

Minutes of the Canadian Foreign Exchange Committee Meeting #54

**Held at 4:00 p.m., Thursday, January 29, 2004
Bank of Canada, Ottawa**

Present:

- Firas Askari, President - FMAC
- Joe Barbaro, Reuters (substitute)
- Even Berntsen, JP Morgan Chase
- Vincent Butkiewicz, National Bank of Canada
- Craig Ellis, CIBC World Markets
- Cliff Feehan, TD Securities
- Jeff Feig, Citigroup
- Dan Gandy, Freedom International Brokerage
- David Gibbins (guest)
- Sharon Grewal, Chair - CCFP
- Sandra Lavoratore, Department of Finance
- Brad Meredith, HSBC Bank Canada
- Bernard Vives, Société Générale
- Barry Wainstein, Bank of Nova Scotia
- Rob Wittmann, RBC Capital Markets
- Sheryl Kennedy, Bank of Canada (Chair)
- Ron Morrow, Bank of Canada
- Wally Speckert, Bank of Canada
- William Barker, Bank of Canada
- Rob Ogrodnick, Bank of Canada (Secretary)

Regrets:

- J-F Courville, State Street Canada
- Normand Faubert, Laurentian Bank
- Susan Gammage, Reuters America Inc.
- Jamie Thorsen, Bank of Montreal

54.1 Adoption of Agenda

The Committee adopted the agenda, as written. The Chair welcomed Even Berntsen and Sandra Lavoratore to their first meeting with the CFEC. Even is attending as the second representative from the category of major participants in the dollar-Canada market that are resident outside of Canada, and Sandra has replaced Nigel Stephens for the Department of Finance. The Chair also welcomed Rob Wittmann who replaced David Gibbins after his retirement from RBC Capital Markets. Rob has already been on the CFEC when he was the Chair of the CCFP and before that as the President of FMAC.

54.2 Approval of the Minutes of meeting #53, held September 25, 2003

The minutes of the meeting of September 25, 2003 were approved, as written.

54.3 Approval of Draft 2003 Report on Activities

The members approved the draft 2003 Report on Activities, with any final changes or comments to be given to Rob Ogrodnick over the next couple of days.

54.4 Membership Subcommittee - Vacant Position

With the departure of David Gibbins, the Membership Subcommittee was short one person. After discussions amongst the remaining members, the Subcommittee recommended that Craig Ellis be invited to join the group. The CFEC **approved** this recommendation and Craig Ellis joined the Membership Subcommittee for a three-year term ending on April 30, 2007.

54.5 Survey on FX Hedging Activity

The members provided comments on a draft questionnaire that they are being asked to complete by the Bank of Canada on the foreign exchange hedging activity of Canadian corporations.

54.6 Tour de table - Recent Market and Related Developments

Brad Meredith began the Tour de table with a summary of recent financial market developments from the time of the last meeting and Sheryl Kennedy spoke about current policy and economic developments. There was a roundtable discussion on recent financial market and economic developments.

54.7 Report of the Canadian Committee for Professionalism (CCFP)

Canadian Representative for the ACI's CFP - Sharon Grewal reported that with Karl Berger's departure, Linda Park has been put forward as the candidate to fill the position of Canada's representative on the ACI's Committee for Professionalism. Sharon was fully confident that Linda's candidacy would be approved at the ACI meetings in May.

Overnight Index Swap Date Convention - Ms. Grewal presented a draft letter on Canadian Overnight Index Swaps that was intended to clarify the best practices for date conventions in that

market. While there did not appear to be any concerns regarding the proposal, **the members were asked to provide their comments on the letter by Friday, February 13th.**

54.8 New York Area FX Trading Scandal

Dan Gandy described the fraudulent FX trading activity that resulted in a number of arrests in the New York area. Retail investors lost money through non-existent FX trades. As well, a number of dealers (banks) themselves lost money in a points for cash scam called Operation Wooden Nickel. Basically, traders engaged in deals put together by brokers that were purposely designed to produce losses for their employers' accounts. The traders and brokers then received kickbacks from the dealers who profited on the trade.

Although none of this activity took place in Canada, the CCFP, which met on December 16th, used this as an opportunity to review best practices and professional standards in the Canadian marketplace to see if any measures could be taken to further minimize the potential for abuse. In terms of lessons learned, Sharon Grewal commented that even if a scandal such as this was a result of criminal intent, as opposed to a deficiency in best practices, the adverse consequences for the reputation of the market are the same. In order to preserve the integrity of the market, market participants must do everything they can, and be seen to be doing all that is possible, to ensure that best practices and professional standards are being adopted by the market.

With respect to the December 16th meeting, **the CCFP recommended, and the CFEC agreed, that points banking is not an acceptable practice in the Canadian marketplace because of its lack of transparency.**

Ms. Grewal reported that **the CCFP also reiterated the importance of Know Your Client (KYC) practices.** For example, while it was determined that undisclosed principal trading has not occurred in Canada, this did not mean it was not taking place in other jurisdictions. **[Secretary's Note:** Undisclosed principal trading was first discussed at the CFEC meeting on January 29, 2003. The CCFP and the CFEC worked with the ACI and other foreign exchange committees on this issue. One result of this is that the guidelines in the ACI Model Code (which the Canadian foreign exchange marketplace adopted in 2001) on undisclosed or unnamed principal trading have been strengthened.]

While the ACI Model code has been adopted as the minimum standard for best market practices in Canada, no procedures have been

put in place to ensure that the Code has been fully implemented in practice. Ms. Grewal indicated that the CCFP wondered if each institution should be required to verify that the ACI Model Code is, in fact, the minimum standard being complied with relative to each banks' internal best practices code. She also raised a concern about the level of communication between the front and middle offices. There sometimes appears to be a disconnect between the two offices, with information on the Model Code not being delivered to key individuals.

Finally, the issue of accreditation was raised, with the need for all market participants in the front, middle and back offices to have some minimum required level of market knowledge and accreditation in market practices, dealing protocol, ethics etc.

With the CFEC sympathetic to these concerns, **it was agreed that the CCFP would come back to the Committee in advance of the next meeting with specific proposals or mechanisms related to:**

- **verifying that the Model Code is being implemented as a minimum standard;**
- **education and accreditation; and**
- **improving communication between front and middle offices.**

54.9 Financial Markets Association of Canada News

Firas Askari reported that FMAC is planning to co-host another conference with FMA-USA in the Fall. Paul Jenkins, Senior Deputy Governor of the Bank of Canada, is scheduled to speak at the conference.

54.10 Report from the Operations Managers Working Group

Rob Ogrodnick reported that the OMWG met last on November 27th and the minutes of that meeting have already been distributed to the CFEC members. There was nothing new to report since then. The next meeting is scheduled for February 18th.

54.11 Topic for a Special Forum

If the members have any ideas of topics for a special forum or meeting where accounts, corporates or others might be invited, they are asked to pass them on to Sheryl Kennedy or Rob Ogrodnick.

54.12 Other Business

Triennial Survey - The triennial survey is scheduled for the month of April 2004 for turnover data and as at June 30, 2004 for amounts outstanding. The Bank of Canada will hold information sessions on the survey on February 24th in Toronto and February 25th in Montreal.

54.13 Date and Place of next Meeting

The next meeting is scheduled for Tuesday, May 25 in Toronto.