

# **Minutes of the Canadian Foreign Exchange Committee Meeting #62**

**Held at 2:00 p.m., Thursday, September 28, 2006  
Toronto**

**Present:** Vincent Butkiewicz, National Bank of Canada  
Craig Ellis, CIBC World Markets  
Sharon Grewal, Chair - CCFP  
Simon Jones, Citigroup (substitute)  
Moti Jungreis, TD Securities  
Russell Lascala, Deutsche Bank  
Jack Linker, Reuters America  
Brendan Luxton, Scotia Capital (guest/substitute)  
Brad Meredith, HSBC Bank Canada  
Tim Miles, ICAP Capital Markets Canada  
Harry Samuel, RBC Capital Markets  
Evan Steed, next President, FMAC  
David Longworth, Bank of Canada  
George Pickering, Bank of Canada (Chair)  
Carolyn Wilkins, Bank of Canada  
Rob Ogrodnick, Bank of Canada (Secretary)

**Regrets:** Richard Audet, Société Générale  
Jeff Feig, Citigroup  
Carmen Perricone, President - FMAC  
Jamie Thorsen, BMO Capital Markets  
Barry Wainstein, Scotia Capital

## **62.1 Adoption of Agenda and Introductions**

The Committee adopted the agenda, as written. The Chair introduced four individuals attending their first CFEC meeting: Evan Steed from TD Securities who will be the next President of FMAC, replacing Carmen Perricone from State Street; Simon Jones who is the new substitute member from Citigroup, having replaced Robert de Groot; Brendan Luxton who was substituting at this meeting for Scotia Capital; and Dave Longworth, Deputy Governor, who was attending from the Bank of Canada.

## **62.2 Tour de table - Recent Market and Related Developments**

The Tour de table is not reported in the minutes.

## **62.3 Comments from Deputy Governor David Longworth**

Mr. Longworth outlined some of the international work he has been involved in, including his participation in two committees of the Bank for International Settlements (the Markets Committee and the Committee on the Global Financial System), and some of the work that is being done to re-examine the role of the International Monetary System.

The Markets Committee is composed of officials from the G10 central banks. They are also joined at times by central bank officials from Australia, Brazil, China, Hong Kong, India, Korea, Mexico, Singapore and Spain. The purpose of the Committee is to exchange views on recent developments and structural changes in foreign exchange and related financial markets. As well, they consider the implication of particular current events on the functioning of these markets. This Committee is responsible for the triennial central bank survey of foreign exchange and derivatives market activity.

The Committee on the Global Financial System (CGFS) is composed of officials from a similar group of central banks as that of the Markets Committee. The CGFS has been mandated to monitor and examine broad issues related to financial markets and systems, with a view to elaborating appropriate policy recommendations to support central banks in the fulfilment of their responsibilities for the stability of financial markets and the global financial system. In carrying out this task, the CGFS assists and reports directly to the Governors of the G10 central banks.

## **62.4 The Bank of Canada's New Trade Weighted Index**

Carolyn Wilkins described the Bank of Canada's new effective exchange rate index<sup>1</sup>, the Canadian Dollar Effective Exchange Rate Index (CERI), that will replace the C-6<sup>2</sup>. The C-6 was based on weights over the 1994-96 period and had become dated given that Canada's

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1. An effective exchange rate is a measure of the value of a country's currency vis-à-vis the currencies of its most important trading partners.

2. The C-6 will no longer be published.

trade profile has changed over the last decade. The CERI makes use of a recent IMF survey of global trade patterns and weights using 1999-2001 trade data. The six currencies in the C-6 are the U.S. dollar, the Euro, the Japanese yen, the British pound, the Swiss franc and the Swedish krona. Applying a cut-off criterion for trade weights of 2% or higher to the more recent data, the CERI also contains six currencies, but the Swiss franc and the Swedish krona have been replaced by the Mexican peso and the Chinese yuan.

In addition to the more recent data, there are two methodological differences that improve the CERI compared with the C-6 index. First, the C-6 index relies strictly on Canadian merchandise trade flows to compute the trade weights. In contrast, the CERI weights encompass trade not only in manufactured goods but also in commodities (excluding energy) and services (tourism and other services). Second, the C-6 is calculated by taking a weighted average of *bilateral* exchange rates, where the weights represent the relative importance of a particular foreign country to Canada's total international trade. However, the CERI uses *multilateral* trade weights that account for the geographical distribution of trade. The CERI takes into account that domestic firms compete with foreign firms in three locations: (1) in the domestic market through imports (import competition); (2) in the foreign firms' local markets (bilateral export competition); and (3) indirectly in third markets (third-market competition). The C-6 takes account of only the first two locations. The CERI captures 86% of Canada's international trade volume compared with 81% for the C-6.

Notwithstanding the differences between these two indices, the CERI and the C-6 track each other very closely over time. This is due to the fact that both indices place a very high weighting on the U.S. dollar. However, when the \$U.S. is excluded from both indices, the subindices show significantly different paths for the Canadian dollar. **[Secretary's Note: A chart of the CERI was released in the October 19th Monetary Policy Report and a more detailed article has been posted on the Bank of Canada website.]**

## **62.5 Report of the Canadian Committee for Professionalism (CCFP)**

**ACI Model Code Revision** - Sharon Grewal reported that the *ACI Model Code* was updated and re-published at the end of March. Many of the updates related to electronic trading and CLS. She has asked the ACI to highlight the changes. **The members decided that the updated *ACI Model Code* should be distributed to the middle office (risk management) area of the banks for their**

**information.** The last time the *ACI Model Code* was distributed to the foreign exchange risk managers was in November 2004.

**Canadian Representative on New York FXC Chief Dealers Group** - A Canadian representative has been found to sit on the New York Foreign Exchange Committee's Chief Dealers Group, namely Mark Griffiths from RBC Capital Markets. He will keep Ms. Grewal informed of any issues from the Chief Dealers' meetings that may be of interest to the Canadian market.

**Announcement of November 7th FMAC Event** - FMAC will be hosting an event for its members on November 7th at which Dave Longworth will be the featured speaker. Mr. Longworth will speak about the October 19th Monetary Policy Report and the monetary policy framework.

## **62.6 Other Business**

**Legislation in Canada (Bill C-55)** - Work is still being done on this legislation and there were no new developments to report.

**Global Meeting of Foreign Exchange Committees** - A global meeting of foreign exchange committees will be held in New York on October 26th. The Chair of the CFEC, the member who has been on the CFEC the longest and is available on that date (Jamie Thorsen), and the Secretary of the CFEC will attend the meeting from Canada.

## **62.7 Next Meeting**

- CFEC meeting schedule for 2007 - to be determined.