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Company Affiliations: Winnipeg Commodities Exchange (Winnipeg Grain Exchange); Chipman Chemical Company

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Summary: Former president and CEO of the Winnipeg Commodities Exchange Douglas Ford describes his career from his schooling in agriculture to his first job in chemical testing to becoming the president of the Exchange. He discusses the importance of the Exchange for farmers and the grain industry as a whole, shares a brief history of the Exchange and the early Canadian grain trade, and illustrates the once bustling Exchange trading floor. He shares the daily processes of trading and clearing trades as well as some of the common problems, stories of trading infractions, and special Exchange committees. Ford describes some of the other councils he sat on—like the Canada Canola Council and the Canada Grains Council—and their contributions to growing and improving the Canadian grain system. Other topics discussed include government policies that affected the Exchange's operations, the growth and decline of futures contracts in the industry, interactions with the railways and Canadian Grain Commission, the decrease in players in the Canadian grain industry, the Exchange's archives, and the importance of risk management in commodities exchanges.

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Time, Speaker, Narrative
NP: Hello, this is just an introduction to an interview with Doug Ford being conducted at his home on December 3rd, 2008. Perhaps, Doug, we'll just start with if you'd give us your name and your early history related to the grain industry, including your father's part in the industry.

DF: My name is Douglas Ford. I, through one way or another, was involved in agriculture and farming throughout most of my life. Initially with my father, which we conducted farming operations around the city growing registered grains as well as set up and started and developed a cattle and grain farm operation in northern Manitoba. I then, through my educational process, also worked with agriculture, having been hired by the university to conduct field trials both at the university site in Winnipeg and also throughout the province. I went into agriculture after initially taking two years of science, first at the United College and then at the first year in Agriculture, carrying on through to graduating with an undergraduate degree in Agriculture Applied Science and Economics majors. I then worked with an agriculture chemical company for five years undertaking field trials throughout the Prairies, which I was the supervisor, and conducting the activities of several teams, one in each province—Alberta, Saskatchewan, Manitoba, and BC.

NP: Before you go on, if you just stop a bit. Related to the field trials, were there particular chemicals that you were testing or crops that you were testing it on at that time?

DF: Yes. They were agricultural chemicals. They were pesticides, which would be both herbicides and insecticides that we would conduct field trials on as to their efficacy. In addition to that, we started the initial work on zero tillage, which we were trying to replace tillage with the use of agriculture chemicals that would control the weeds, and in that way would reduce the tillage required for farming crops across the Prairies.

NP: And what's the advantage of zero tillage?

DF: Well, the zero-tillage advantage was saving in fuel costs, savings in soil erosion, and in addition to that, we found that there was a yield advantage through the use, conservation of moisture, and that improved the production levels of wheat and barley and oats and canola, flax, that we tested the technique on.

NP: What was the process for taking that research to a stage where it would be adopted by the producers?

DF: Well, this work was commercial work and under the direction of the company, but we would then present our results at the international meetings in which the Department of Agriculture—both provincial governments as well as the federal government—would be there. Ultimately, it would lead towards recommendations of the technique and also the recommendations on the use of the agricultural chemicals, for the use of controlling pesticides, and also to use in this zero-tillage technique. We had various papers that we presented at these conferences, and that's the process that I was involved in. When I left the company to take post-graduate studies at the University of Manitoba, I handed this work over to Dr. Amherst Stoby, who was just then joining the university Plant Science Department at the University of Manitoba, and he carried on with the trials. But we had initially started it.

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NP: Would you say they were successful in changing practices?

DF: Yes. There is now zero-tillage practices conducted across the Prairies, not on all acreages, but a significant amount. In addition to that, there have been zero-tillage associations formed both in Canada as well as in the United States to further the technique and conduct cropping in that manner. So at the time we were doing these studies, we were essentially, what, 20 years ahead of our time in terms of the work, and it took about that length of time before this research work became commercial in the sense that farmers adopted the practices.

NP: When you were doing the work here in Canada, were there similar tests being done around the world? Or this was something specific to Canada?

DF: Well, yes. Yes. There was work being conducted in the United States, especially zero-tillage corn, and then in other countries such as England and in Australia. The company, which was ICI [Imperial Chemical Industries], owned and operated--. ICI was a large international chemical company and owned CIL, which is the Canadian Industry Limited here in Canada, and CIL owned Chipman Chemicals, which was the company I worked for. So I was involved in a very large international group of researchers who conducted this work.

NP: And after your course of studies at university?

DF: Yes, I went back to take my master's and PhD and became an assistant professor while I was in the process of finishing my dissertation, which I unfortunately did not finish, [Laughs] because I was asked then to become president and CEO of the Winnipeg Commodity Exchange. And the reason to change was because I undertook, along with other colleagues, research into futures markets and actual trading. I lectured on the use of futures markets for hedging by farmers. In addition to that, I also operated at that time, to put myself through graduate school, a large grain farm in southern Manitoba. Initially, I operated my father's cattle farm and grain farm in northern Manitoba, but then when he died, we sold that operation, and then I independently went to farm in southern Manitoba in Letellier-Dominion City area. That sort of helped me through university and got me more directly involved in farming and marketing grain and being more knowledgeable right from the research end, the production end, the marketing end, and the use of futures markets.

NP: Futures markets can be fairly confusing, and I'm wondering if there's an easy way for you to describe for people who may not be familiar with it how a farmer whose main job is farming uses the futures market to improve their income.

[0:10:07]

DF: Well, the futures markets can be used in one or a combination of basically three ways. One is that they can just observe the price relationships between various crops that are being traded either here in Winnipeg or in Chicago or Kansas City or Minneapolis, which are the main grain trading futures markets in North America. He can look at those relationships not only--. **[…** ***audio skips*****]** So he can then take those prices and look forward to say, "Well, if I allocate my resources, my land, and associated fertilizer and labour resources to a various combination of crops, then these are the prices I can expect to achieve and hopefully they will be profitable." At a level it would be profitable for the farm to produce. That's one way. The other way is that he can actually lock in various prices that would allow him to price the actual crops he's planning to produce.

NP: So almost like selling his crop in advance?

DF: Right.

NP: At a certain price.

DF: Right. But he wouldn't necessarily sell all the crop because there's still a risk. He still hasn't actually produced or harvested the crops that he's intending to seed, but at least he can hedge a portion of the crop. And then as the crop developed and as he sees the end in sight in terms of the actual harvest, then he can probably sell additional amounts and then use those prices to deliver against his contracts. The third way is that, once he's produced his crop and he hasn't necessarily sold, he can also, again, use the futures market to sell forward and price them at other time periods that are probably more advantageous in price for him throughout the winter period and into spring. So those are the various ways the farmer can use the futures markets.

