

## ACI -The Financial Markets Association

Speech delivered by Manfred Wiebogen,  
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### Introduction

Have you heard about the latest **BIS report**?

During the last week of September the Bank for International Settlements (in Basle) released their eagerly awaited report on the development of the international Foreign Exchange Markets.

Every three years figures and statistics from Central Banks and Monetary Authorities all over the world are compiled by BIS to watch the developments in the world largest unregulated markets – FX-Markets.

And the results are tremendous – for The Financial Markets, for Central Banks, Authorities, for the Technology Industry but also each Individual on a Trading desk all over the globe – doing the daily business.

I will come back to the facts in a few minutes.

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But before going into further details **I shall start by thanking** ACI Macedonia, their President Milena Percinkova and the Team for inviting me to address you a few words on behalf of ACI.

- ACI Macedonia is a young member of our Association.
- ACI Macedonia became a member of ACI The Financial Markets Association in 2001 and today you are celebrating your 12<sup>th</sup> Annual Assembly.
- ACI Macedonia counts 18 member banks and some 61 International Members.

As of December 31<sup>st</sup> 2006, the total bank's asset of Macedonian banks equalled Denar 174.117 Million (approx. **3 bn EUR**), which is an increase of 24%, relative to December 31<sup>st</sup> 2005 (source National Bank of the Republic Macedonia).

## Review of banks and member banks of ACI Macedonia:

### Review by group of banks<sup>±</sup>

	Group of large banks (assets exceeding Denar 15 billion)		Group of medium-size banks (assets from Denar 4,5 to 15 billion)		Group of small-size banks (assets below Denar 4,5 billion)
1	Komercijalna Banka AD Skopje	1	Alfa Banka AD Skopje	1	Eurostandard Banka AD Skopje
2	NLB Tutunska Banka AD Skopje	2	Investbanka AD Skopje	2	Internacionalna Privatna Banka AD Skopje
3	Stopanska Banka AD Skopje	3	Export and Credit Bank AD Skopje	3	Komercijalno Investiciona Banka AD Kumanovo
4		4	Ohridska Banka AD Ohrid	4	Makedonska Banka AD Skopje
5		5	ProCredit Banka AD Skopje	5	Macedonian Bank for Development Promotion AD Skopje
6		6	Stopanska Banka AD Bitola	6	Postenska Banka AD Skopje
7		7	UNI Banka AD Skopje	7	Sileks Banka AD Skopje
8		8		8	TTK Banka AD Skopje
9		9		9	T.X. Ziraat Bankasi - subsidiary Skopje

source: National Bank of the Republic of Macedonia

Komercijalno Investiciona Banka AD, Kumanovo is not represented at ACI Macedonia

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## 1. ACI – The Financial Markets Association

But what do you know about ACI – The Financial Markets Association?

The Association was founded in France in 1955 and the Head Office is based in Paris.

ACI – The Financial Markets Association is a non-commercial organisation with some 13,000 international members at 63 membership countries and individual members in another 15 countries. The Association has a clear mission statement and that is “to be regarded within the business community, financial services industry and by the authorities and media as the leading association representing the interests of the financial markets and to actively promote the educational and professional interests of the financial markets industry”.

The main business of ACI – in other words – is in contributing to the market development through

- education,
- market practices (Model Code),
- technical advice and
- networking.

At that point I would like to **thank all Macedonian representatives** for their contribution and efforts towards your local association but also towards our international association.

Let me stress, it is a voluntary activity, which consumes a lot of private spare time.

ACI counts some 13.000 members

- Europe	9.037	70 %
- Asia	2.738	21 %
- MeNa	1.055	8 %
- Americas	150	1 %

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## 2. What is the Challenge of the Financial Markets for ACI ?

When talking about International Financial Markets, people mainly think about trading and speculation, on market movements and prediction of interest rates, exchange rates or securities in the future.

Nowadays, international financial markets became that big, that even Central Banks have limited power in daily interventions. But vice versa, big International Players (or Hedge Funds when turning their positions) might drive smaller markets and force Central Banks to tremendous efforts to keep control.

ACI is much more than a mere traders association seeking for profit optimisation for each individual.

ACI is a standard of the International Financial Markets. A standard for traders and their banks in terms of

- market behaviour
- best market practice
- market liquidity provided by the traders
- giving advice and offer arbitration services on professional disagreements
- third party certification (ACI Dealing Certificate, ACI Diploma and ACI Settlements Certificate)
- personal and company networking.

Let me highlight certification and networking:

Certification (e.g. ACI Dealing Certificate)

1. introduction into the world of terminology for young traders
2. to gain an external view of calculation, combination of instruments
3. to gain friends from other banks and discuss market possibilities
4. to learn about the "Code of Conduct" (Model Code) on
  - a. market behaviour and
  - b. ethic and moral ties;
  - c. to maintain the professional level of competence => that is the Mission and Charter of ACI (!)

Networking:

1. exchange your point of view with friends in the ACI community
2. diversify your business with partners as much as possible
3. for your personal but also for you company's fortune

Unfortunately, every couple of years, our industry faces national or international financial turbulences or even bigger crises - crisis which are mainly not caused by Treasury staff/traders (whom we are mainly representing). I will give a few examples:

- 9/11 or the current Sub-prime crisis

Sub-Prime is a word, which most of us had not heard about a few months ago. But once a crisis emerges, it's the trader who have to persist in the markets – either in liquidity or in exchange rate terms. They have to protect their banks and their engagement. So it always be the trader's fate to communicate in the financial markets and to absorb as much risk as possible.

