

Minutes of the Canadian Foreign Exchange Committee Meeting #55

**Held at 4:00 p.m., Thursday, May 25, 2004
Toronto**

Present: Vincent Butkiewicz, National Bank of Canada
J-F Courville, State Street Canada
Craig Ellis, CIBC World Markets
Cliff Feehan, TD Securities
Susan Gammage, Reuters America Inc.
Dan Gandy, Freedom International Brokerage
Sharon Grewal, Chair - CCFP
Sandra Lavoratore, Department of Finance
Brad Meredith, HSBC Bank Canada
Chris Naylor, Vice President - FMAC (substitute)
Vincent Nocida, Laurentian Bank (substitute)
Jamie Thorsen, Bank of Montreal
Barry Wainstein, Bank of Nova Scotia
Rob Wittmann, RBC Capital Markets
Sheryl Kennedy, Bank of Canada (Chair)
Ron Morrow, Bank of Canada
William Barker, Bank of Canada
Rob Ogrodnick, Bank of Canada (Secretary)

Regrets: Firas Askari, President - FMAC
Even Berntsen, JP Morgan Chase
Normand Faubert, Laurentian Bank
Jeff Feig, Citigroup
Bernard Vives, Société Générale

55.1 Adoption of Agenda

The Committee adopted the agenda, as written. The Chair welcomed Chris Naylor and Vincent Nocida to the meeting.

55.2 Approval of the Minutes of Meeting #54, held January 29, 2004

The minutes of the meeting of January 29, 2004 were approved, as written.

55.3 Report of the Membership Subcommittee

Sheryl Kennedy reported that on April 22nd the Membership Subcommittee (consisting of Jamie Thorsen, Barry Wainstein, Craig Ellis and Sheryl Kennedy) met. The Subcommittee reviewed the attendance record of the CFEC members over the last one to three years and those with less than adequate attendance were contacted to verify that they are interested in remaining on the Committee. At a minimum, members are expected to attend at least two out of the three scheduled meetings each year.

The terms of two members, Craig Ellis and J-F Courville, came up for renewal on April 30, 2004 and were renewed for a three-year term ending on April 30, 2007. The terms of two recent additions to the Committee, Bernard Vives and Even Berntsen, will also expire on April 30, 2007. On a related membership issue, FMAC will have a new President after its elections in June, and as a consequence, a new representative on the CFEC. The Chair thanked the current President of FMAC, Firas Askari, for his work on the CFEC over the past two years.

With respect to the content of CFEC meetings, commentary was received that the members prefer when the Bank of Canada presents the initial review of recent financial market developments, to kick off the discussion during the Tour de table. Also, the Subcommittee felt it would be a good idea for the CFEC to have a special forum with clients, focused on a specific topic of interest to all. This meeting would be scheduled for next year, in addition to the three regular meetings. **The members were asked to bring their views regarding possible topics for a special forum to the next CFEC meeting in September or advise the Secretary in the meantime.**

55.4 Tour de table - Recent Market and Related Developments

Sheryl Kennedy began the Tour de table with a summary of recent financial market and economic developments from the time of the last meeting, and a roundtable discussion followed. There was also some follow-up discussion of corporate foreign exchange hedging developments since the survey that was undertaken by the Bank of Canada and CFEC members earlier this year.

55.5 Report of the Canadian Committee for Professionalism (CCFP)

Sharon Grewal reminded the Committee that the background for the recent work of the CCFP was the New York area trading scandal. This was viewed as an opportunity to review practices and standards in

the Canadian marketplace to see if any measures can be taken to further minimize any potential for abuse. The three areas the CCFP considered were: (1) ensuring the ACI Model Code has been fully operationalized within Canada; (2) improving communications between the front, middle and back offices of the banks; and (3) achieving minimum accreditation for market participants.

