themes suit their members best.

"I think that ACI can benefit from this globally as well as locally and regionally and that it is worth putting the effort and resources into making it a success," he concludes.

ACI would like to thank the following for their sponsorship of the Basel II seminars: HSBC, Reuters, The Bank of New York, BNP Paribas, Calyon, Citigroup, Dresdner Kleinwort Wasserstein, Fortis Bank, Fubon Bank, Hong Kong Foreign Exchange & Deposit Brokers' Association, Icap, Standard Chartered Bank, Collins Stewart Tullett, Commonwealth Bank of Australia, Westpac Banking, National Australia Bank, Deloittes, Clayton Utz and ANZ.

Project Delta Prepares for Launch

IGOR SOUZDALTSEV, PRESIDENT OF ACI RUSSIA

Two years ago there was still some debate in the FX markets about the benefits, or lack of, that could be brought to emerging markets by e-trading. At that time, it was argued, liquidity was not deep or consistent enough to support online trading, however, experience elsewhere in the industry – not least the major markets – shows that liquidity has generally been improved by online trading.

An original argument in favour of the e-channel, transparency, would appear to be a convincing reason for extending the benefits of 'e' to the emerging markets and many banks have in the past year scaled up their transaction capabilities in these areas. Liquidity appears to be deepening – although many still point out that we will only discover how deep the markets really are when we face another 'event' – and customers are trading in emerging markets, online, in increasing numbers.

In Russia, online trading has been embraced to the extent that a new project due for launch in early 2006 relies upon the benefits of e-trading to expand the local market and make access easier for foreign banks. Effectively, the local market is using the e-channel to grow. Project Delta has been jointly developed by the Moscow International Currency Association (MICA) and ACI Russia, and is a unique bilingual Russian-English trading platform

The platform will have two components, its first iteration will support money market trading (Delta MM), but the benefits are expected to be extended to foreign exchange very soon after. Delta MM is a service of DeltaTrading System, an electronic brokerage system that allows dealers to work with Russian Rouble on forex and money markets using their preferred language – Russian or English. "This option helps any foreign money market dealer easily enter the Russian credit market as a user," explains Igor Souzdaltsev, manager of Project Delta, President of ACI Russia, and Head of Financial Markets at Investsberbank in Moscow. "It was specifically developed to provide European banks with easy access to the Russian forex and money markets."

When Delta FX is officially launched, the two services will have different logins, however thay will be able to be placed on one desktop to enable easy access to both markets for traders.

The system is easily accessible and Delta has developed a rouble account opening kit in English that will allow users to do all the necessary paperwork in one business day. "This is the first financial project of its kind in Russia," explains Souzdaltsev. "We aim to provide support for the convertibility of the Russian rouble and develop the Russian financial markets at a faster pace than would be possible offline."

The functionality of the system very much reflects general market practice. Users input their bid or offer in the tenor they desire, the amount they are looking to trade (including minimum trade size for partial fills) and then select from two credit limit options, Group or Counterparty.

If Group is selected, a user can release their price to pre-selected groups of market participants. These can be buckets of counterparties defined by any criteria the user wishes, for example, German banks, Russian banks, US banks etc. Selecting the Counterparties option means that the user's price is shown to all its counterparties with whom it has established direct credit lines.

A third option is available on the system, one that maintains a participant's anonymity.

At all times, orders can be cleared from the system, they can also be suspended but in its initial iteration they are unable to be automatically re-submitted at a later time. A full deal blotter is also provided on the system to provide information not only on trades, but also a user's order history.

"We are currently in contact with those Europeans banks interested in entering the Russian forex and money markets," says Souzdaltsev. "I'm expecting to see the first trades made between Russian and European banks on the bilingual Delta Money Market trading system in the spring of 2006. We are also expecting the launch of Delta FX in a few months too.

"I believe that implementation of this project with foreign funds coming to the rouble zone will significantly increase Russian market liquidity," he continues. "It will not only widen and strengthen Russian financial markets but also provide support to President Putin's ambition of achieving full convertibility of the rouble and the establishment of our national currency as a 'hard' currency."

