

Minutes of the Canadian Foreign Exchange Committee Meeting #53

**Held at 2:30 p.m., Thursday, September 25, 2003
Bank of Canada, Montreal**

Present:

- Firas Askari, President - FMAC
- Joe Barbaro, Reuters (substitute)
- Steve Boucouvalas, HSBC Bank Canada (guest/substitute)
- Vincent Butkiewicz, National Bank of Canada
- Craig Ellis, CIBC World Markets
- Normand Faubert, Laurentian Bank
- Cliff Feehan, TD Securities
- Jeff Feig, Citigroup
- Dan Gandy, Freedom International Brokerage
- David Gibbins, RBC Capital Markets
- Francois Levert, State Street Canada (guest/substitute)
- Chris Naylor, Vice-President - FMAC (guest)
- Nigel Stephens, Department of Finance
- Jamie Thorsen, Bank of Montreal
- Bernard Vives, Société Générale
- Barry Wainstein, Bank of Nova Scotia
- Sheryl Kennedy, Bank of Canada (Chair)
- William Barker, Bank of Canada
- Tiff Macklem, Bank of Canada
- Ron Morrow, Bank of Canada
- Rob Ogrodnick, Bank of Canada (Secretary)

Regrets:

- J-F Courville, State Street Canada
- Susan Gammage, Reuters America Inc.
- Sharon Grewal, Chair - CCFP
- Brad Meredith, HSBC Bank Canada

53.1 Adoption of Agenda

The Committee adopted the agenda, as written. The Chair welcomed Bernard Vives to his first meeting with the CFEC. She also welcomed, to their first meeting, Francois Levert who was substituting for State Street and Chris Naylor who, as the Vice-President of FMAC, was observing as a guest of the Committee. Tiff Macklem was introduced as the new Adviser at the Bank of Canada for the Financial Markets Department. He is filling in for Ron Parker for the next 18 months.

53.2 Approval of the Minutes of meeting #52, held May 27, 2003

The minutes of the meeting of May 27, 2003 were approved, as written. Ms. Kennedy informed the Committee that Even Berntsen of JP Morgan Chase will be joining the CFEC as the second major non-resident market maker in the Canadian dollar. Finally, it was clarified that the term of David Gibbins on the Membership Subcommittee will end on April 30th 2004, with the terms of Barry Wainstein and Jamie Thorsen ending on April 30th of 2005 and 2006 respectively.

53.3 Website for the CFEC

Rob Ogrodnick presented, and obtained comments from the members, on a draft website for the CFEC. The members were very pleased with the website and wanted to thank those at the Bank of Canada who worked on it (Brent Eades, Sharron Hodgson and Rob Ogrodnick) for their efforts. It will go live in the near future.

53.4 Tour de table - Recent Market and Related Developments

Sheryl Kennedy spoke about current policy and economic developments and one of the members, in this case David Gibbins, began the discussion on current financial market developments. Much of the discussion focused on the recent meeting of G7 finance ministers and the meaning of their statement that more flexibility in exchange rates is desirable.

53.5 Report of the Canadian Committee for Professionalism (CCFP)

Given that Sharon Grewal was unable to attend the meeting, Firas Askari reported on behalf of the CCFP.

Overnight Index Swap Date Convention - An industry participant brought forward a concern that there is not a firmly established date convention for Overnight Index Swaps (OISs). Problems can arise when trading for one month at the start of the month as some traders use the end-to-end convention and while others use the date-to-date convention. The CCFP met to discuss this issue and concluded that given the nature of the market, with traders from a variety of product areas, it may not be possible to have a standard market convention. However, it is good practice for traders to verify the date convention with their counterparties prior to entering into a deal. **Sharon Grewal will contact other industry groups to discuss this issue. A draft letter for review by the CFEC and CCFP will be written to clarify the best practices concerning the date convention for overnight index swaps.**

Search for a Canadian Representative on ACI Committee for Professionalism - Canada has historically participated on the ACI CFP. However, the position is now vacant and the ACI CFP is asking if Canada wants to fill this position. The ACI CFP is an active working committee of senior level market participants, usually representing all regions. Responsibilities include updates to the Model Code (which is particularly important now that Canada has adopted the Code for its marketplace), discussions of global market concerns, the issuing of opinions and, upon request, arbitration or expert participation in market disputes. It is estimated that the position can take up to 5 hours per week and entails two international trips a year for committee meetings, with interim meetings being held by telephone conference call. **Members of the CFEC or the CCFP are strongly encouraged to volunteer for this important position.**

53.6 Financial Markets Association of Canada News

Firas Askari reported that the annual charity golf classic will be held on October 4th. As well, FMAC is co-hosting with the FMA-USA a conference on “The Future of Forex ... Creating the Business Model for 2004 and Beyond” on October 23-24 in New York. Finally, FMAC will be hosting the ACI World Congress in Montreal on May 3-5, 2007.

