

Minutes of the Canadian Foreign Exchange Committee Meeting #56

**Held at 1:30 p.m., Thursday, September 23, 2004
Toronto**

Present: Steve Boucouvalas, HSBC Bank Canada (Substitute)
Vincent Butkiewicz, National Bank of Canada
Craig Ellis, CIBC World Markets
Cliff Feehan, TD Securities
Kevin Fitzgerald, Bank of Nova Scotia (Substitute)
Susan Gammage, Reuters America Inc.
Dan Gandy, Freedom International Brokerage
Sharon Grewal, Chair - CCFP
Carmen Perricone, President, FMAC
Jamie Thorsen, Bank of Montreal
Bernard Vives, Société Générale
Barry Wainstein, Bank of Nova Scotia
Rob Wittmann, RBC Capital Markets
Sheryl Kennedy, Bank of Canada (Chair)
Ross MacKinnon, Bank of Canada
Rob Ogrodnick, Bank of Canada (Secretary)

Regrets: J-F Courville, State Street Canada
Jeff Feig, Citigroup
Sandra Lavoratore, Department of Finance
Brad Meredith, HSBC Bank Canada

56.1 Adoption of Agenda

The Committee adopted the agenda, as written. The Chair welcomed Carmen Perricone and Kevin Fitzgerald to their first meeting, as well as Steve Boucouvalas who is back after some absence from the Committee.

56.2 Approval of the Minutes of Meeting #55, held May 25, 2004

The minutes of the meeting of May 25, 2004 were approved, as written.

56.3 Report of the Membership Subcommittee

Sheryl Kennedy reported that there will be membership changes for the CFEC from Laurentian Bank and JP Morgan Chase.

56.4 Tour de table - Recent Market and Related Developments

Not reported in the minutes.

56.5 Report of the Canadian Committee for Professionalism (CCFP)

Education and Minimum Accreditation

Sharon Grewal presented the CCFP's recommendations for minimum accreditation in the Canadian foreign exchange marketplace. The ACI Dealing Certificate would be recommended as the minimum accreditation for personnel involved in transacting foreign exchange contracts, including traders, sales staff and brokers. This recommendation would apply to new and recent (under two years) employees. (The ACI Diploma would also be encouraged as it provides more in-depth knowledge of the financial markets.) The estimated cost to implement this recommendation is C\$500 per employee, and it is estimated that up to 30 hours of study time would be required for new market entrants.

In order to implement this initiative, the CCFP and the CFEC would issue a letter of recommendation concerning this best practice to the business heads of foreign exchange and their human resource departments. While the human resource departments would be responsible for the direct implementation of the program, it would be up to each CFEC member to ensure that their financial institution is supportive of the initiative. Financial institutions who do not have a member on the CFEC would be approached with this recommendation once the CFEC member firms have begun accreditation. CFEC member firms could provide progress reports at meetings. Accreditation of staff in other key areas such as back-office operations or the middle office would be discussed within those working groups.

In the discussion that ensued, it was noted that some of the larger banks already have in place very extensive training programs. Hence this initiative was viewed as a recommended minimum, something that could be offered as an additional resource and encouraged but may not work equally well for all institutions. It was also pointed out that the ACI Certificate could act as a useful test for the more extensive training programs that some banks have.

It was agreed that the CCFP would draft a letter that recommends the ACI Dealing Certificate as the minimum standard of knowledge when undertaking business in foreign exchange contracts in the Canadian marketplace. The draft letter will be circulated to the CFEC members for approval.

Updates to the ACI Model Code

Sharon Grewal provided a summary of three updates to the ACI Model Code that came into effect on April 15th 2004.

Use of confidential information:

- One should not profit, through intent or negligence, from confidential information.
- One needs clearly documented policy, procedures and controls to manage confidential information.
- There is a management responsibility to inform staff of these policies, procedures etc.
- One should acknowledge to clients that authorized dealers are actively involved in trading for the account of the firm, and that trading activity could inadvertently adversely affect the interest of the client.

