

# Canadian Foreign Exchange Committee

## Report on Activities

### 2013

The Canadian Foreign Exchange Committee (CFEC) is composed of senior officers from financial institutions actively involved in Canada's foreign exchange market and the Canadian dollar market globally, as well as inter-dealer brokers, the Bank of Canada and the Department of Finance (see Membership list attached). A regularly updated membership list can be found at: <http://www.cfec.ca/members.html>

CFEC's objective is to provide a forum for the regular discussion of issues and developments pertinent to the foreign exchange market, including the review of market practices and procedures (see the Document of Objectives and Organization at the following link [http://www.cfec.ca/doc\\_org\\_cfec.html](http://www.cfec.ca/doc_org_cfec.html)).

#### Priorities of CFEC

In 2013, CFEC efforts focused on:

- Monitoring foreign exchange developments in the context, among others, of the global reform agenda and technological advancement;
- Mitigating settlement risk through the CLS Canadian/US dollar same-day settlement initiative;
- Reviewing, updating and strengthening the governance and membership of CFEC; and
- Establishing and replacing the set of guiding principles for conduct in the Canadian foreign exchange market.

The sections below provide more detail on these priorities.

#### CLS

The BIS Basel Committee on Banking Supervision (<http://www.bis.org/publ/bcbs241.pdf>) recommended that banks should reduce principal risk as much as practicable by settling FX transactions through the use of financial market infrastructure that provide payment versus payment (PVP) arrangements. This aligns with one of the priorities identified in CFEC's paper, *The Canadian Foreign Exchange Market: Developments and Opportunities, 5 March 2010* (<http://www.cfec.ca/files/developments.pdf>); i.e., to support efforts by CLS, which provides PVP settlement services, to increase the number of currencies, regions, products, and participants, including the provision for same-day settlement in USD-CAD spot FX. (The extensive reliance of Canadian banks on the USD-CAD swap market to meet same-day funding requirements reinforces the importance of this initiative.)

To this end, CFEC bank members were actively engaged with CLS Bank, other U.S. banks on the New York Foreign Exchange Committee, the Bank of Canada and the New York Federal Reserve to introduce a same-day settlement cycle in CLS for same-day USD-CAD trades. In September 2013, nine banks went live and another eight banks are expected to follow in early 2014 (<http://www.cls-group.com/MC/Pages/NewsArticle.aspx?nid=127>).

## **Governance and Membership**

In light of the continuing evolution of the FX market in Canada and the Canadian dollar market globally, CFEC undertook a review of its organizational structure in 2012 through 2013. This included an evaluation of associated groups or subcommittees, including the Canadian Committee for Professionalism (CCFP)<sup>1</sup> (established in 1993). The CCFP's broad objectives had been to promote a high standard of professionalism and ethical conduct in the Canadian FX market, but some of its narrower objectives were dated. CFEC members agreed that the responsibility for conduct was better aligned with the membership of CFEC and moreover, that working groups or ad-hoc sub-committees with subject matter experts would be better suited to address specific issues. As a result, the CCFP was disbanded.

CFEC's Document of Objectives and Organization ([http://www.cfec.ca/doc\\_org\\_cfec.html](http://www.cfec.ca/doc_org_cfec.html)) was updated. The most significant changes from the 2003 version included the authority to have up to four (formerly two) non-resident members on the committee from major institutions involved in the Canadian dollar market, the removal of representation from FMAC and a revision to reflect the disbanding of the CCFP. There were also minor changes related to the administration of the Committee.

Membership changes on CFEC in 2013 included: Moti Jungreis (Vice Chair & Executive Vice President, Head of Global Rates and FX) returning to CFEC upon his return to Toronto and Russ Lascala (Managing Director, Global Head of Spot FX) returning to CFEC, replacing Jason Shell. Paul Chilcott (Chief, Financial Markets Department) from the Bank of Canada was elected as Chair effective in 2014, replacing Donna Howard.

## **Codes of Best Market Practice**

CFEC endorsed new *Guiding Principles for Conduct in the Canadian Foreign Exchange Market* ([http://www.cfec.ca/guiding\\_principles\\_cfec.html](http://www.cfec.ca/guiding_principles_cfec.html)) for the Canadian market after an extensive review of the ACI Model Code of best market practices, adopted by CFEC in 2001.

In 2011, CFEC had asked the CCFP and FMAC to undertake a preliminary review to assess whether it was still appropriate to maintain the ACI Code and, if not, to explore appropriate alternatives. Following the preliminary review, the Bank of Canada conducted bilateral meetings with a number of CFEC member banks to survey their internal approaches. The

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<sup>1</sup> The 2012 annual report ([http://www.cfec.ca/files/annualreport12\\_e.pdf](http://www.cfec.ca/files/annualreport12_e.pdf)) highlights the termination of the Financial Markets Association of Canada's role as a non-voting, ex-officio member.

ACI Code was used as a reference for their internal codes but the internal codes, policies, guidelines and procedures of the banks interviewed appeared to be more extensive than the minimum requirements articulated in the ACI Code. Moreover, some aspects of the ACI Code were addressed through prudential regulation and related international standards. A high-level gap analysis was undertaken comparing the ACI Code with existing prudential regulation through OSFI and guidance from the Basel Committee on Banking Supervision.

Based on the review it was concluded that the ACI Code no longer served the same function as in the past and that the combination of banks' internal codes and prudential regulation covered similar principles to the ACI Code. Rather than endorsing a single code of conduct, effective December 9, CFEC adopted a principles-based approach that consists of two elements:

- (1) the adoption of the five high-level principles that were embedded in "*Codes of Best Market Practice and Shared Global Principles*" that the CFEC and seven other FX committees published in May; and
- (2) a commitment to take into account relevant regulations and reference codes (that are listed in the document).

