

Minutes of the Canadian Foreign Exchange Committee Meeting #58

**Held at 2:00 p.m., Thursday, June 2, 2005
Montreal**

Present: John Aloisio, RBC Capital Markets
Joe Barbaro, Reuters (substitute)
Vincent Butkiewicz, National Bank of Canada
Louise Couture-Richard, Société Générale (substitute)
Robert de Groot, Citigroup (substitute)
Craig Ellis, CIBC World Markets
Sharon Grewal, Chair - CCFP
Moti Jungreis, TD Securities
Sandra Lavoratore, Department of Finance
Steven Mayhew, Laurentian Bank (substitute)
Brad Meredith, HSBC Bank Canada
Tim Miles, Garban Intercapital
Chris Naylor, Vice-President, FMAC
Richard Poirier, National Bank of Canada (substitute)
Jamie Thorsen, Bank of Montreal
Barry Wainstein, Bank of Nova Scotia
Sheryl Kennedy, Bank of Canada (Chair)
Ron Morrow, Bank of Canada
Miville Tremblay, Bank of Canada
Rob Ogrodnick, Bank of Canada (Secretary)

Regrets: Jeff Feig, Citigroup
Susan Gammage, Reuters America Inc.
Carmen Perricone, President - FMAC
Bernard Piché, Laurentian Bank

58.1 Adoption of Agenda

The Committee adopted the agenda, as written. The Chair welcomed Moti Jungreis and Tim Miles as new members on the Committee, as well as Louise Couture-Richard and Richard Poirier.

58.2 Approval of the Minutes of Meeting #57, held February 1, 2005

The minutes of the meeting of Tuesday, February 1, 2005 were approved, as written.

58.3 Report of the Membership Subcommittee

On behalf of the Membership Subcommittee, which met on May 11th, Sheryl Kennedy announced a number of changes regarding membership on the CFEC.

- Moti Jungreis is the new member from TD Securities, replacing Cliff Feehan. Martine Irman will be his substitute.
- Richard Audet from Société Générale will complete Bernard Vive's term (which will come up for renewal on April 30, 2007).
- Tim Miles from Garban Intercapital is the new voice broker representative, replacing Dan Gandy from Freedom International Brokerage.
- To promote greater fairness of voice broker representation on the CFEC, it was decided that the voice broker position should carry a three-year term, like the other positions on the Committee. It was decided that the electronic broker position should also carry a three-year term. Hence Tim Miles and Susan Gammage were both given three-year terms ending on April 30 2008.
- Ms. Kennedy announced that as of September 1, 2005 she will assume responsibility for the analysis of domestic economic issues, and the Research Department will report to her. David Longworth will take over responsibility for domestic and international financial market issues as well as the Bank's fiscal agency role for the federal government. The Financial Markets Department and the Debt Administration Office will report to him. The Membership Subcommittee will meet to recommend a new Chair for the CFEC.

Two other senior management appointments of interest to the members were also announced by the Bank of Canada effective May 30, 2005. First, George Pickering who was the Chief of the Financial Markets Department is now the Adviser to the Governor for financial markets. Second, Donna Howard, who was the Deputy Chief of the Financial Markets Department has become the Chief of that Department.

58.4 November Special Client Forum

The Chair of the group working on this project reported on the difficulties encountered in trying to find a topic that would be of interest and beneficial to all involved. In the ensuing discussion, there

were also differing views on what the forum would entail. Some saw it as an opportunity to obtain the views of clients on topics such as electronic trading and how clients are being serviced by the banks in foreign exchange. Others thought it should be of greater benefit to the clients themselves, an event in which, for example, the Governor might speak. It was pointed out that the Governor will be speaking to the Toronto Society of Financial Analysts in September. In addition, at the ACI World Congress in May in Stockholm there was a special panel discussion on electronic trading and it was thought that a topic of interest may have been raised at that session. It was concluded that **the Working Group will take these comments on board and determine the best approach to pursue.**

58.5 Tour de table - Recent Market and Related Developments

The Tour de table is not reported in the minutes.

58.6 CFEC Semi-annual FX Volume Survey

Two final issues were decided with respect to the semi-annual reporting that will begin in October. First, in/out swaps, which are used between CLS members to reduce pay-ins when settling FX transactions via the CLS system, will be excluded from the survey. Second, at the time of the BIS triennial survey, the semi-annual reporters will complete both the April semi-annual survey and the April triennial survey. While this will increase the reporting burden for the semi-annual reporters, given that the two surveys are conducted on a slightly different basis, undertaking both will allow one to benchmark the semi-annual survey against the larger and more comprehensive triennial survey. As well, it will maintain continuity in the semi-annual data series. The next triennial survey is scheduled for April 2007.

Ron Morrow reported that at a recent meeting of the BIS there was some concern about the extent to which FX volumes are settling through CLS. Getting good statistics on that proportion is also a problem. Hence at some point in the future there could be a question on the CFEC semi-annual survey to determine the percentage of FX volumes that are settling inside versus outside of CLS. Risk managers would then be approached to determine how the risk associated with transactions that settle outside of CLS is being managed.

On a related CLS topic, a broker noted that some CLS counterparties want to deal only with other CLS counterparties, leading to a two-tier CLS versus non-CLS market. This can lead to issues of transparency if only CLS members can see a particular price. The CLS cash swaps issue, in which the cash leg of an FX swap settles

outside of CLS and the T/N leg settles inside CLS, was also briefly discussed.

