

Minutes of the Canadian Foreign Exchange Committee Meeting #68

**Held at 11:00 a.m., Monday, December 1, 2008
Ottawa**

Present: Chris Benham, CIBC World Markets (substitute/guest)
Peter Dymott, RBC Capital Markets (substitute/guest)
Jeff Feig, Citigroup
Sharon Grewal, Chair - CCFP
Steve Kent, TD Securities (substitute)
Russell Lascala, Deutsche Bank
Clifton Lee-Sing, Department of Finance
Jack Linker, Reuters America
Brad Meredith, HSBC Bank Canada
Tim Miles, ICAP Capital Markets Canada
John Nixon, ICAP North America
Richard Poirier, National Bank (substitute)
Evan Steed, President, FMAC
Jamie Thorsen, BMO Capital Markets
Barry Wainstein, Scotia Capital
John Walks, State Street Canada
George Pickering, Bank of Canada (Chair)
Donna Howard, Bank of Canada
Carolyn Wilkins, Bank of Canada
Wally Speckert, Bank of Canada
Carol Ann Northcott, Bank of Canada (part of meeting)
Alexandra Lai, Bank of Canada (part of meeting)
Rob Ogrodnick, Bank of Canada (Secretary)

Regrets: Moti Jungreis, TD Securities
Harry Samuel, RBC Capital Markets

68.1 Adoption of Agenda

The Committee adopted the agenda, as written. The Chair welcomed John Nixon and Chris Benham to their first meeting with the CFEC. A number of individuals from the Bank of Canada attended the meeting to give presentations.

68.2 Membership Subcommittee

George Pickering reported on the October 2nd meeting of the Membership Subcommittee (MSC), which also includes Brad Meredith, Jamie Thorsen and Barry Wainstein:

- The level of participation of financial institutions was discussed. Given the importance of a strong Committee to address issues related to Canadian foreign exchange markets, it was agreed that several institutions should send a higher level person to be a member of the CFEC. Letters will be sent to senior representatives to thank them for their participation and to ensure the appropriate senior people are on the Committee. These individuals must be committed to attending the meetings on a regular basis and be able to lead discussions and contribute to the ongoing work of the CFEC.
- The CFEC membership terms of Russ Lascala, Jack Linker, Brad Meredith and Barry Wainstein, which had expired on April 30th, were extended for three years ending on April 30, 2011. (Brad and Barry excluded themselves from the discussion to extend their respective terms on the CFEC.)
- The term of Tim Miles also expired on April 30th and his position on the CFEC will now be held by John Nixon. Tim was thanked for his contributions to the Committee over the past three years.
- Barry Wainstein's term on the MSC was renewed for a three-year term ending on April 30, 2011. Other qualified replacements were considered for this position. However, in light of the fact that there will already be two new members out of four on the MSC, rather than adding a third new member a decision was made by the MSC (excluding Barry) to renew Barry's term.
- With George Pickering moving on to other duties at the Bank of Canada, the Bank proposed that Donna Howard assume responsibility for chairing the CFEC. The MSC and the full Committee agreed with this recommendation.

68.3 Foreign Exchange Settlement Risk

Carol Ann Northcott introduced the featured discussion topic on FX settlement risk. She noted that the Bank of Canada has oversight responsibility for clearing and settlement systems. A 2006 survey by the Committee on Payment and Settlement Systems (CPSS) of the BIS,

which updated previous work by the CPSS, revealed that 55% of all FX trades now settle through CLS.

There was a discussion on FX settlement and CLS during the recent financial turmoil and the Lehman bankruptcy. While CLS worked well over that period, there was uncertainty with respect to a settlement member authorizing the payments of a user member. The settlement member must take the responsibility for, and the risk of, clearing another institutions' trades. The status of user and 3rd party membership will likely be reviewed based on the lessons learned from this recent experience.

From the perspective of Canadian banks, the single biggest concern with CLS is that there is not a same day settlement cycle for Canadian dollars. This means that Canada/U.S. dollar transactions for same-day value cannot be settled through CLS. Other concerns noted by the members included the fact that CLS does not cover all currencies, the pre-netting of trades is not allowed, the length of time to be up and running after becoming a member of CLS, and the cost of the service. The CFEC members are interested in doing more work on the issue of FX settlement risk and CLS.

68.4 Update on Financial Market Turmoil and the Bank's "Toolkit"

An update on the turmoil in financial markets as well as the public sector response to these events was provided by Carolyn Wilkins. Ms. Wilkins spoke about the plan of action contained in the recent G-7 Communique. From the perspective of Canada, she outlined the extraordinary provision of term liquidity, the Bank of Canada's monetary policy response and other actions of the Government, as indicated below.

Extraordinary provision of term liquidity related to term purchase and resale agreements (PRAs):

- Extended term: 1 and 3 months
- Higher frequency: weekly operations since September
- Increased amount: \$34 billion term PRA outstanding
- Broadened list of counterparties to LVTS participants
- Expanded eligible collateral

Introduction of new facilities for the provision of term liquidity:

- Term PRA for private sector money market instruments
- Canadian dollar term loan facility

- the expansion of collateral for loans to general assignment of non-mortgage portfolio
- A 30 billion USD swap facility with the U.S. Federal Reserve (not yet used or required)

Bank of Canada monetary policy response:

- Cumulative 225 basis point reduction since December 2007 (from 4.5% to 2.25%)
- Regular liquidity operations to reinforce the target overnight rate

Government of Canada:

- Acquisition of up to \$75 billion insured mortgage pools from Canadian lenders via loans to CMHC
- Canadian Lenders Assurance Facility

68.5 Findings of the Canadian Corporate FX Hedging Survey

Wally Speckert reported on the survey undertaken in June of this year which questioned banks about the foreign exchange hedging activities of their Canadian corporate customers. A summary of the results of this survey was posted on the Announcements page of the CFEC website (www.cfec.ca) on October 27, 2008.

68.6 Report on the Global FX Operations Managers Conference

On October 16, Rob Ogrodnick participated in the global FX operations managers conference that was hosted by the Bank of Japan and the Tokyo FX Market Committee. He reported on the conference and the issue of communication between the various committees.

68.7 FMAC and CCFP News

The members were informed by Evan Steed that FMAC's Annual General Assembly and conference will be held on February 18, 2009. {Secretary's Note: Sharon Grewal has announced that she will resign as Chair of the CCFP at the end of 2008.}

68.8 Meeting Schedule for 2009 - to be determined