The people in the industry constantly use the markets to hedge the purchases of grain that they're purchasing from the farmer, and for any sales that they're making forward, they can also use the futures markets. What they do in the case of if he is forward selling—this is the processor or grain dealer—if he's forward selling, he would make a sale and then go along, if he hasn't got the supply in store himself, he would then go along to futures to offset the sale that he made in the futures, or in the cash market.

NP: Now what does "go along" mean.

DF: Go along is that he makes the commitment to the market that he will take delivery at the time of maturity of the contract itself. Then in addition to that process, there is the ability to short the futures market whereby if he has stock in store and he wishes to hedge the value of that storage of grain that he can sell froward, by doing that he actually goes short the market, and his commitment to the market is that he would make delivery of the specified grain at The specified time that the contact determines. That's going short. So he can trade the market on both sides.

NP: Yeah. So hedging then is a way of balancing out risk, would you say?

DF: Yes. Because you're transferring the risk that you don't want to face yourself or reducing the risk. I wouldn't say that you completely eliminate it, but you can reduce the price risk that you're facing by either going short and making delivery or going long and taking delivery of the futures contracts.

[0:15:13]

NP: In your experience in dealing both with the Exchange and in farming, do most farmers these days take advantage of--?

DF: A lot of farmers actually sign onto various delivery contracts with elevator companies and let the elevator companies do the hedging for them. So if he wants to sell a certain portion of his crop, you know, in the springtime, he can make those arrangements with an elevator company. They would sign a contract, and he would deliver this amount. And they would also, on his behalf, price the grain that's involved in the contract, and they would do that through using the futures markets.

NP: This is stepping back a bit, but if we go back to the early days of the Commodities Exchange, I know that you were the president of the Commodities Exchange when it celebrated its--.

DF: 100th anniversary.

NP: Its 100th anniversary. So not wanting to go into too much detail, but can you give us a brief history of the Winnipeg Exchange?

DF: Yes. It started out as a cash market, originally established--. Well, there are two establishment dates: One in 1883, and that stumbled, and then it reformed in 1887. So the date that we used while I was president and CEO of the Winnipeg Exchange was 1887. I was president for a period of little over 10 to 11 years, and then in 1987, we celebrated the 100th anniversary of the Exchange. So I took it through the last ten years of its centennial life. The Exchange was necessary to establish trading rules and contract specifications for grain that was being traded in what was then the fledgling grain business, centred in Winnipeg because of the railroads. Then as the railroad was pushed further west, the whole grain industry became much larger when Saskatchewan and Alberta came into being, and the settlers that were involved as farmers were able to use the railroad to move their grain to market. The market was primarily either local livestock or else the sales of primarily wheat that were made by the people who became involved in the grain business as merchants. Most of that grain moved through Thunder Bay in the early days.

NP: Most of it for Canadian consumption in those days too?

DF: No, it was more for export. Some of the grain in the very early stages, when there wasn't the transportation facilities available to move it further east, it went actually to Minneapolis and then down the river system or to Bismarck through the--. Minneapolis would be the Mississippi River, and they also used the Missouri River, which starts in and around Bismarck, North Dakota. But as we developed our own railroad system, we as Canadians started to use those facilities to move the grain either east or west. The western movement became stronger when the grain trade established the grain terminals in Vancouver and because of the Panama Canal, which had been opened up in the early part of the century. In order for it to be competitive, it was better to move the grain west rather than east. That's nothing to say that all the eastern grain was stopped, but it certainly was a competitive element to how you moved your grain.

[… *audio skips*]

[0:20:32]

NP: First Commodities Exchange.

DF: Oh, a number of them.

NP: The ones that come to mind.

DF: Well, of the remaining original group of companies that started back when the Exchange was established, Richardsons, which would be Pioneer Grain, Paterson's, which is N. M. Paterson & Sons, the P&H, Parrish & Heimbecker. Those are the type of companies that were family owned and still exist today and flourish today. They've been involved in the grain trade for its entire development. Then during the early 1900s and into 1920s, the Pool elevator companies. UGG initially was a cooperative, and it was an amalgam of various farmers and companies that wanted to work together to sell their grain. Then the three Prairie Pools developed: Manitoba Pool, Sask Pool, and Alberta Pool. The Prairie Pools essentially got established in the early 1920s.

NP: So you had mentioned that there had been a start in, I think, it was 1883, and then that was a false start. What happened there?

DF: It was just the fact that the crop was relatively small when it started at that point, and they had a series of two or three years of poor crops. So the facilities of the Exchange weren't being used. But once the acreage started really expanding, particularly the facilities of the Exchange became important. As I say, it initially started or developed as an Exchange to determine the trading rules between members as well as the contract specifications of the grain that they were trading and the grading of that grain, the specifications in grading. So the Exchange provided that function as well as determining the cash prices for the grain through the trading of its members. Then the first futures contract, a wheat contract, which became the most dominant contract to be traded—was established in 1904, and it was in existence until '43 when the Wheat Board took over the control of trading grain internationally.

There were some stoppages of the trading of wheat futures during the wars. The war from 1914 or '15 to 1917, there was an agency established to provide Britain with grain from Canada at a fixed price, and that became our contribution to Britain in the war effort. Then after the war, the trading of wheat was returned to the auspices of the Exchange. That continued on until the Second World War, when in 1943—again because of the war effort, which had been formed in the mid-1930s to market grain from the Prairie Pools—it took over the marketing of all wheat from then on, and that's been the case until now.

NP: Now, I don't know if you're able to answer this, but at the legislative building here in Winnipeg, they have a plaque that commemorates the first shipment of Canadian grain, which I believe went through an all-Canadian route. What would be the story of how that actual shipment, which I understand was shipped by Richardson's, got from the Prairie farmers onto a ship and on its way? So how does that system work? **[… *audio skips*]** Be a fairer question for you.

DF: Well, the first shipments that went through an all-Canadian route, if it's the one I'm thinking of, the grain would have been originated in Manitoba. Whether or not the river system was used then to transport it to the railroad terminals in Winnipeg, I'm not sure.

NP: And that did happen, that it came by river?

DF: Well, some of the grain was moved by river at that time, yeah. And then by rail to Thunder Bay. At Thunder Bay, by laker to--. Well, it actually probably went to Buffalo, and then through to New York.

NP: And how would the company have made the arrangements with New York? How do they make those contacts?

DF: Yeah. Well, I'm not sure how they would have made the contracts, but that would've been the route. There was a canal system developed from one of the Great Lakes through to New York or in areas south of there, and that became one route to ship grain. The other would have been to use the St. Lawrence River, but at that time, the St. Lawrence River may not have been navigable at certain points until the St. Lawrence Seaway was developed in the '50s and '60s. But that would have been one way of how the grain moved.

NP: And to actually establish the contract?

DF: Those would be details I'm not aware of.

NP: Telegraph to wherever?

DF: Yes. Well, the Exchange when it became--. You're talking about the first shipment here, so that--.

NP: Or early shipments.

