

Minutes of the Canadian Foreign Exchange Committee Meeting #57

**Held at 1:30 p.m., Tuesday, February 1, 2005
Toronto**

Present: John Aloisio, RBC Capital Markets
Vincent Butkiewicz, National Bank of Canada
Robert de Groot, Citigroup (substitute)
Craig Ellis, CIBC World Markets
Susan Gammage, Reuters America Inc.
Dan Gandy, Freedom International Brokerage
Sharon Grewal, Chair - CCFP
Brad Meredith, HSBC Bank Canada
Carmen Perricone, President - FMAC
Gary Stafford, TD Securities (substitute)
Jamie Thorsen, Bank of Montreal
Barry Wainstein, Bank of Nova Scotia
Paul Fisher, Bank of England (guest)
Sumita Ghosh, Bank of England (guest)
Sheryl Kennedy, Bank of Canada (Chair)
Ron Morrow, Bank of Canada
William Barker, Bank of Canada
Rob Ogrodnick, Bank of Canada (Secretary)

Regrets: Cliff Feehan, TD Securities
Jeff Feig, Citigroup
Sandra Lavoratore, Department of Finance
Bernard Piché, Laurentian Bank
Bernard Vives, Société Générale

57.1 Adoption of Agenda

The Committee adopted the agenda, as written. The Chair welcomed John Aloisio to his first meeting with the CFEC as well as Paul Fisher and Sumita Ghosh as guests of the Committee.

57.2 Approval of the Minutes of Meeting #56, held September 23, 2004

The minutes of the meeting of Thursday, September 23, 2004 were approved, as written.

57.3 Report of the Membership Subcommittee

On behalf of the Membership Subcommittee which met on December 17th, Sheryl Kennedy announced a number of changes regarding membership on the CFEC.

- John Aloisio is the new member from RBC Capital Markets, replacing Rob Wittmann. Ed Monaghan will be his substitute.
- Bernard Piché is the new member from Laurentian Bank, replacing Normand Faubert. Steven Mayhew will be his substitute.
- J-F Courville of State Street Canada has moved on to other responsibilities and has stepped down from the Committee. John Walks will be asked to join the CCFP.
- As a result of changes at Tullet Liberty, Henry Ann has resigned as the substitute broker for Dan Gandy. That position will not be re-filled, as representation from one voice broker was thought to be sufficient.
- As a result of a reorganization at JP Morgan, Even Berntsen has stepped down from the Committee. The Sub-committee is in the process of looking for a replacement from another non-resident bank. **If the Committee Members have any ideas for non-resident members they should contact Rob Ogrodnick.**
- The terms of the three members expiring on April 30th of this year (Vincent Butkiewicz, Brad Meredith and Barry Wainstein) were renewed for a three-year term ending on April 30, 2008. Barry was absent from the deliberations when the Membership Subcommittee renewed his term.
- Not that long ago it was decided that the industry members of the Membership Subcommittee should have fixed three-year terms for sitting on that Committee, each expiring in a different year to ensure continuity. As Barry Wainstein had offered to take one of the initial shorter terms, his term is coming up for renewal on April 30th. Given the significant number of membership changes on the CFEC and the fact that Barry is a senior, long-time member of the CFEC, the Membership Subcommittee (excluding Barry) decided to renew his term on the Membership Subcommittee for another three-year period ending on April 30, 2008.

57.4 London Foreign Exchange Joint Standing Committee

Sheryl Kennedy introduced Paul Fisher and Sumita Ghosh of the Bank of England. They are the Chair and Secretary respectively of the London Foreign Exchange Joint Standing Committee (FXJSC). Paul and Sumita provided some background information on the FXJSC and outlined some of the projects the Committee has worked on over the past two to three years.

The FXJSC was established in 1973 under the auspices of the Bank of England to promote communication between banks and brokers, and to facilitate the smooth functioning of the foreign exchange market. The original catalyst concerned some difficult negotiations between representatives of the banks and brokers over the rate for brokerage on individual foreign exchange trades for the market as a whole. It was clarified that the FXJSC is not a Bank of England committee but a markets committee that the Bank of England chairs. The Committee has expanded to include 16 banks/dealers, four brokers (including the Wholesale Market Brokers' Association) and multi-bank dealing systems, the British Bankers' Association, the Association of Corporate Treasurers (the only representative from the buy side) and the Financial Services Authority.