Money laundering and terrorist financing:

- Banks and their employees have a duty to prevent such acts and report suspicious transactions to authorities.
- One needs clearly documented policy, procedures and controls to avoid being exploited for this purpose. These policies etc. should be reviewed regularly.
- Staff must be trained to recognize an offence.
- Special attention should be paid to unusual transactions (a list is provided in the Model Code).
- A key protection against these acts is the “know your client” principle.

Recording telephone conversations and electronic text messages:

- Conversations undertaken by dealers, brokers and back offices (e.g., for confirming deals or passing payments) should be taped.
- Although very common, counterparties should be informed.
- Firms should ensure privacy laws are adhered to.
- Recommend keeping tapes for two months, but the decision should depend on the nature of transaction (e.g., tapes of longer term swaps should be kept for longer).
- The Model Code lists the controls that should be in place.

As these are fairly lengthy best market practices, readers are referred to the ACI Model Code for all the details.

56.6 Outreach to Risk Managers

Given that the ACI Model Code is less well-known outside the front offices of the banks, at the last meeting members felt that one step the CFEC could take to better promote adherence to best practices is to send the ACI Model Code to others in the banks. This would include those in the risk management area. A draft letter to risk managers, which provides some background on the Model Code and states that the CFEC has adopted this Code as best practice for the Canadian foreign exchange market, was distributed to the members. A meeting of risk managers was also proposed in the letter. It was understood that as each bank may be structured somewhat differently, the risk managers may need to share this information with other staff (e.g., Compliance) as they see fit.

It was agreed that the ACI Model Code would be sent to an appropriate person in the risk management area of each of the banks. Once the risk managers have been given some time to review the Model Code, it was proposed that a meeting of risk managers could be convened to discuss issues related to the Code or any other issues of common interest related to foreign exchange markets that risk managers may have.

56.7 Communications and FX Committees

Rob Ogrodnick distributed a paper that outlined the current communications strategy of the CFEC and other foreign exchange committees around the world. In addition to the issues raised in the paper, a number of other questions were raised. In our communications, should we target the dollar-Canada market globally as well as the foreign exchange market in Canada? Are there other groups in the banks we should focus on such as human resource departments or chief dealers? Is it possible to have more outreach to other foreign exchange committees?

It was agreed that a Communications Group would be formed to further explore a communications strategy for the CFEC. The volunteers include Rob Wittmann, Cliff Feehan, Susan Gammage and Rob Ogrodnick.

56.8 Special Forum with Clients

There was an initial discussion about the possibility of the CFEC hosting a special forum with clients as a fourth meeting next year. It was felt that e-commerce in foreign exchange would be a good topic. A speaker or speakers could be brought in for a working session followed

by dinner. **Susan Gammage, Vincent Butkiewicz, Rob Wittmann and Rob Ogrodnick volunteered to work on this.** Other members may be approached as well.

56.9 Report from the Operations Managers Working Group

Rob Ogrodnick reported on behalf of the operations managers that they have completed their review of two key documents of the New York Foreign Exchange Committee: the "Management of Operational Risk in Foreign Exchange (otherwise known as the "60 Best Practices") and "Foreign Exchange Transaction Processing: Execution to Settlement - Recommendations for Non-dealer Participants." At their last meeting, the operations managers decided that they are in agreement with the general intent and spirit of these two best practices documents and as such they were endorsed as being appropriate for Canada.

At their next meeting on November 17th, the OMWG will be developing its work plan for next year. Hence **if the CFEC members have any ideas for projects that would be useful for the operations managers to focus on in 2005, they are asked to speak to their OMWG member or Rob Ogrodnick.**

56.10 Other Business

Sheryl Kennedy mentioned that the Bank of Canada will ask Gabriele Galati of the Bank for International Settlements to present the global results of the 2004 triennial survey at the next CFEC meeting in the new year, as was done three years ago.

56.11 Date and Place of Meetings in 2005

The Secretary will survey the members to obtain the best dates for the three CFEC meetings in 2005 and the special forum with clients.