DF: There would be the need for the telegraph of the buyer wanting to purchase grain and the seller—Richardson's—being able to put the grain shipment together and make the arrangements to move it to where the buyer wished to have the grain. Those would be the type of arrangements that would happen between the buyer and the seller. And if the Exchange rules applied at that time, then they would do it under those rules.

NP: So was it smooth sailing for the Grain Exchange in those early years, beyond what you had already said about the fits and starts due to the market not being fully established yet?

DF: There were a number of private companies that had become members of the Exchange, and when a new company such as UGG started up, there was concern as to how the new cooperative movement would affect the Exchange and the trade. So initially, the UGG was blocked from membership, but ultimately the Exchange allowed membership of UGG. In addition to that, there are the Prairie Pools which started up in the '20s, and they actually didn't want to use the auspices of the Exchange because of philosophical reasons. That was fine during the early part of the '20s, and the prices were relatively stable or rising. But when the 1929 hit, and then the Depression that resulted after that happened, the Pools—who were basically unhedged in the marketplace—were about to go bankrupt because of the fact that they hadn't hedged the wheat supplies that they had in store and had purchased from the farmer going forward in the crop year.

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So there was some government intervention for that not to happen, for them not to go bankrupt. In addition to that, the government then started working on the development of the Canadian Wheat Board to market grain for the Pools, and that happened in 1935. They didn't have the compulsory powers at that time for all grain to be marketed through them—primarily wheat—but they obtained that power through, I guess, the War Measures Act in 1943 when the Wheat Board then handled all wheat, oats, and barley at that point. Crops like flax and rye were still on the open market. So that's the history of those organizations and how they got involved in the trade.

NP: And what about their buildings? There's at least two physical centres for the Grain Exchange, possibly three.

DF: Well, there is three, but the main one, which was in existence at the time of the real development of the Exchange from the early 1900s through to 1980, was on Lombard Street. It was called the Grain Exchange Building. It, at that time, was one of the largest buildings in the British Empire. All the grain trade had offices in that building, and the trading floor was on the sixth floor of the building. So that was home for the Exchange for quite a number of years. And then when I became president, the facilities of the Exchange in terms of its price dissemination and price reporting and clearing and other facilities that the Exchange provides had to be improved and updated and computerized. We then went through a process of wanting to refurbish the old Grain Exchange floors and its facilities, but in the end, it did seem more feasible to actually move the Exchange to its present location which is on Main Street at the Commodity Exchange Tower, and that's where it resides today.

NP: Well, there's been recent changes in the Exchange, even though it still resides--.

DF: Yes. When we moved and relocated and automated the Exchange, we still had a trading floor, so that involved floor traders to execute trades on behalf of other members. Recently, say, in the last five years, the Exchange went fully automated whereby all the trading is done through computer facilities to match trades, and that exists now. So the trading floor is not used anymore. But from the early 1900s through to, let's say, 2003 actually, the trading floor was the way that all futures transactions were conducted and also cleared.

NP: Describe the trading floor.

DF: Well, the trading floor was made up of--. It's a two-storey affair made up of pulpits and trading pits. The trading pits are divided into eight. They mark the various months that the futures contract is open for trading, and people who wished to trade from those particular positions, would stand in the various segments of the--. Yeah. That organizes the floor as to which months people are trading, and to be able to spread out the trading population so that other traders can see who is making a bid and who is making an offer.

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NP: And who's in the pulpits?

DF: In the pulpits are Exchange staff who are the ones that take the various trades and record them on our electronic recording system. They reported onto an electronic board by month and price and crop. Then those transactions are then cleared, because every trader who makes a transaction must record it, and then they put in their clearing reports to the clearing house on a regular basis throughout the trading day. Then the final clearing is done, or settlement is done, in the early part of the afternoon, say, after 3:00 when the trading has ceased. Well, trading ceases actually at 1:15 for the grain markets, but by the time the clearing house gets all the transactions, it's around 3:00. Then they match all the trades and determine any out trades.

NP: Out trades being--?

DF: Being mismatches of trades where people made a mistake. Those are cleared up between the traders, and then the final settlement run is made, and then the pays and collects happen]**.** Those people who have lost, who have had a price decline against their positions, have to put up money to support their margins that are posted in the clearing house, and those people who had gains, the money flows through to the other side, and they receive money. So there's pays and collects daily between the clearing members.

NP: Now you said that the pit was divided up into eight months. What happened to the other four?

DF: Well, not every month is traded. In other words, there might only be six months that are traded throughout the year.

NP: And what determines that?

DF: It's just the timing of the crop, the harvest, when things are active, that's when the futures markets are useful to the traders. Therefore we try to position the contract months throughout the year to be in place so that people can use the future markets at the time they'd like to actually use them.

NP: So would that change daily, the number of pits?

DF: No, no. They're just established beforehand. So it might be every second month that the markets are traded, or it might be every three months there might be only four contracts that are traded, but generally speaking it's six to eight. And in addition to that, throughout the year there's more deferred months that go into the next year. And in some cases, you might have up to ten months trading. It all depends on the activity in the market, the size of the crop that's involved, and the activity and the volatility of the trade. So those are the kind of judgement factors that allow the Exchange to put on more months than they initially sort of posted.

NP: Besides changing the facilities and the fact that it's gone from people actually being physically in a location and now being much more oriented towards computer trading, what else changed in the Commodities Exchange over time?

[0:40:02]

DF: Well, it's an open-ended question. I mean, there are many changes that have happened in the Exchange.

NP: What would be the major ones that you would focus in on?

DF: Well, government policy affected the exchange. For example, the Feed Freight Assistance Act, the Feed Grain Act, the inception of initially the rapeseed contract, which then became the canola futures contract, those were changes that occurred from the '60s through to the '80s.

NP: Give an example of how a government act could affect the operation of the Exchange. Just pick one.

DF: Well, the Feed Grain Act, for example. The Wheat Board controlled all interprovincial movement of grain, and the situation became so dire that there was all this grain that was being piled up and stored in the Prairies, and yet there was demand from eastern Canada for livestock production. And we couldn't get our grain to move, or the Wheat Board weren't actively involved in making those transactions. So the government had seen that its policies, which related to tariffs and elevation storage rates, then decided two things: One, that there should be interprovincial movement, that that could be handled by the open market or the private trade, and the transactions can occur between private companies in eastern Canada and the west to buy and sell grain from the west to feed the livestock in the east.

NP: What was happening before that? What kind of restrictions were there?

DF: Well, the Wheat Board had total control over their movement across interprovincial borders.

NP: Feed grain then as well as non-feed?

DF: Feed grain as well as wheat. Yeah.

NP: Okay.