### 3. BIS report

That brings me back to my start – the BIS report:

Do you know the daily traded FX volume ? (worldwide)

April 2004:                   \$ 1.880 billion  
 April 2007:                   \$ 3.210 billion (+ 71%)

The examined data comprise the traditional Foreign Exchange business: FX-Spot, Outright Forwards, Foreign Exchange Swaps as well as OTC-Derivatives.

Whilst BIS resumes the low volatility and risk aversion in the markets during the past years, it counts following arguably factors for the sharp increase in volumes:

- expansion in the activity of investor groups (including hedge funds)
- expansion of retail investors
- a trend for institutional investors with a longer-term investment horizon
- “technical trading”

The largest Financial Centers are:

	Market share 4/2007 *)	+/- versus 2004
UK	34,1%	<b>+2,8 %</b>
USA	16,6%	-2,6%
Switzerland	6,1%	<b>+3,3%</b>
Japan	6,0%	-2,3%
Singapore	5,8%	+0,6%
Hong Kong	4,4%	+0,2%
Australia	4,2%	+0,8%

\*) daily traded volume \$ 3.210 billion (or \$ 3,210.000.000.000) by BIS

Well those figures/volumes sound not only strange to you, but also for many of us in the Financial Markets. Nevertheless they are reality. Once a market is open (fully or partly convertible) for investors, volumes, volatility etc. increases. The world has a lot of money to invest – new products will be developed but also new markets became discovered.

And again, under the aspects of “know your customers” (net working), “Emerging Markets” etc. but also “Education”, ACI plays a significant role in the daily business.

Their 13.000 registered members are obliged to the Mission Statement and the Charter, the Model Code for market ethic and market competence. Foreign Exchange, as mentioned at the beginning, is a mostly unregulated market. ACI provides a (networking, educational) platform for traders – traders who respond to the principles of the ACI Association and accept the daily challenges of the Financial Markets.

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This brings me to my

#### **4. Concerns in the current Financial Markets**

##### *Liquidity*

The current crisis of the US Sub-prime Market has lead for Treasury and their banks to a Liquidity shortage. Here is an example, where policy of low interest rates in a special environment over many years became a boomerang furthermore to Treasury. Central banks reacted immediately and tried to calm down by pumping liquidity into the markets. Billions of Euros, Dollars or Japanese Yen were provided. But this liquidity was mainly given on the very short term (O/N-Liquidity) and very little of them for periods of more than 3months. So I would assume that this short liquidity disappears immediately.

On the other hand trader’s behaviour changed too. In Money Markets there is only little term liquidity any more. Banks are lesser willing to lend each other money for long periods and to participate in a functioning Money Market. So, either you have enough collateral in your portfolio or good friends in the markets to not be effected in liquidity squeezes.

##### *US Trade Deficit and Monetary Reserves*

On a long term perspective I still would like to point out the US Trade deficit. I believe the problems in the USA are underestimated. The strong imbalance in the trade deficit between USA on the one hand and China and Japan on the other will persist.

The question raises: *How long will China refinance the USA by buying Treasuries?*

By the end of 2006 some 65% of the world monetary reserves were held in USD and some 25% in EUR (about 4% in GBP and about 3% in JPY). Several Central Banks announced they will further diversify their reserves. By consequence there is no urgent need to sell USD. They also could just reduce their engagement in Treasuries! This could gradually reduce the USD reserves below 60% and the EUR reserves above 30% and so on. At the overall end the currency structure might get confused.

The USA became world’s largest debtor. Massive buying of Treasuries by Asian Central Banks has avoided a stronger depreciation so far. The consumption in the USA is higher than the production. The savings ratio is negative. It seems, the US live beyond their means.

Currency reserves held by Central Banks:

- they are headed by China with a huge (\$ 1.202 bn),
- closely followed by Japan (\$ 909 bn),
- EURO-Zone (\$ 451 bn),
- Russia (\$369 bn),
- Taiwan (\$ 267 bn),
- South Korea (\$247 bn),
- India (\$ 204 bn),
- Singapore (\$ 137 bn),
- Hong Kong (\$ 135 bn),
- Brasilia (\$ 122 bn) and finally
- Germany (\$ 115bn).

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## **5. Conclusions of the markets challenges**

What I conclude for ACI from the mentioned is the following:

Besides Regulators, Central Banks and other authorities the role of ACI -The Financial Markets Association will be to “fine tune” the traders community, to recognize their needs and to represent their demands.

Again, our Financial Markets are largely influenced or determined by economic and political occurrences. To enable efficient and smooth operations in the trading rooms ACI’s task lies:

- in the training and education of traders,
- in supporting a fair playground in mostly unregulated markets

and finally

- being the academic conscience in the industry of market imbalances.

Let me end my story by talking about my targets during my 3years term of presidency.

- Moving closer to the members – KYM
- Membership strengthening
- New Structure within the Excom
- New Statutes => to be flexible on future challenges
- Expand Education (talks with an Academic Partner are in progress, ev. Islamic Banking)
- Stronger benefit from the various working groups for all members
- New marketing – New WEB design
- Stronger market presence – market comments

**Vienna Congress**

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ACI The Financial Markets Association  
Manfred Wiebogen, President ACI - c/o VOLKSBANK Austria

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