58.7 Report of the Canadian Committee for Professionalism (CCFP)

Minimum Standard of Knowledge Best Practice - On behalf of the CCFP, Sharon Grewal presented a draft letter to the CFEC which recommends a minimum standard of knowledge equivalent to the information contained in the ACI Dealing Certificate for all personnel involved in trading and sales in the FX market in Canada. Personnel who do not have that minimum would be required to take the ACI Dealing Certificate or some other course(s) that cover, at a minimum, the same material. The CCFP also looked into the courses offered by the Financial Services Authority (FSA) but it was determined that the FSA does not have any courses that are specific to FX or wholesale financial markets. (Their courses are directed more to those dealing in the retail market.) **The members agreed that the minimum standard of knowledge best practice letter would be sent to their Human Resources Departments. The contact information to send these letters (street address, email address and also telephone number) should be sent to Rob Ogrodnick.**

Bank of Canada Noon Rate Setting - At the last meeting, a member requested that the CCFP and the Bank of Canada review the procedure and timing concerning the Bank's practice of publishing 12 noon exchange rates. Ron Morrow reported that from the perspective of the Bank the procedure for setting the rate must: (1) result in a rate that is representative of FX trading levels prevailing at the time; (2) be resistant to influence or manipulation by participants; and (3) be released in a timely manner. From the perspective of the CCFP members, the concern was that the wider the period of time used to set the rate, the greater the possible range of rates one could end up with. As well, a more timely release would be preferred. **The Bank of Canada agreed to come back to the CCFP with some ideas on how the rate setting could be improved. A pilot project would likely be undertaken before any permanent changes would be made.**

ACI Model Code Updates - Ms. Grewal brought the updating of two best practices to the attention of the members. The best practice on confirmations was updated to include those situations where there are automatic trading systems and central clearing counterparties (Chapter III, No. 2). The best practice on verbal confirmations was also updated (Chapter III, No. 3). {Secretary's Note: These updates can be easily found through the CFEC website by clicking on the link to the Model Code under Announcements. Then click on the updates to the

latest printed version of the Model Code and they are the updates numbered 25 and 26 dated October 3, 2004.}

Other Issues - For those banks who may have individuals wanting to attend, Ms. Grewal reported that an ACI Dealing Simulation Course will be held in Chicago in October.

58.8 CFEC Communications Strategy

On behalf of the Communications Group (consisting of Susan Gammage, Rob Ogrodnick and Jamie Thorsen), Ms. Thorsen presented the recommendations of the Group to enhance the CFEC's communications. She noted that our objective is to inform people about the work of the CFEC as well as to promote key best practices documents such as the *ACI Model Code*. While the level of communication with the CFEC member firms (including front, back and middle offices) is quite good, there are also other smaller firms who are not on the Committee and many end-users or clients, both financial and corporate. **The recommendations follow:**

- **Create a registration function on the CFEC website. This would be a “pop-up” function that would allow people to register to automatically receive by email the announcements and minutes of the CFEC as well as the annual Report on Activities.**
- **Financial institutions are encouraged to include a link to the CFEC website on their individual firm's website.**
- **Develop contacts with various industry associations to keep them informed about the work of the CFEC.**
- **Identify speaking and writing opportunities in order to to communicate information about the CFEC.** For example, at speaking engagements the members could talk about their role on, and the work of, the Committee.
- **Continue our outreach to the risk managers of the banks by sending them the updates to the *ACI Model Code* each year.**
- **The Chair/Secretary should attend the meetings of other FX committees bi-yearly, and the Chairs/ Secretaries of other FX committees should be invited to attend CFEC meetings from time to time.**
- **The Membership Subcommittee should attempt to ensure that at least one member on the CFEC is also a**

member of other major FX committees such as those in New York and London.

Ms. Thorsen added one additional recommendation that she thought of subsequent to the report of the Communications Group.

- **The CFEC could develop a tutorial on the website that would help FX personnel to meet the minimum standard of knowledge best practice.**

These recommendations were approved by the members.

58.9 2007 Montreal Congress

Sharon Grewal spoke about the marketing plan for the 2007 Congress, which will leverage existing contacts to reach out to potential participants and will put a major emphasis on North America.

58.10 Issues from the May ACI World Congress in Sweden

Chris Naylor reported on three issues. First, regulators in Australia have put the onus on ACI Australia to maintain and oversee the professional accreditation of FX practitioners. It is required that practitioners have a minimum standard of knowledge.

Second, the Board of Education of ACI is in the process of updating its Settlements course to turn it into an Operations course. ACI has put an Operations Working Group together to ensure that the rollout for the certificate is completed by June 2006. On a related topic, FMAC is looking for a Canadian representative to sit on the ACI Board of Education. **The requirements for a Canadian representative to sit on the ACI Board of Education will be circulated to the CFEC. If any of the members know someone who would be interested in that position they are asked to contact Rob Ogrodnick.**

Third, ACI International will be holding an event in Paris with the Governor of the ECB, Mr. Trichet, to celebrate 50 years of the ACI. All ACI national associations will be invited to this event, as will the Governors of the central banks of those countries that have national ACI associations.

58.11 Other Business

Sheryl Kennedy reported that she will be attending the Hong Kong FX Committee meeting in two weeks and she has also been invited to attend the New York FX Committee meeting in September.

Ms. Kennedy, who Chairs the BIS Markets Committee, said she will continue in that role until June of 2006. There is a possibility that at one of their meetings they will discuss foreign exchange committees, how they can work together etc. If that occurs she will report back to the CFEC.

58.12 Date and Place of Next Meeting

The next meeting will be held on Thursday, September 29th in Toronto.