

Minutes of the Canadian Foreign Exchange Committee Meeting #59

**Held at 1:30 p.m., Thursday, September 29, 2005
Toronto**

Present: John Aloisio, RBC Capital Markets
Vincent Butkiewicz, National Bank of Canada
Craig Ellis, CIBC World Markets
Jeff Feig, Citigroup
Susan Gammage, Reuters America Inc.
Sharon Grewal, Chair - CCFP
Moti Jungreis, TD Securities
Brad Meredith, HSBC Bank Canada
Tim Miles, Garban Intercapital
Carmen Perricone, President - FMAC
Jamie Thorsen, Bank of Montreal
Barry Wainstein, Bank of Nova Scotia
George Pickering, Bank of Canada (Chair)
Ron Morrow, Bank of Canada
William Barker, Bank of Canada
Rob Ogrodnick, Bank of Canada (Secretary)

Regrets: Richard Audet, Société Générale
Sandra Lavoratore, Department of Finance
Bernard Piché, Laurentian Bank

59.1 Membership Subcommittee Report/Election of a New Chair

On behalf of the Membership Subcommittee, Jamie Thorsen called the meeting to order and reported that the Subcommittee is recommending that George Pickering, the Bank of Canada's new representative and replacement for Sheryl Kennedy on the Committee, chair the CFEC going forward. While the employees of the Bank of Canada were not in the room, the full Committee discussed this recommendation and agreed that Mr. Pickering should chair the CFEC.

The Membership Subcommittee also identified and proposed that Russell Lascala from Deutsche Bank fill the second non-resident bank position on the Committee. (As a result of delays at the airport, Mr. Lascala was not able to attend the meeting.)

59.2 Adoption of Agenda

The Committee adopted the agenda, as written.

59.3 Approval of the Minutes of Meeting #58, held June 2, 2005

The minutes of the meeting of Thursday, June 2, 2005 were approved, as written.

59.4 Tour de table - Recent Market and Related Developments

The Tour de table is not reported in the minutes.

59.5 Report of the Canadian Committee for Professionalism (CCFP)

Minimum Standard of Knowledge Best Practice - Sharon Grewal reported that the letter recommending 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 will be distributed shortly. Personnel who do not have that minimum will be required to take the ACI Dealing Certificate or some other course(s) that cover, at a minimum, the same material. This best practice letter will be sent to the Human Resource Departments of those on the Committee. Rob Ogrodnick will contact the few remaining banks who have not provided the contact information for their HR Departments.

Bank of Canada Noon Rate Setting - Ron Morrow and Sharon Grewal reported on the meeting of the CCFP and the Bank of Canada that was held on September 22nd to discuss a proposal from the Bank for a new procedure to obtain the noon rate settings that are posted daily on the Bank's website. The impetus for this proposal was a request from the CFEC for the Bank to review the process for setting the noon rates and to also release the rates in a more timely fashion. The proposal from the Bank is to move to a two-minute averaging window (11:59 - 12:01) and to release the USD/CAD bilateral exchange rate as soon as possible (typically in 15 to 20 seconds) with the other exchange rate pairs following shortly thereafter. Various simulations had been run by the Bank using different periods of time for the averaging window and the differences in the resulting rates were relatively minor. Nevertheless, these changes in methodology would be implemented on a six-month pilot basis to allow for assessment of how well it is working and whether further refinements are required. The largest potential concern that was raised was that the move to a shorter two-minute averaging period could make the rate easier to manipulate by market participants. It was, however, debated whether this was really rate manipulation or risk management intended to get the business of clients done at or close to the noon rate. The CCFP was supportive of the proposal and recommended that the Bank go ahead with the pilot project.

The CFEC members were also supportive of the pilot project. It was noted by some of the members that the Bank of Canada noon rate is just a reference rate and one would not want to give the impression that it is a tradeable rate. The Bank of Canada agreed with that statement and added that the disclaimer accompanying the noon rates on the Bank's website would be strengthened to that effect.¹ **A notice of the change in the process for setting the noon rates will be announced on the Bank's website in mid-October with the actual implementation likely to occur in the second half of October.**

59.6 Liaison with other FX Committees

Barry Wainstein reported in general terms about the format and content of the meetings he attends as a member of the ECB Foreign Exchange Contact Group. Similarly, George Pickering briefly reported on the September 8th meeting he (and Sheryl Kennedy) attended with the New York Foreign Exchange Committee. **It was agreed that Mark Snyder and Dino Kos would be invited to attend one of the CFEC's meetings in 2006.** It was felt that the liaison and contact between the various FX committees globally has improved and that this is a positive development for the work of the committees.

A member asked if the Bank of Canada could provide some information at the CFEC meetings on what has transpired at G7 meetings.

59.7 Special Client Forum

The Chair of the Working Group on this project reported on the difficulties encountered in trying to find a topic that would be of interest and beneficial to all involved. At the ACI World Congress in Stockholm in May 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. The Group will look at the report resulting from that discussion for a topic, but otherwise this project will be put on hold for the time being.

59.8 Canadian Representative for the ACI Board of Education

Carmen Perricone and Sharon Grewal called upon the members to canvass their institutions for a volunteer to sit as a Canadian

1. The current disclaimer on the Bank of Canada's website states, in part, that "Bank of Canada exchange rates are nominal quotations - not buying or selling rates - and are intended for statistical or analytical purposes."

representative on the ACI Board of Education. It was noted that the CFEC, the CCFP and the FMAC have adopted the ACI Model Code as the standard for best market practices in Canada and there is a Canadian representative sitting on the ACI Committee for Professionalism. Similarly, a minimum standard of knowledge best practice based on the ACI Dealing Certificate is being adopted for all personnel involved in trading and sales in the FX market in Canada and hence it would be helpful to have a Canadian representative on the ACI Board of Education. A description of what this position would entail has been circulated to the CFEC. **The members are asked to contact Rob Ogrodnick with the names of any possible volunteers to sit on the ACI Board of Education.**

59.9 FX Volume Surveys

CFEC Semi-annual - Rob Ogrodnick reminded everyone that as of October 1st the first semi-annual monthly (in October and April) FX volume report will begin and the daily/weekly report will be discontinued.

BIS Triennial - George Pickering reported on the discussion about the planning for the 2007 triennial survey that occurred at the BIS Markets Committee meeting in September. **The members were informed that the Bank of Canada will be seeking their input on the 2007 survey in the near future.**

59.10 Meeting Schedule for 2006

In order to set the meeting schedule in advance for the year, the members will be surveyed to find the most convenient meeting dates for 2006. **With respect to the two dinners (with a speaker) that are hosted after the meeting each year, the members expressed a preference to have these undertaken as lunches before the meeting.**

The members will also be asked for suggestions for major topics of discussion for the year ahead, thereby allowing for the arrangement of speakers if need be.