DF: As well as wheat. They didn't have control on rye, flax, and--. Yeah, rye and flax. But they had control on the feed grains and wheat. So when that changed, where the Feed Assistance Act came in where there were special rates to the east, and the Feed Grain Act, which allowed the free trade of wheat not controlled by the Board but through private enterprises, then that started to increase the trade on the Exchange because the hedging and pricing requirements became necessary for the feed grains—oats and barley primarily, and the feed wheat at certain specifications. So that occurred, and that started to improve the volume of trade on the floor of the Exchange. In addition to that, the rapeseed/canola market was developing from its inception in the 1964-'65 period through to the '70s and '80s, and that also started to improve the volume of the trade on the market as the crop became widely accepted as an oilseed crop for human consumption and using the meal for feed.

NP: How did the impetus come about for looking more closely at canola and, I imagine, researching how it could be--?

DF: Well, first of all, the grain trade got together and formed what was then the Rapeseed Association of Canada, which ultimately became the Canola Council of Canada. The original president of that association, even though he was also president of UGG, was Mac Runciman. When I became president of the Exchange, I also went on the Canola Council to be involved and represent the Exchange on the board of the Rapeseed/Canola Council. I'll just refer to it as canola from now on. I was not only on the board but also on the executive, and I chaired initially the market development committee, which had to do with the planning, the marketing of canola internationally as well as in Canada—both the seed oil and then the products, oil and meal—which we had a number of people on that committee of industry types who were involved in that trade. We as a group, then, formulated the marketing plan for canola.

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I was chairman of the committee for about five years and then was asked then to become chairman of the finance committee, and that was important because as the Canola Council was growing with our funds to allocate to market development as well as research, which was another committee that we had, and production, which is another committee that we had. We had to fund all these activities along with whatever funding we were able to garner from other sources, but primarily it was a fee that we charged for all exports and crush that funded the Canola Council. Then ultimately, I became vice chairman of the board, and had I not gone to Hong Kong, I would have been chairman of the Canola Council.

But during that time period, the development and the activities of the Canola Council helped drive the growth of canola as a viable crop to the point where the acreage and the prices of canola that were obtained in the '80s actually rivalled the returns from wheat, marketed by the Wheat Board. And all that was done by private enterprise, along with farmers, the grain handling companies, and the federal and provincial governments were involved as, not to necessarily provide money but, to provide support through facilities of the governments.

NP: Research labs and so on?

DF: Right. And the university and so on. So it was a real cooperative effort by the industry to develop the crop, and it still exists today in terms of its importance. And the futures contract at the Exchange traded during the '80s and continues today is now internationally used because other countries such as the US, Australia, China, use our markets for hedging and pricing our canola worldwide.

NP: Speaking of pricing, in my reading I've come across often where they're talking about prices FOB, Thunder Bay or the Lakehead. What's the connection between the Lakehead and the pricing?

DF: Prices, if you're thinking--. These are prices for what I refer to as the cash crop that are the physical grain, or we call those cash grain. There are really two terms. There's "in store." So the price in store, "in store" means in store in the elevator that's designated as one of the delivery points. FOB means "Free on board," which means that all the costs associated with loading the grain onto a ship—a laker or an ocean-going vessel—the buyer receives that grain in the ship after all the costs are covered by the seller.

[0:50:21]

NP: So you have a standard price to refer to then in the contract?

DF: Right. That's right. So that becomes the cash price of which the futures relate to, and of course, the futures markets also relates to other things like weather, how much grain is in store in the country elevator system, how much the farmer has in store on his own farm, and what the acreage is for next year, and so on.

NP: Where do those figures come from?

DF: The Grain Commission handles the gathering of that information, but it's also done privately.

NP: Could you describe a typical day in your work when you were at the Commodities Exchange?

DF: Well, it all had to do with managing the markets and making sure the trading was being conducted in an orderly fashion with rules and regulations, and that those transactions were cleared every day. So that was kind of the daily operation side. And then we had to make sure that the dissemination of our information was done properly and on an ongoing basis so that the people who were using our markets to trade off of, they could have access to those prices on an instant basis. So that would be the operational side. Then we would have various committees that would deal with issues of delivery or maybe a change in specifications of a contract, and these sorts of standing committees would meet from time to time depending on an issue. Times when we had what we referred to as "congestion of the contract" where the supply was so tight that the futures markets were actually demonstrating a situation where the--. **[… *audio skips*]** What was nearby, and the deferred contracts were lower.

We had a situation, in fact, in 1984 actually, when we almost ran out of canola between crop years and had to manage that through the marketplace. You're using the marketplace at all times to make sure that the buyers and the sellers met their obligations and were able to—through some intervention by the Exchange officials such as myself and others—to ensure that there wasn't any excess speculation in the marketplace, that anybody in the market really needed to be hedged either long or short, and that they would be able to meet their commitments either to make delivery or take delivery. So we managed that and the unusual things that we ran into.

NP: Did individual traders ever experience difficulty?

DF: Well, yes. They would experience difficulties, and we would work through it with them with the buyer on the other side. But we never had a default in the history of the Exchange while I was there. I'm not sure what's happened since then.

NP: Is that unusual or most exchanges are--?

DF: Well, most exchanges--. Some exchanges do have defaults, but we were fortunate enough that we didn't, and that's good risk management. That's the other important function that we have. Again, we would have what we called the margin committee, which would sit from time to time if the markets were volatile--. **[… *audio skips*]** That the price volatility and the margins were in sync.

NP: Now when you say, "Increase the margins," what does that mean?

DF: Well, all the contracts are traded on a margin basis, and there's different levels of margins. If it's a clearing margin versus a futures commission margin which deals with the public, they're different. But we primarily gave guidance to our futures commission merchants or our outside brokers who were dealing with the public as to what margins they should be charging their clients. In addition to that, there were the clearing house margins that would be changed from time to time.

[0:55:25]

NP: Now is that sort of the upfront money to--?

DF: Right. To participate in the marketplace. But we'd have to be careful with margins because the most important thing to maintain under any volatile situation is that you maintain the liquidity of the contract, and if you raise the margins unduly or--. **[… *audio skips*]** Liquidity suffers, and the liquidity is your friend in terms of managing any markets, in particular futures markets. So you want to make sure that you maintain your liquidity, but also cover the risks that you're facing as an institution, both the clearing house and the Exchange. So that's important to manage. The other thing is that we had complaint committees, whereby if there was any infractions that traders that committed, then we would hold meetings and examine what their activity was. **[… *audio skips*]** Or even at the extreme, expel them.

NP: Did that ever happen? Did you ever have to--?

DF: Yes. Yes. It happened. It happened probably--. There were four or five people over maybe a five-year period that we expelled for trading infractions that were very serious.

NP: What kind of infractions can people get involved in?

DF: Well, one had to do with XCAN Grain. XCAN Grain was owned by the Prairie Pools who were then active in the Exchange. Their main trader, senior trader, was using company funds to put positions on other markets. It wasn't our markets but in Chicago. He was using this company money through a colleague trader of his in Vancouver. So when we determined that that was indeed the case, in addition to some other minor infractions that were being committed by XCAN Grain at the time, we expelled the trader who was involved.