After discussing the first issue, **the CFEC decided to send the ACI Model Code to the risk management area (middle office) of each bank.** The Model Code would be accompanied by a letter which indicates that the CFEC has adopted this Code as best practice in the Canadian foreign exchange marketplace. The risk manager receiving this letter would be asked to acknowledge receipt of the Model Code (by letter or e-mail message to the Secretary of the CFEC). Updates to the Model Code would be sent to the risk managers on an annual basis. **The CFEC members are asked to nominate the individual in the risk management area of their bank who they would like to see receive the ACI Model Code.** Reuters volunteered to help provide the names of relevant contacts at non-CFEC member firms.

The discussion of the ACI Model Code gave rise to the idea of establishing a Risk Managers Sub-committee. While this proposal was not discussed at length, one member suggested that this group could meet on an annual basis, perhaps to discuss the ACI Model Code or other matters of mutual interest. **The Secretariat was asked to consider this suggestion and propose a course of action.** [Secretary's Note: As outlined above, the ACI Model Code will be distributed to the CFEC members' risk managers. These individuals will then be given some time to digest the ACI Model Code and the implications for their firm. We would then propose that a meeting of the CFEC risk managers be convened to discuss common issues of interest related to the Code (e.g., impediments to compliance given the nature of the Canadian marketplace). This would also offer an opportunity to discuss other issues of interest, the merits of meeting on a regular (annual?) basis etc. In an effort to help motivate these discussions, it may be helpful to have a representative from the CFEC and/or the CCFP also attend this meeting. Volunteers are asked to advise the Secretary. Note that this meeting of risk managers will likely be arranged for the Fall, after the next CFEC meeting in September.]

With respect to enhanced communication within each financial institution, sending the ACI Model Code to the appropriate people beyond the front office would be the first step in this direction. As well, as long as the necessary resources are available, it may be possible to make greater use of the CFEC website. [Secretary's Note: The Secretariat will try to determine the resource implications of the

proposed enhancements (e.g., having a secure area for contact lists). A follow-up discussion will be planned for the September CFEC meeting.]

Ms. Grewal briefly described the courses that are available through the ACI (the ACI Dealing Certificate, the ACI Settlements Certificate and the ACI Diploma). She noted that the ACI now has an academic partner, the University of Reading. The CFEC was generally in favour of some form of minimum accreditation. One member thought that people should have the option of doing the Diploma straight away, rather than having to take the more basic Dealing Certificate first. Another member was concerned about whether this accreditation requirement would be fair for older employees who have the required knowledge to do their jobs, but may do less well in an academic setting, having completed their schooling some time ago. Ms. Grewal replied that that is why the material was split into the Dealing Certificate (that would be required by everyone) and the Diploma which involves more studying.

Ms. Grewal said that the CCFP would have a set a specific recommendations on minimum accreditation for the next meeting.

55.6 Continuous Linked Settlement and Cash Swaps

Given that CLS Bank is not currently set up to allow for same-day settlement, the cash leg of a cash swap must settle outside of CLS whereas the T/N leg of the swap settles inside CLS. Market participants continue to discuss the issue of how best to handle cash swaps within the CLS environment.

55.7 Other Business

International FX and Currency Option (IFXCO) Master Agreement - The CFEC received a letter from the Financial Markets Lawyers Group (FMLG), a group that provides legal support to the (New York) Foreign Exchange Committee, stating that the FMLG is working on an update to a new International FX and Currency Option (IFXCO) Master Agreement. They have asked the CFEC for its comments on the draft and whether the CFEC would be interesting in co-sponsoring this Master Agreement (as was done in 1997 along with the Foreign Exchange Committee, the British Bankers Association and the Tokyo Foreign Exchange Market Practices Committee).

Mr. Butkiewicz reported that Francois Bourassa, who is the current chair of the ISDA Canada Steering Committee, could act as the central contact person on this project. **It was agreed that Mr.**

Bourassa and the Secretary of the CFEC would co-ordinate the process for reviewing the Master Agreement and providing comments to the FMLG.

55.8 Date and Place of next Meeting

The next meeting is scheduled for 2:30 p.m on Thursday, September 23rd in Toronto.