

Minutes of the Canadian Foreign Exchange Committee Meeting #61

**Held at 2:00 p.m., Wednesday, June 7, 2006
Toronto**

- Present:**
- Sean Allinson, TD Securities (substitute)
 - Firas Askari, BMO Capital Markets (substitute)
 - Craig Ellis, CIBC World Markets
 - Jeff Feig, Citigroup
 - Sharon Grewal, Chair - CCFP
 - Jack Linker, Reuters America
 - Russell Lascala, Deutsche Bank
 - Sandra Lavoratore, Department of Finance
 - Brad Meredith, HSBC Bank Canada
 - Tim Miles, ICAP Capital Markets Canada
 - Richard Poirier, National Bank of Canada (substitute)
 - Carmen Perricone, President - FMAC
 - Harry Samuel, RBC Capital Markets
 - Barry Wainstein, Bank of Nova Scotia
 - George Pickering, Bank of Canada (Chair)
 - Carolyn Wilkins, Bank of Canada
 - William Barker, Bank of Canada
 - Rob Ogradnick, Bank of Canada (Secretary)
- Regrets:**
- Richard Audet, Société Générale
 - Vincent Butkiewicz, National Bank of Canada
 - Moti Jungreis, TD Securities
 - Jamie Thorsen, BMO Capital Markets

61.1 Adoption of Agenda and Membership Changes

The Committee adopted the agenda, as written. The Chair introduced two individuals attending their first CFEC meeting, Jack Linker of Reuters America and Sean Allinson of TD Securities. Mr. Linker is replacing Susan Gammage on the Committee, and this change has been approved by the Membership Subcommittee. Sean Allinson is the new substitute member for Moti Jungreis, who is now based in London.

61.2 Featured Discussion - Update on the Electronic Trading Space

Jack Linker, Director of Treasury Brokerage Services, gave a presentation on recent developments in the electronic FX trading space. He reviewed the ongoing expansion on the existing Reuters Matching platform, noting that trading volumes are growing rapidly, in part as a result of the increased use of the AutoQuote (API) application, which has grown rapidly since its introduction in July 2003. Much of the increased demand for electronic trading is coming from non-bank participants (especially hedge funds) who are now able to access the interbank pricing feed through prime brokerage arrangements. Reuters has allowed only a certain number of AutoQuote (API) clients on the system so that capacity constraints are not reached, as they take up more bandwidth than manual users. However, Reuters is in the process of upgrading the entire network so that they can expand capacity should the market continue its trend into electronic trading by the banks and the Prime Broker clients.

Mr. Linker also described the new joint venture being launched with the CME (FXMarketSpace) in order to develop a new trading platform based on a central clearing house model. Because the new joint venture has not yet been formally approved, Mr. Linker was limited in his comments to information already in the public domain.

There was an active discussion among the CFEC members of these developments and Mr. Linker, a new member on the CFEC, offered to discuss these issues further at future CFEC meetings.

61.3 Report of the Canadian Committee for Professionalism (CCFP)

Bank of Canada Noon Rate Setting - Carolyn Wilkins reported that at the May 9th meeting of the CCFP, the new procedure of the Bank of Canada for setting noon foreign exchange rates was reviewed. The Committee was very satisfied with the results of the two-minute window for setting the noon CAD/USD rate. The representative of the voice brokers expressed their desire to include voice broker data in the calculation. However, given that the Reuters Matching System has a very significant share of the interbank market, and the data are transparent, verifiable and timely, it was decided that for the time being the sole medium for determining the rate would continue to be the data from Reuters. Ms. Wilkins reminded the CFEC members that the exchange rates, which are published as a service of the Bank of Canada, are intended for statistical or analytical purposes only. While market participants have chosen to use these rates for other purposes,

such as the pricing of transactions, the Bank of Canada does not guarantee the accuracy, completeness or appropriateness of these rates for transactional purposes. More detail on how the other (non-CAD/USD) rates are calculated will be added to the Bank of Canada website.

North American Trading Range - Sharon Grewal reported that the CCFP also reviewed the best practice recommendation for establishing daily Canadian dollar trading ranges in North America (which was last updated on January 31, 2002). It was felt that the January 2002 letter (which can be found on the CFEC website under "Announcements") is still appropriate, including the use of data from the Reuters Matching System as the sole medium to determine the dealing range in the Canadian dollar. The CCFP will continue to monitor the best practice recommendation for establishing Canadian dollar trading ranges.

The CCFP and a Chief Dealers Group - The CCFP concluded that a Chief Dealers Group is not needed in Canada. The CCFP has broad representation and can deal effectively with many different issues, with the proviso that the CCFP members are always asked to consult, as required depending upon the issue, with other affected parties in their organization.

However, Sue Storey, who is a member of the New York Foreign Exchange Committee (FEC) and chairs the New York Chief Dealers Group, thought that Canada probably should have a seat on that Group and she is willing to put a name forward. The Canadian representative would report back to the Canadian FX community on the issues discussed at the Chief Dealers meetings. This will likely require the approval of the New York FEC and Chief Dealers Group. **Discussions are underway to find a suitable Canadian candidate for the New York Chief Dealers Group.**

Ms. Grewal noted that the **CCFP's Document of Organization will need to be amended to accommodate having two foreign banks on the Committee.** Currently the Document allows for just one representative from the foreign bank sector.

Updates on Market Practices, Education and FMAC - Ms. Grewal provided the Committee with a number of updates related to market practices, the ACI and education, and FMAC:

- The electronic version of the *ACI Model Code* was updated in March 2006.
- The ACI Committee for Professionalism has supported an initiative of the Australian Foreign Exchange Committee to move the official Monday morning opening of the foreign exchange market in Sydney back one hour to 6:00 am (from

the current opening time of 5:00 am Sydney time). This change in the time of the official opening will take place in September 2006.

- The ACI has unveiled a new Operations Certificate that updates and broadens the Settlements Certificate. The new certificate is aimed at back and middle office staff and traders. It will help to build understanding between trading and operational staff.
- Ms. Grewal is **looking for one or two volunteers to represent Canada on the ACI Board of Education and the ACI Examination Appeals Board**. She will follow-up with possible candidates.
- A Dealing Simulation Course is expected to be hosted in New York. The CFEC members will be made aware of this event when a date has been chosen.
- Carmen Perricone's term as President of FMAC is expiring and **the search is on for a new President of FMAC**. Given that the ACI World Congress will be held in Montreal in 2007, this will be a particularly important term. Sharon will approach individuals in the search for a candidate.

61.4 Other Business

Legislation in Canada (Bill C-55) - The Chair reported that various groups are continuing their efforts to provide comments to Industry Canada and the Department of Finance related to Bill C-55 and insolvency law reform. New legislation is expected in the Fall.

Global Meeting of Foreign Exchange Committees - Mr. Pickering reported that the Federal Reserve is organizing a global meeting of foreign exchange committees to be held in New York in October. Each FX committee would send their Chair (who may be from the industry or the central bank, depending on the country) and one other individual, so that there would be a representative from both the industry and the central bank of each country. Therefore, **one of the CFEC members will be required as a volunteer to represent the industry in Canada along with the Chair. The request for the volunteer will be undertaken by email message once more of the details on the meeting are available.**

61.5 Next Meeting

- Will be held on Thursday, September 28th in Toronto.