NP: So was it obvious, flagrant--.

DF: At the time, the Exchange was, just because of the association, it would impact on the Exchange in terms of its reputation, but people who understood this situation knew that it was a major infraction by a trader that should have been better supervised by the company involved. Then there was a bankruptcy that affected--. It didn't affect the Exchange at all, but again, it affected the Grain Commission, but he was a member of the Exchange. It arose because of grain that went out of condition in an elevator at Three Rivers, and that affected his entire operation, and therefore he couldn't meet his obligations. But the Exchange wasn't affected other than he was a member of the Exchange, and we had to deal with it because we didn't allow any of our members to--. If you went bankrupt, it was immediately dismissal by the Exchange. That was in our bylaws.

NP: If a person went bankrupt and they had outstanding contracts, if I'm saying that right, then how is that dealt with?

DF: The outstanding contracts were moved to one of the other grain companies, and there was sufficient margin monies on deposit to cover the obligations. So we had done our risk management properly, but the Grain Commission, who had a bond posted by this company, weren't covered sufficiently by the bond. I think the entire affair probably cost about $2 to 3 million, which is small by today's comparison, but it was large at the time it happened.

[1:00:19]

NP: When would that have been approximately?

DF: In the early 1980s.

NP: Hm. The 1980s seem to be quite an active time.

DF: Well, because the whole grain market was expanding—the canola primarily—and the international trade was expanding at the time. The Exchange, its volumes and open interests, were rapidly increasing. The open interest expanded during the '80s right to the '90s by five times.

NP: Now what's open interest?

DF: The outstanding contracts not satisfied by delivery.

NP: Oh.

DF: The open interest when I first started with the Exchange was around 18,000—16 to 18,000—contracts, where all the contracts were trading the six grains—the canola, flax, wheat, oats, barley, rye. And then it increased to almost 100,000 by the time I left the Exchange.

NP: So what happens with open contracts?

DF: Well, they're satisfied during the year, ultimately.

NP: But at any one time--.

DF: At any time. An open interest is an indication of the liquidity of the market because it indicates that people are confident with the fact that they're holding these positions over time and they're needing the market to be able to cover their risk up to 18 months in the future. So that's the reason why the open interest expanded. Then as that expanded, then what also expands is the spread trading that goes on between various contracts. Rye sometimes can be used as a surrogate for wheat prices in the States, even though the wheat is controlled by the Wheat Board is not traded, but we can use rye to that extent. Rye could be at certain times we consider it a feed grain, and therefore it can be hedged and spread against the other barley and oats to feed wheat contracts. Flax produces an oil and meal. The meal can be spread against the canola market. The oil is more of an industrial oil, so it's generally not hedgeable against canola, but they still do it. So those types of activities happen. And then our bond we trade went from 900,000 contracts a year to close to 3 million contracts during my administration. And those figures weren't met--. In fact, the average—I checked them recently—for 2003, the open interest and volume of trade still have not exceeded--. Though they've exceeded it in that time period, it's exceeded it, but the average has not exceeded what was achieved when I left the Exchange in 1988 at the end of the crop year.

NP: So when you think back on your time with the Exchange, what would you be most proud of would you say?

DF: I was most proud of the fact that the Exchange became respected for the usefulness that it provided the farmer in the grain trade. And also, it was instrumental in helping develop grain policy during the time period, and my training in economics helped in that process. That we had this growth and development of the canola contract was kind of the main highlight, I thought, of the Exchange during that period of time. So those are the things that I would be most proud of.

NP: Do all countries have commodity exchanges similar to the Winnipeg one?

DF: Um. Exchanges have expanded in terms of numbers over the last 20 years. So Australia has an exchange. Does it have a grain exchange? I would say not. A cash market. Chicago is the main market for grains. South Africa has a market for grains. There's been a lot of expansion of futures markets and exchanges to do trade, financial futures, foreign currencies, and bonds and bills. That type of contract.

[1:05:37]

NP: The reason I ask that is--.

DF: And also, stock indices.

NP: Yeah. Leads up to my next question which is if Canada—specifically western Canada—had not developed a commodities exchange, how might the industry look different, would you say? Is that a fair question?

DF: Well, it's an important question because if they didn't have an exchange, the western grain business didn't have an exchange to trade off of, then the growth would have been much slower because of the tremendous risk that the grain trade would have had to take on. With the use of the futures markets, they could not only hedge their activities, but also the international buyers of grain could see those prices, and basically if there's a sale going on through an exchange and its auspices and its dissemination of prices. So the Exchange does two things. Well, three really. Price determination, it transfers risk, and the dissemination of price information that encourages trade to go on. So, yes, the Exchange was probably instrumental in development of the grain business in Canada.

NP: To the extent that its, I guess, a very small country relatively speaking—not geographically, but population wise--.

DF: Right. And the Exchange was instrumental in the early days of the development of these trade rules, the grain specifications, the development of the crops and some of the research that went on to produce the better wheats that we have. All of that was encouraged by the participants as members of the Exchange.

NP: We haven't talked about the connection between the Exchange and the railways companies. I imagine there's some tie in there. There usually seems to be overlaps in all the--.

DF: Well, in the early pictures of the trading floor of the Exchange, there's two main offices that were on the floor. One was to do with telecommunications, which is where orders would come in from locally as well as international sources, and of course, telexes and cables going back the other way with price information and confirmation of transactions and so on. In addition to that, both the railroads had offices on the Exchange floor whereby the grain companies would book railcars for any shipments they required to move the grain from the seller—who was a farmer—through to Thunder Bay. So they would need railcars for whatever grain that they had purchased and whatever period of time they had to move the grain from the farmer through to Thunder Bay, or from the elevator that might be in the country through to Thunder Bay terminals.

NP: Just something pops into my mind there. So what happens if somebody has negotiated a contract and is supposed to be delivering, and they can't arrange freight? Has that ever happened?

DF: It's possible, but generally speaking what happens is that the buyer and the seller get together and say, "Look, the freight is tight right now. Can we delay the shipment to another period?" Or maybe there are some other participants that say, "Well, I have supplies in position. You can have my supply." So all that sort of cooperative element occurred on the floor of the Exchange. And the work of the cash grain broker was, indeed, to do that, to facilitate the movement of the cash grain—not only the pricing of the cash grain, but also the movement in the time period.

[1:10:22]

NP: And that's outside of the Exchange's responsibility then once the--?