Some of the projects and issues the FXJSC has worked on or are currently working on include:

- Undisclosed principal trading. This occurs when, for example, a fund manager (acting as agent) trades on behalf of a client (the principal to the transaction) with a counterparty, but does not reveal the identity of the client to the counterparty. A letter to market participants was written on this issue.
- The Non-Investment Products Code is in the process of being updated.
- Semi-annual survey of turnover in the foreign exchange market in London. The Bank of England collects and disseminates the data.
- Consultation Paper (CP) 205 - This refers to a Financial Services Authority (FSA) regulation regarding the management or separation of research and analysis from sales and trading within a firm, to ensure that potential conflicts of interest are avoided. However, the difficulty is that while the regulations may apply easily to the equity market, it is not clear how they apply to the foreign exchange market. While equity research, for example, can be based on private knowledge, analysis of the foreign exchange market is

normally based on public information such as macro data, policy announcements and speeches by public authorities. The FXJSC is still in discussion with the FSA on this issue.

- An Operations Managers Working Group (OMWG) was established by the FXJSC after the 9/11 terrorist attacks in 2001. This group addresses issues related to daily operating problems (e.g., how to confirm trades in a timely fashion and trade fails), money laundering regulations etc.
- Along with the New York OMWG, the London group issued a joint statement to address the conversion of old Turkish lira to new Turkish lira as of 1 January 2005.
- Another focus for the OMWG is contingency planning. For example, they have engaged in tests of contingency phone call arrangements. As well, the FXJSC and the OMWG have set up a secure website. This Website contains the two groups emergency contact details which would be used to exchange information during times of market disruption.
- The London OMWG will be hosting the second global operations managers conference in April of this year.
- The Operations Subgroup has produced reports on e-commerce and is also looking at the operational risks arising from prime brokerage.
- A Legal Subgroup has recently been established (similar to the FMLG in New York). They are reviewing the Non-Investment Products (NIPs) Code.
- Most recently, the FXJSC has begun to set up a Chief Dealers' Group.

[Secretary's Note: For more information on the London FXJSC, readers are referred to their website, a link to which can be found on the CFEC website at www.cfec.ca.]

With respect to CP 205, a member asked if there is a similar regulation in Canada. Ms. Kennedy replied that there is the Investment Dealers Association of Canada (IDA) Policy No. 11. **[Secretary's Note:** The IDA member regulation notice on Policy No. 11 states that "Policy No. 11 applies to both equity and fixed income research reports..." The definition of a research report includes any material that "contains an analyst's recommendation concerning the purchase, sale or holding of a security." There is no mention of foreign exchange in this notice. Also of note, reports with respect to Government debt fall outside the definition of a research report.]

57.5 Survey on Corporate Hedging Activity Revisited

In December 2004, the Bank of Canada sent the members of the CFEC a questionnaire on the foreign exchange hedging activities of their corporate customers. A similar questionnaire had been completed by the CFEC members in January 2004. The purpose of the survey was to gain a better understanding of the degree to which hedging activities have insulated firms from the appreciation of the Canadian dollar against the U.S. dollar, whether through natural hedges or by using financial market instruments. William Barker provided the Committee with a summary of the results of the survey, which he noted would be posted on the Bank of Canada's website. **[Secretary's Note:** The Executive Summary of this survey, entitled "Foreign Exchange Hedging by Canadian Corporate Accounts" was posted on the Bank of Canada website (www.bankofcanada.ca) on February 4, 2005. To find that document click on "Financial Markets" and then look under "News" for that date.]

57.6 Tour de table - Recent Market and Related Developments

Before the discussion began, Sheryl Kennedy reminded the members that the Bank of Canada has a policy of not divulging any new information in private meetings. New views on policy are always announced publicly. Private meetings are off-the-record so as to encourage open and frank discussion.

