

THE CANADIAN FOREIGN EXCHANGE COMMITTEE LE COMITÉ CANADIEN DU MARCHÉ DES CHANGES

150 King Steet West
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Toronto, Ontario
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November 29, 2004

Dear Foreign Exchange Market Participant,

Managing operational risk in foreign exchange requires constant self-evaluation and reassessment of existing controls.

At the request of the Foreign Exchange Committee (FEC) in the United States, the Operations Managers Working Group (OMWG) has published the two papers listed below. These committees are sponsored by the Federal Reserve Bank of New York.

1) **Management of Operational Risk in Foreign Exchange** – this paper was intended to serve as a resource for firms as they regularly evaluate their policies and procedures to manage operational risk. The document recommends 60 best practices to consider when evaluating operational controls.

2) **Recommendations for Nondealer Participants** – this paper, which is a condensed version of the 60 best practices, is geared towards nondealer participants who, while perhaps not as active in foreign exchange, could benefit from the recommendations.

These papers can be found under “Announcements” at the web sites of either the Canadian Foreign Exchange Committee (at www.cfec.ca) or the U.S. Foreign Exchange Committee (at www.newyorkfed.org/fxc).

There have been many changes in foreign exchange trading and settlement procedures since the papers were first published. These include higher volumes, the introduction of the euro, the globalization of processing centers, an increased focus on contingency management, regulatory and anti-money laundering requirements, and CLS processing – to name a few. As the industry has evolved the OMWG has reviewed and updated the documents to ensure they remain relevant.

The Canadian Operations Managers Working Group (Canadian OMWG), a working group of the Canadian Foreign Exchange Committee (CFEC), has reviewed the most recent publication of the documents, dated November 2004, and endorses them as valuable resources for assisting with periodic risk self-assessment. It should be noted that these are not rules per se, but recommendations. Each firm must evaluate how closely the best practices should be followed in relation to their own unique circumstances.

On behalf of the CFEC and the Canadian OMWG, we encourage you to review the documents with relevant departments within your organization and, where appropriate, incorporate the recommendations into your policies and procedures.

Yours truly,

Sheryl Kennedy
Chair, CFEC

Jean Naphine
Chair, Canadian OMWG