DF: No, the cash grain, we had responsibility for cash grain trading. Our rules and regulations covered that, and any member of the Exchange, in order for it to be a cash grain broker, you had to be a member of the Exchange. So it was all covered. So that was there. Then of course, there was a lot of people involved in the Great Lakes grain shipment business with the lakers, and we would call them vessel brokers. They either owned vessels or else could have the facility to book vessels from people who owned vessels that are on the Great Lakes. So the whole trade from the farmer through to the floor traders through to the grain elevator companies through to the terminal operators through to the railroads through to the telecommunications systems, you know, that's all part of the grain trade. You used to be able to see it all on the floor, but now a lot of that's gone back into the back offices, so you don't see the collective activity that originally went on on the trading floor. Even the grading of grain, they actually had samples on the floor.

NP: Oh, did they?

DF: Right, yeah.

NP: How did that work in the original set up?

DF: Well, it worked for a while. It was useful to have an independent body, and that's where the Grain Commission came in not only to grade the grain--.

NP: So people would just come in with their buckets of grain and just say, "Here's the quality"?

DF: Yeah. There would be samples right on the floor. But by then, the Grain Commission came in to do a number of things. One is to grade the grain and specify the grain as to what are the specifications each year for each of the grades. In addition to that, they monitored the terminal elevators in terms of how much grain do you have in store relative to your warehouse receipts—the various accounting that's required there—and then to ensure the quality of the grain that was shipped internationally. So a very important function that the Grain Commission served. They also were a regulator during the time I was there under the Grain Futures Act.

NP: So how did that relationship work? Regular meetings or--?

DF: There was a supervisor of the Grain Futures Act, who was a person who was on the floor. The quality of the person who handled that job was important, and--.

NP: In what way?

DF: Just because he had certain responsibilities and powers, he had to be circumspect as to how he used his responsibilities. That's all I wish to say about that. [Laughing]

NP: So that sort of leads into a question about personalities of the various people that you worked with at the time, many of whom I'm assuming are sort of the senior members of the old grain firms that the firms are now gone and those people are now gone. Are there any people who sort of stick out in your mind as being worthy of note?

DF: Well, most of the senior people that I met, they were all notable in their own way. You can see why the grain trade developed and expanded very quickly just because of their character and their ability to take on risk and manage risk. People like Mac

Runciman, of course, the president of UGG. Charlie Kroft, president of McCabe Grain that was sold to UGG back in the ‘60s. George Richardson, Bill Parrish, Herb Heimbecker—all those guys were special guys to me. Bruce McMillan. You could just keep on going. I mean, I don’t want to--. The fact that I can’t bring up all these names right now doesn’t mean that these people are not notable or should be recognized right now, but to a man, each person had their own personalities, but special people. Yeah. They got to know you and trusted you. It was gratifying. Yeah.

[1:15:47]

NP: Well, I was just looking at my notes here and seeing--. Although I didn’t follow in order, I’m just going to take a moment to check over some questions. I think we’ve covered the major challenges that the Exchange faced. And significant events, anything to add there that we haven’t talked about?

DF: Well, the celebration of the 100th anniversary of the Exchange was a significant event. We had the entire grain trade come in. I think that was an important event that I certainly appreciated as president of the Exchange. We had probably maybe 750 people at the function. It was well attended, and people from all sorts of areas of the grain trade. One person that comes to mind is Dolly Gray who was a notable grain trader. He was blind, actually, but very sharp in terms of trading in his day.

NP: How did he manage?

DF: Well, he was able to do it, but he was well liked and well respected by everyone, especially the floor trading community. Yeah, the people on the floor were a lot of interesting characters there too. In order to be involved in a business like that where you’re dealing with risk, you have to be a risk taker, and you have to be quick. A lot of the floor traders, their outlook is the next day, it’s really the next hour when they’re trading, so they don’t necessarily have a total orderly look at things. They just see it as if there’s an event that happens that affects the grain business, they say, “Well, what’s going to happen to the price?” or “What’s going to happen to the spread between this crop and that crop or between various months?”

NP: Were you ever a trader?

DF: Well, I did use the market because I was a member of the Exchange all the time I was president. In fact, I was a member in 1972. I used the Exchange for hedging crops on the market, and from time to time, I took positions in the market that were beneficial.

NP: So did that mean you actually had to go on the floor? Or you had somebody else who did that work for you?

DF: No, I was not an active--. I wasn't on the floor as a trader, but I used the facilities. And so, I would either price crops through contracts or make actual hedges through a broker.

NP: So if we were planning to commemorate the contribution of the Commodities Exchange to the Canadian international grain trade, what pieces might you pick out for us--. **[… *audio skips*]**

DF: Well, first of all the Exchange is made up of all the members of the grain trade. So it's an institution in its own right, but it's also collectively and individually, it's really because of the people who are members of the Exchange that contributed to the operation of the Exchange as well as contributed to the grain industry in general. So to pick any one--.

NP: The forward-thinking pioneers who started it off, I would think, would be--.

DF: Yeah. I would say that if anything it was the auspices of the Exchange as well as the individuals involved as members of the Exchange that it--. It was the initial development of the wheat market in Canada in the grain trade and canola. Those were two major contributions that the Exchange and its members made to the industry, along with the canola. The Canada Grains Council, which I haven't mentioned, I was also on the board of the Canada Grains Council because of being president of the Exchange.

[1:20:41]

NP: And what is the Canada Grains Council?

DF: It was set up in 1968 or so to deal with important grain policy issues. Initially, it had to do with the transportation policies related to the Crow Rate and related to the rail facilities and rail line abandonment and the efficient movement of grain. There were other responsibilities they had, but that was the main one that they were entrusted with.

NP: It was set up--.

DF: It still exists today.

NP: And who took the initiative to set it up, do you remember?

DF: It was the Liberal Government. It was set up by the Liberal Government under Trudeau, and Otto Lang was the minister responsible, and Mac Runciman was the first president of the Canada Grains Council, as he was the first president of the Rapeseed/Canola Association.

NP: I just myself finished reading Mac Runciman's book, and I don't know whether you have read it, but he didn't seem to be--. Well, maybe I shouldn't say this, but I think he had mixed views about the success of the Grains Council as opposed to, I think, he had the same opinion that you did about the Canola Council as being a very big success.

DF: That's right. Yes. He viewed the Rapeseed/Canola Council as a very successful association, and its success was really because of all the grain industry--. **[…** ***audio skips*****]** So on. It was a great sort of cooperative effort, even though a lot of the grain trade were against co-ops because they thought they had special positions and favours through taxation and so on. But yes, the Canada Grains Council he was disappointed in, in fact. And it had to do with the fact that it brought--. Even though it was supposed to bring the industry together—and Don Dever, who was president of the Canada Grains Council, did do an effective job of making sure that all the participants attended the meetings and were involved in some of the discussions—the big disappointment was that the Prairie Pools pulled out of the Council because of philosophical reasons to do with the Crow Rate, marketing. And marketing meant that you didn't have the Wheat Board, you had the open market and the Exchange involved. So there was that philosophical debate that went on.

NP: And that was a pretty major segment of the industry pulling out.