53.7 Inaugural Meeting of the Operations Managers Working Group

Ron Morrow reported that the Operations Manager Working Group (OMWG) held their inaugural meeting on September 3rd. Eileen Spinner of the Federal Reserve Bank of New York was a guest speaker at the meeting (by teleconference) and provided some insight into the structure and function as well as the recent initiatives of the New York OMWG. Subsequent to the meeting, Jean Naphine (RBC Capital Markets) was asked, and agreed, to Chair the OMWG for the first year. This was thought to be particularly appropriate given Jean’s experience with the New York OMWG. The next meeting of the OMWG will be held in November.

Five members of the Canadian OMWG attended the global conference/meeting of operations managers at the Federal Reserve Bank of New York on September 17-18. At the meeting, there was a commitment to work toward a single global set of best practices for operations managers. As a first step, the London Group will be undertaking a comparison of New York’s 60 Best Practices with London’s NIPs (Non-Investment Products) Code. At some point, the Canadian group will become involved in this exercise.

One thing that helped the New York OMWG get started was that they had specific issues to deal with that arose from the New York Foreign Exchange Committee (FEC). **The CFEC members were encouraged to talk to their OMWG representatives about any operational issues or problems they may have, and pass them on to Rob Ogrodnick who will be providing secretariat services to the OMWG.**

A member of the New York FEC acts as a liaison with their OMWG. Ms. Kennedy said that Rob Ogrodnick could act as a liaison between the CFEC and the OMWG. She also suggested that the Chair of the OMWG would be welcome to attend the CFEC meetings. However, **if there is someone on the CFEC who has an interest in operational issues, they are strongly encouraged to volunteer to act as liaison between the CFEC and the OMWG. Please inform Rob if you are interested in this position.** As requested by a member, the Secretary **agreed** to copy the CFEC members on the minutes of OMWG meetings.

53.8 Sharing Information on IT Systems

One of the members felt that there may be some value for market participants in comparing notes on their usage and experience with various IT systems. Members of the Committee were receptive to the idea of comparing experiences but thought that the CFEC was not an appropriate forum. Accordingly, **it was agreed that those members who wished to compare their experiences with different systems would do so outside the CFEC.**

53.9 BCP - Ontario Power Outage

There was a brief discussion on business continuity planning and the power outage in Ontario but there were no specific issues arising for the CFEC.

53.10 Continuous Linked Settlement

Sheryl Kennedy spoke about the current use of continuous linked settlement (CLS) to settle foreign exchange (FX) transactions. CLS Bank is now settling on average over 80,000 instructions each day, with a gross value of about \$US 900 billion. Based on the BIS's 2001 triennial survey, this represents about 40% of the world's FX transactions. CLS began settling payment instructions for four new currencies in September (the Danish and Norwegian krone, the Singapore dollar and the Swedish krona). With the original seven (Australian dollar, Canadian dollar, Euro, Yen, Sterling, Swiss franc

and U.S. dollar), 11 currencies are now settling through CLS. The Hong Kong dollar, New Zealand dollar and Korean won are expected to follow in 2004.

Transactions involving other currencies are being brought into the system at a relatively more rapid pace than are Canadian dollar transactions. Based on average daily turnover data in June, July and August of 2003, it is estimated that a little over 20% (\$C 18 billion) of the world's Canadian FX transactions are settled through CLS. Ms. Kennedy wondered if this meant the risk associated with FX settlement was not being dealt with as rapidly as one would like or if there could be any reputation risk for Canada as a result.

The banks on the Committee said that they are committed to CLS and are convinced of the benefits. Some of the members indicated that it is a question of the resources and timing to implement the technology. One of the members with CLS described it as an effective back office tool. It has both reduced operational risk and requires fewer manpower resources. **The Chair suggested that the Committee revisit progress on CLS and its implications for the Canadian dollar market at the next meeting.**

53.11 Other Business

30th Anniversary Celebration/Meeting of London FX Committee - Several members on the CFEC indicated that they would be interested in attending the above-mentioned meeting and dinner on November 18th in London.

53.12 Date and Place of next Meetings

The Secretary will canvass the members to find the most convenient meeting dates for 2004.