More details on the history of codes of conduct in Canada can be found at [http://www.cfec.ca/backgrounder\\_codes.html](http://www.cfec.ca/backgrounder_codes.html)

### **Liaison with Other FX Committees**

Since 2006, representatives from the FX committees in London, New York, Frankfurt, Tokyo, Singapore, Hong Kong, Australia and Canada have met periodically to exchange views on trends and developments in FX markets, to promote collaboration among the respective committees, and to share perspectives of common interest on the structure and functioning of the FX market, which is by nature global. The 2013 meeting was held in Hong Kong, hosted by the Hong Kong Monetary Authority.<sup>2</sup> At this March meeting,<sup>3</sup> topics included, but were not limited to, aspects of regulatory reform including margin requirements for non-cleared transactions, U.S. regulatory initiatives, credit valuation adjustments and trade reporting. There were also presentations and discussions on interdealer and client execution, FX benchmark fixings and the latest developments in the offshore Renminbi market.

As well, in 2013 the eight representative foreign exchange committees, including CFEC, endorsed and published "*Codes of Best Market Practice and Shared Global Principles*" (<http://www.cfec.ca/files/code-best-market-practice.pdf>).

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<sup>2</sup> Previous meetings had been hosted by the Federal Reserve Bank of New York in New York in October 2006, the Bank of England in London in April 2008, the Monetary Authority of Singapore in Singapore in December 2009, the Bank of Canada in Ottawa in April 2011 and the European Central Bank in Frankfurt in March 2012.

<sup>3</sup> CFEC was represented by Donna Howard, Moti Jungreis and Rob Ogradnick.

## **Update on Regular Activities**

The latest CFEC semi-annual (for April and October) FX volume survey is published at [http://www.cfec.ca/fx\\_volume.html](http://www.cfec.ca/fx_volume.html). In 2014, CFEC will reconsider the basis of reporting in the CFEC survey, which is currently based on the location of the trading desk.

CFEC member (and a few other) banks participated in the Bank of Canada's 2013 qualitative survey of the Canadian FX hedging practices of their corporate and institutional customers. The results of the survey were published in November at <http://www.cfec.ca/announce.html>

CFEC convened four times in 2013 with meetings hosted at the offices of Thomson Reuters and Scotiabank in Toronto, and twice at the Bank of Canada in Ottawa. Details of each meeting can be found at <http://www.cfec.ca/minutes.html>

## **Report on Activities**

CFEC issues this Report on an annual basis to publicly communicate the Committee's activities and membership. Throughout the year, updates on the activities of the Committee can be found on CFEC's website ([www.cfec.ca](http://www.cfec.ca)) under the links to either the Announcements of the Committee or the Minutes of meetings. Enhancements to reporting information on the ongoing activities and historic role of CFEC are currently in progress. The website also contains an up-to-date membership list, information on FX volumes and rates, articles of interest to the foreign exchange community and links to the websites of other foreign exchange committees and organizations.

The contributions of those who have left the Committee over the past year, as well as those on CFEC and its subcommittees, are greatly valued.

Since 1989, CFEC has been working effectively to promote an efficient and stable Canadian foreign exchange market. In passing on responsibilities as Chair to Paul Chilcott, I would like to acknowledge the dedication and efforts of all committee members, especially in response to the enormous challenges posed by, and resulting from, the financial crisis. Against a backdrop of a rapidly evolving technological and global environment, this was no small feat and one that I, as Committee Chair over these last five years, deeply appreciate. It has been an honour and a privilege to work with the committee and I wish the members well as they continue to fulfill their important mandate.

Donna Howard  
Chair  
Canadian Foreign Exchange Committee  
2013 Report on Activities

**Canadian Foreign Exchange Committee  
Membership, December 2013**

Donna Howard, Adviser to the Governor (Chair)  
Bank of Canada, Ottawa

Harry Culham, Group Co-Head Wholesale Banking  
CIBC World Markets, Toronto

Jeff Feig, Managing Director  
Citigroup, New York

Laurent Ferreira, EVP & Managing Director - Derivatives  
National Bank of Canada, Montreal

C.J. Gavsie, Managing Director, Global Head of Foreign Exchange Products  
BMO Capital Markets, Toronto

John Glover, Managing Director  
Barclay's Capital, Toronto

Michele Hardeman, Managing Director, Head of FX Sales for the Americas  
State Street Global Markets, Boston

Jason Henderson, EVP and Managing Director, Treasurer and Head of Global Markets  
HSBC Bank Canada, Toronto

Adam Howard, President and Country Head  
Bank of America Merrill Lynch Canada, Toronto

Moti Jungreis, Vice Chair & Executive Vice President, Head of Global Rates and FX  
The Toronto-Dominion Bank, Toronto

Russ Lascala, Global Head of Spot Foreign Exchange  
Deutsche Bank, London

Clifton Lee-Sing, Chief, Reserves and Risk Management  
Department of Finance, Ottawa

Jack Linker, Director  
Thomson Reuters America, New York

Gil Mandelzis, Chief Executive Officer, EBS  
EBS Dealing Resources, New York

Ed Monaghan, Global Head of Foreign Exchange  
RBC Capital Markets, London

Barry Wainstein, Vice Chairman & Deputy Head, Global Head of Foreign Exchange,  
Precious and Base Metals  
Scotiabank, Toronto

Rob Ogrodnick, Senior Analyst (Secretary)  
Bank of Canada, Toronto