DF: Oh, yeah. They handled at least 50 percent of the grain. So when it came down to making policy or doing a study, their input wasn't there, and therefore they criticized whatever came out of the Council. But anyway, I served on the board, and I thought in general that apart from the split with the Pools, Don Dever did a good job of what he had to deal with.

NP: Accomplishments, were there any in your time on the Council?

[1:24:39]

DF: Well, I think the main accomplishment, I thought, railcar allocation or rail-line abandonment or the Crow Rate. It's really important, in fact, was the fact that he kept the industry together, both in western Canada as well as in the east. That was a major feat, I thought, to do that, and it was through his own force of his personality that he kept people involved and interested. So I'm not as down on the Council as Mac Runciman is, but I think Mac Runciman is thinking more of the policy impact that he thought the Grain Council could have made. But it was very difficult because of the fact that the Pools pulled out. But apart from that, I thought that the Council provided a very important function, and it still exists today, and it's funded by the grain companies as well as I think the government still contributes to it. I also served on the executive. I was chairman of the finance committee as well for the Council.

NP: And what were their responsibilities?

DF: Oh, just handling the money. Making sure there was sufficient money to cover the operations of the Council, which at times were considerable.

NP: They met here or still meet here or never met here?

DF: Well, the offices were here in Winnipeg, yeah.

NP: The fellow that you mentioned, Don--?

DF: Otto Lang? Oh, Don Dever.

NP: Mmhmm.

DF: He’s dead now.

NP: He’s dead now? Another one we’ve missed.

DF: Yeah. But he made a contribution in my mind. Yeah.

NP: So I don’t know whether you want to comment on the recent changes in the grain industry, either in general or how you think they have an impact on an exchange operation.

DF: Well, the fact that there’s been so much in the way of amalgamations that the number of participants in the market have dwindled of the larger players, and that impacts on trading on the Exchange.

NP: In what way?

DF: Well, because there's less people with an opinion about what the market's going to do, and therefore less involvement in the market and less--. Just the more people, the better the market.

NP: It's like a bigger sample size.

DF: That's right, yeah.

NP: In a study.

DF: Right. More interaction happens. But I--. And somebody should actually make a study. This might be a good study for the Grains Council, is that they should examine the impact of what I refer to as really an implosion of the grain industry when the Prairie Pools were--. First of all, they went public, and then that process, as much as one could criticize them—and I was a member of Manitoba Pool and UGG and so on—but the fact that they went public, they forgot that their most important element on their balance sheet was the farmer–farmer member. They disenfranchised the farmer in this process when they demutualized, and as a result, the farmer didn't feel the same allegiance to the organization that he felt when it was a Pool. Even though the Man Pool and Sask Pool and--. Well, the three Prairie Pools demutualized. Man Pool and Alberta Pool amalgamated and then was bought out by UGG, which became AU [Agricore United].

NP: Agricore?

DF: Agricore. That even though there was this potentially major collection system that they were putting together, UGG ended up only with about 35 percent of the movement, and UGG or Agricore didn't make money doing this. So you wonder, "What was the value of the amalgamation?" That was after Mac Runciman's time. That occurred in the '90s.

NP: Was it a necessary amalgamation in hopes of--?

[1:30:00]

DF: In the end, I saw it more as--. In terms of its value to the industry by doing this, I didn't see the value. That's why I call it more of an implosion than anything else. In addition to that, the managers—particularly of, well, of Sask Pool—they just started expanding and doing things that weren't really making money for the company, same thing with Alberta Pool. Man Pool didn't do too much once it demutualized, but the amalgamation between UGG and the two Prairie Pools, I didn't see any value in terms of that merger. It may have benefitted the CEOs through golden parachutes, but in terms of benefitting the industry, I haven't seen a positive impact. So I would say that--.

NP: And we've had an additional--.

DF: Yeah.

NP: Shrinkage of the players.

DF: That's right. So you now had Sask Pool buying out most of Agricore, and that's resulted in the grain industry being mostly owned now by Americans. Not only is it--. Because it was American money that supported Sask Pool to buy out Agricore. So you could say that now the industry is primarily owned—let's say 75 to 80 percent—primarily owned by Americans, and even the Exchange, which was bought out by ICE or International Commodity Exchange, is an American outfit based in Atlanta.

NP: And what has that purchase done for or to the Winnipeg Exchange?

DF: Well, the trade and open interest—the volume of open interest—has declined sharply.

NP: What impact might that have in the long term?

DF: Well, in the long run, the futures contracts one by one have fallen off. There's no more trade in flax. There's no more trade in feed wheat, no more trade in feed oats. The barley contract is just hanging on by a thread, and this just leaves the canola contract. And the rye contract was gone before that.

NP: So the advantage to the farmer of having that system--.

DF: Yeah, yeah.

NP: Or has that system just, with the electronics, moved to a more distant location?

DF: Yeah. It's distanced the price determination exchange function from the farmer. It's now run by somebody in Atlanta, Georgia. There isn't even a board of directors now for the Exchange here in Winnipeg.

NP: But could the advantages to the farmer of being able to hedge and reduce risk, can they still do that at a distance? Or is there some danger in doing that at a distance that wasn't there when it was close at hand?

DF: Well, they can still do that, but it's only for canola really. The barley contract is pretty well reduced to an ineffective futures contract. So the industry is, I go back to the word "imploded," and I don't think it's to the betterment of the industry. Thank goodness for the family operations like Paterson's and P&H and Pioneer, Richardson's. They've been the only stable group in the industry.

NP: From the beginning.

DF: From the beginning. When these amalgamations were going on, and the farmers feeling disenfranchised, these family operations started feeling the impact of that through more deliveries from these people that used to deliver to the Pools or to UGG.

[1:35:04]

NP: So that might be the bonus side of this.

DF: Well, that was the bonus, and thank goodness for the family operations because they knew the value of the grain trading in Canada. I just hope that more family operations can get started, but it's going to be more difficult because for smaller operations to get started, they need futures markets and exchanges to be able to hedge their activities. And if that's not there, it's going to be more difficult for them to grow. So the small, little grain dealer that eventually became a major elevator company, the chance for doing that is much less today than it was back in the early days. Even just to read--. This is Charlie Anderson's. I also knew--. I think Charlie might be dead now.

NP: I've been trying to find him because I was fascinated by his book, but nobody seemed to know where he was.

DF: Yeah, he's a very quiet, understated sort of fellow, but serious at his--.

NP: And what was his--. He was with Pioneer, was he not?

DF: Yes, right. Yeah. He might have been with a couple of companies. I'm not entirely sure. But anyway, he shows all the companies that were involved in the grain trade over the years.

NP: That's on page 186 of his book.

DF: Right. And who bought them out. So you know, there has always been mergers and reduction in numbers in the trade back and forth over the years, but not to the extent that we have today.

NP: It's never been this small.

