

February 24, 2004

Dear Market Professional,

RE: Canadian Overnight Index Swap Date Conventions

The Canadian Committee for Professionalism has been asked to clarify the date convention used for Canadian Overnight Index Swaps (“COINS”). Participants in the COINS market are accustomed to the various date conventions for the traditional products they trade such as foreign exchange forwards, repos, and interest rate swaps, to name a few, and this has led to some confusion over the date convention used for COINS.

We are aware that the subject of day count may cause confusion in some instances, due to the differing ways in which the various sectors of the global financial markets approach their businesses. To ensure the efficiency and integrity of the market, it is vital that the market terminology that evolves has a sound technical basis and is professionally and universally recognized. The language may be brief or concise, but there must be no room for ambiguity or misunderstanding as to what is being conveyed.

In June 2001, The Canadian Foreign Exchange Committee, the Canadian Committee for Professionalism, and the Financial Markets Association of Canada adopted The Model Code as the standard for best market practices in the Canadian foreign exchange marketplace. The Model Code was published during the year 2000 by ACI-Financial Markets Association with participation from all regions of the globe and in consultation with numerous regulatory bodies and central banks. As such, the Model Code represents a global perspective, offers a comprehensive guideline to best market practices, incorporates sound market principles, and is written in a spirit consistent with Canadian standards.

In order to clarify this issue, The Canadian Committee for Professionalism recommends the following as being ‘market best practice’, which should be used in conjunction with the methodology currently outlined in the Model Code:

- If the maturity date of a trade falls on a non-business day, the maturity date shall be moved to the *next* valid settlement day in Canada.
- The exception to this will be ‘end-end’ quotes, or quotes for 1, 2, 3 months etc., where the value date of the trade falls at month-end. If the corresponding maturity

date falls on a non-business day, the maturity date will be brought back to the last business day of that month.

- A '1-week' quote will always be for a period of seven days or more. If the maturity date falls on a non-business day, the maturity date should be moved to the next business day, regardless of what calendar month it falls in. Anything less than this should not be termed '1 week' but becomes a 'broken-dated short date' quote.

The ACI's recommended methodology for day count conventions may be found in The Model Code, 'Business Hours and Time Zone Related', Chapter 1.3, supported by 'Market Terminology and Definitions', Chapter 11, Part 2. ISDA Modified Business Day Convention can also be referenced, as it is consistent with the Model Code.

As a word of caution, we would like to express that the problem with conventions is that they are taken to be consistent in their application, but sometimes it is not possible to define a particular convention that will be applicable in all jurisdictions. In all dealing conversations, it is strongly recommended that where there is any doubt, it is best to err on the side of caution and clarify what is being proposed rather than risk using any terminology that could be misinterpreted.

If you have any questions or comments regarding this announcement, please feel free to contact any of the undersigned. This letter will be available on-line on the CFEC website at www.cfec.ca and the FMAC website at www.fmac.ca.

Sincerely,

Sheryl Kennedy, Chair
Canadian Foreign Exchange Committee

Sharon Grewal, Chair
Canadian Committee for Professionalism

Firas Askari, President
Financial Markets Association of Canada