The Tour de table is not reported in the minutes.

57.7 Report of the Canadian Committee for Professionalism (CCFP)

Sharon Grewal reported that Lynn Kennedy has been confirmed as the new Canadian representative on the ACI Committee for Professionalism (CFP). The ACI CFP is looking into the development of best practices for e-trading. They may organize a workshop on this issue at the ACI Congress in Stockholm in May.

Ms. Grewal spoke to the draft letter that had been sent to the CFEC members on the recommended minimum standard of knowledge for all personnel involved in trading and sales in the FX market in Canada. The recommendation was for a minimum standard of knowledge that is equivalent to the information contained in the ACI Dealing Certificate. 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.

It was suggested that the CCFP also consider the courses offered by the Financial Services Authority before this letter is sent. The banks' London branches are covered by the FSA. Ms. Grewal noted that the CCFP had just looked at courses that are readily available in Canada. It was also suggested that the letter be signed by just the Chair of the CFEC (and the CFEC members would be copied). The letter would be sent to either the human resources department (and copied to the middle office) or it would be sent to the middle office (and copied to the human resources department). Each CFEC member would decide this according to their own bank's individual circumstances. **The Chair of the CCFP agreed to look at these two suggestions.**

Ms. Grewal gave a brief description of the ACI Dealing Simulation Course and asked whether the members thought there would be enough interest in the market to host the course in Canada. One would need 30 to 50 new or relatively new entrants to participate (the more participants there are the lower the per person cost would be). The members thought it would be difficult to get that many participants. However, it was thought that if the FX market in Canada is kept informed about when the course is being offered in other countries, the banks may want to send new entrants to participate.

One of the members suggested that the CCFP should review the timing around the Bank of Canada practice of publishing 12 noon exchange rates. **It was agreed that Ron Morrow and Rob Ogrodnick would participate in the CCFP discussion of this issue.**

57.8 2007 Montreal Congress

Carmen Perricone and Sharon Grewal spoke about the ACI Congress that will be held in Montreal in May of 2007. David Dodge has been confirmed as the keynote speaker. The organizing committee for the Congress will be contacting the CFEC members and the Bank of Canada for suggestions for panel topics and speakers. The Exhibitor/Sponsor packages were distributed to the CFEC members at the meeting, so that everyone would get them at the same time. The sponsorships will be given out on a first-come-first-served basis. **It was decided that if need be more time could be devoted to this topic at the next CFEC meeting in Montreal on June 2nd.**

57.9 Proposal for a CFEC Semi-annual FX Turnover Survey

Rob Ogrodnick presented a proposal to replace the FX volumes report that the banks send either daily or weekly to the Bank of Canada with a semi-annual FX survey based on a scaled-down version of the

BIS triennial survey. The daily/weekly report has not been revised in 10 years and is in need of either a major review or replacement. The New York and London FX Committees have recently adopted semi-annual reporting of monthly data (April and October) based on the triennial survey format. There was only a limited, initial discussion of this proposal. **In order to get feedback and input from the CFEC members, Rob Ogrodnick agreed to circulate the proposal with a number of questions to be answered.**

57.10 Other Business

Rob Ogrodnick distributed an article by Gabriele Galati and Michael Melvin from the December 2004 BIS Quarterly Review on the global results of the triennial survey entitled "Why has FX trading surged? Explaining the 2004 triennial survey."

The Chair listed the slate of volunteers who will work on the Special Client Forum (John Aloisio, Vincent Butkiewicz, Craig Ellis, Susan Gammage and Rob Ogrodnick). Vincent has agreed to Chair this Group. **If the members have any ideas for this forum with respect to specific topics, speakers, things to do or not do etc. they should forward these ideas to Rob Ogrodnick.**

The Chair also listed the slate of volunteers for the Communications Group (Cliff Feehan, Susan Gammage, Jamie Thorsen, and Rob Ogrodnick). Rob will organize the work of this Group.

57.11 Date and Place of Next Meeting

The next meeting has been scheduled for 2:00 pm on Thursday, June 2nd in Montreal. The National Bank will be hosting a lunch before the meeting at 12 Noon.