DF: No, no. So that gives you a kind of history of what's happened. That's the value of this—we have Charlie Anderson's book—is how the industry changed and amalgamated and merged.

NP: Yeah. Before we finish off—and we have actually just a few minutes left—the photo you showed me here of the platform delivery of grain probably in the late 1800s.

DF: Yeah, producer car deliveries.

NP: Yeah, producer cars. Makes me think about memorabilia that is around because one of the things on our project is we—even if we have no place to keep it—we want to inventory what's around and worth noting so that it just doesn't get lost. Are there any things that come to your mind? I know one thing, for example, is the painting you had done for the 100th year celebration of the Exchange. Maybe you can just say a few words about how that painting came about. Who did it? The kinds of discussions that went on in the creation of it, because you're probably the only one who knows that other than the artist.

DF: Yes. In 1987, we commissioned—'87, yeah, it would be a year before—we commissioned Ahmand Paquette to do a painting that would commemorate the 100th anniversary of the Exchange. Through his own archives, he was able to take a photo or a painting—probably a photograph—of the old Exchange District in Winnipeg and painted the picture that really depicted Winnipeg in the heyday of the grain industry then.

NP: That was before the major Grain Exchange Building was built, was that the initial Exchange?

DF: The picture looks as if it's done, I would say, between 1910 and 1920.

NP: Okay.

DF: I don’t know the exact time period that he took this particular--. Well, he didn’t take the picture, but it was a picture that he had in his own archives. But that was a very effective painting, and we had some 300 prints made of his painting and a showing of the original work. We had a gathering at the Manitoba Club to--.

[1:40:27]

NP: And where is that original now, do you know?

DF: It’s with the Exchange, but I heard—and I was disappointed in this—that it actually had been sold to somebody, which I thought was a mistake.

NP: The archives of the Exchange, were there such things?

DF: Yeah. There’s plenty of photographs in the archives of the Exchange. In fact, one of the things that I did as president was I looked at all the archive information that we had and brought in both the provincial archivists and the federal archivists to go through the entire collection and determine what would be useful for their purposes.

NP: And did they take some material then?

DF: Yeah. Yeah.

NP: Are collections set up both nationally and provincially?

DF: Well, I think, yes. I would say that here would be. As to where it’s located, I don’t know.

NP: So they took photographs, they took the originals of things, and--?

DF: Yeah. I just said, “Here it is. You can have it.”

NP: Yeah. Which is better than sending it off to the dump.

DF: That’s right. Yeah. So as to what they saved, I don’t know.

NP: Well, that's good to know it exists.

DF: Right. And each individual company had their own photographs and pictures and so on that they have. So I'd just go around to the old companies. All of them will have old pictures and notes. Even when you read Runciman's book here, it refers to all the documents that UGG had, all their meetings and--.

NP: Minutes of meetings and so on.

DF: That's right, yeah.

NP: Yeah. Well, anything I should have asked you that I haven't asked you?

DF: Well, there was one thing is that had to do with the risk the futures markets actually face today. When I went to Hong Kong for three years--. I went there on a three-year contract. Well, it was two years and extended to three. But there was a major default by the clearing house in the exchange by the Hong Kong Futures Exchange, and it was due to poor risk management and poor regulation to do with trading. My responsibility was to pick up the pieces and restructure the entire exchange and develop a new clearing house with new rules and regulations and a major reserve fund to support the counterparty responsibility of the clearing house. But one of the things that is so important is that when you set up an institution like an exchange—which is dealing with price discovery and risk transference and a great deal of money involved in the value of the transactions—that the risk management is absolutely key to the success of an organization like that. That's something I recognized when we dealt with issues related to the Winnipeg Commodity Exchange, but it was brought home to me more so when I went over the issues that led up to the major default in Hong Kong, and the work I had to do to bring the membership back together to have confidence in the Exchange again. And the issues that resulted in the major debacle that we've seen in New York through the banking system.

NP: This year?

DF: This year.

NP: I was going to ask you that, that I would think that lack of knowledge in your product and oversight--.

[1:45:00]

DF: That's right. Lack of knowledge of the risks that were associated with the products that they were marketing, lack of keeping track of those transactions, lack of the margining of those transactions. Just no transparency whatsoever, and a complete failure of the risk management system within the banking group. That's the United States, you know, who have a tremendous amount of experience in exchange, especially in Chicago with the Chicago Board of Trade and the Chicago Mercantile Exchange and the New York Mercantile Exchange trading gold and oil. But to have this major failure was a complete lack of--. Well, it was totally irresponsible and even fraudulent. So those issues, if you don't pay attention to institutions that are there to help you conduct the business of a country or a region particularly—but in this case a country—if those systems don't have the proper risk management and regulations in place, a major catastrophe can happen. And these banks became arrogant. They thought they were too big to fail, and all of a sudden, we have now the government having to bail them out. It's just a strain, and we haven't seen the end of it yet.

NP: No.

DF: So that's one thing that was driven home to me in managing the Exchange in Winnipeg, and it was reinforced when I went to Hong Kong to restructure the exchange and its clearing house, and then this failure here in New York.

NP: With the Hong Kong Exchange versus the Winnipeg Exchange, what was the difference in size? Like, I'm assuming the Hong Kong one was a much bigger exchange?

DF: It was larger, yes, and more volatile. Larger in size, and it was directly associated with the Hong Kong stock exchange. So you put the two together, and you've got a sizable operation.

NP: So it speaks well of how well the Winnipeg Commodities Exchange was being run that Hong Kong would take someone from--.

DF: Well, it was my understanding, and I expressed it to people who interviewed me, the need for proper risk management. And the fact that I was following all the exchanges as president of the Winnipeg Exchange. If there was any problems, I would note them and just say, "Hey, this could happen to me at this exchange." [Laughing]

NP: Yeah. The importance of being not insular in your thinking.

DF: Right.

NP: As far as--. You mentioned Otto Lang as a person who might be a good person to interview. Any of the old traders around that might be interesting to interview from being in the pit?

DF: Well, you might want to--. You know Ron Wiebe, so he'd be good.

NP: He's not old enough.

DF: No, but he's been around long enough. He knows a lot of the old crowd. Ron would be a good person. He's got a good memory for--. **[…** ***audio skips*****]**

NP: When he worked. Yeah.

DF: Well, have you not met him?

NP: I've met him, but I didn't know who he worked for.

DF: Yeah. He worked for Richardson's.

NP: Oh, okay.

DF: And RBC Dominion Bank. So Ron would be a good person to talk to about traders, and he would talk to you about the characters he traded with. So you'd get the--.

NP: The flavour of the pit.

DF: Of the floor, yeah. Right.

NP: Well, thanks very much, Doug. We're running out of time, and I appreciate the time you've taken, and I even more appreciate your thoughts and comments on specifics of the Commodities Exchange, but even more how it all fits together.

DF: Thank you.

End of interview.