Repo Course Success in Asia and Europe

The first Asian Professional Repo Course was organised on October 13 and 14 by ACI-ICMA-TBMA. The course, which was endorsed by the Treasury Markets Forum of Hong Kong was an outstanding success with some 140 delegates in attendance. With financial support from Citigroup, Euroclear and Bloomberg and held at the premises of the Hong Kong Monetary Authority, the delegates had a first taste of a market that is increasingly becoming the tool for financing within the wholesale markets.

Following that success, Milan hosted the fourth ACI-ICMA professional repo course in Europe, which was kindly hosted by IntesaBCI on November 15 and 16. The course confirmed the unrelenting interest in this educational event with nearly 200 participants looking at repo from A to Z.

ACI Netherlands Donates to Bursary

To mark its 50th anniversary, ACI Netherlands announced at the Paris Council meeting that it is to donate EUR 5,000 to the ACI Bursary Programme that supports the education efforts of the association, especially in emerging market countries. Details on the rules surrounding Bursary awards can be found on the ACI website, www.aciforex.com.

Two New SREs Announced

Two new Sub-Regional Executives were unveiled at the ACI Council meeting in Paris. Jan Tradgardh from ACI Sweden takes on the Nordic role, and Sonja Miladinovski from ACI Serbia & Montenegro takes on the mantle of SRE for Central and Eastern Europe.

ACI Meets EU Commissioner

The Euribor ACI EU Commission working group, under the chairmanship of Mr Enrique Prados, in the presence of ACI's President Godfried De Vidts and Euribor ACI Chairman Thierry Cazaux, recently met with Charlie McCreevy, EU Commissioner for Internal Affairs with responsibility for internal market and services and the EU financial markets infrastructure. Mr McCreevy was accompanied by board member Michael Murray.

Following the meeting, De Vidts wrote to the Commissioner expressing his thanks for the meeting and offering the technical and support services of ACI – The Financial Markets Association in helping to create a robust European financial market.

"The discussion on the various issues concerning your Director Generalship have hopefully helped in understanding the various aspects we, as members of ACI - The Financial Markets Association, see as crucial in the further developments of a robust European financial market," said De Vidts. "I would like to extend, once more, the willingness of the institutions supporting this work, with an open invitation for you and your staff to visit our dealing rooms. That would allow them to feel how the markets function in such a way that possible legislation will be able to take into account the particularity of our profession."

Enclosed with the letter was a copy of ACI's presentation on its work throughout the financial markets, as well as a copy of The Model Code.

ACI President on e-FX and Hedge Funds

Godfried De Vidts

ACI President Godfried De Vidts gave an interview to Reuters News on the sidelines of the 50th anniversary celebrations in Paris, during which he opined on the impact of electronic trading and the attraction of the FX markets for hedge funds.

On the growing impact of e-trading on the FX markets, De Vidts noted the changing paradigm involved in executing large orders, as well as the decline of the interbank market. "Before we had electronic trading systems, you could call banks and get a single price for $500 million against the Deutsche mark," he said. "Electronic trading systems have brought the size of individual trades down to $1 million. If you want to do $500 million you need to do a multiple of tickets. So automatically the market-making functions between banks have decreased. There is liquidity, but the depth of liquidity is not as big as it used to be."

De Vidts also hinted at a change in how hedge funds view the FX market, especially in view of the relative lack of volatility seen in exchange rates during 2005. "Hedge funds go where there is the deepest, most liquid market; where they can see the best opportunity to make quick money. Foreign exchange has been very much in the spotlight but they are now saying maybe it's not," he said. "Too many jumped on the same ship at the same time. Currencies used to be more volatile, creating opportunities to make big profits. But in recent months buying stocks in emerging markets has looked more profitable.

"For instance in the Middle East there is plenty of money to be invested because equities there have boomed so much and the return is in double digits. So why do they do something in the FX market which only returns 5%?" he continued. "If they don't see returns anymore – if euro/dollar stays in this range – they are not going to take positions."

The lower performance of hedge funds in the first three quarters of 2005 was also noted by De Vidts, who suggested that banks' dealings with the hedge fund community were becoming more cautious.