

**Minutes of the Canadian Foreign Exchange Committee
Meeting #73**

**Held at 1:30 p.m., Tuesday, 5 October 2010
Toronto**

- Present: Joe Barbaro, Thomson Reuters (substitute)
Scott Bere, CIBC World Markets (guest)
Steven Butler, Scotia Capital (guest for item #2)
Jeff Cooper, BMO Capital Markets (guest for item #2)
Harry Culham, CIBC World Markets
Peter Dymott, RBC Capital Markets (substitute)
Laurent Ferreira, National Bank Financial Group
Andrew Grosso, Citigroup (substitute/guest)
Jason Henderson, HSBC Bank Canada
Blake Jespersen, President - FMAC
Moti Jungreis, TD Securities
Clifton Lee-Sing, Department of Finance
Lynn Patterson, Bank of America Merrill Lynch Canada
Duncan Rule, CIBC World Markets (substitute)
Jamie Thorsen, BMO Capital Markets
Barry Wainstein, Scotia Capital
Donna Howard, Bank of Canada (Chair)
Harri Vikstedt, Bank of Canada
Rob Ogrodnick, Bank of Canada (Secretary)
- Regrets: Jeff Feig, Citigroup
Mark Johnson, RBC Capital Markets and Chair – CCFP
Russell Lascale, Deutsche Bank
Jack Linker, Thomson Reuters America
Ed Monaghan, RBC Capital Markets
John Nixon, ICAP North America
John Walks, State Street Canada

73.1 Adoption of Agenda

The Committee adopted the agenda, as written. The Chair welcomed Scott Bere (guest from the hosting bank) to his first meeting with the Committee, along with Steven Butler and Jeff Cooper for agenda item number two. Ms. Howard thanked the banks for their participation in the 2010 BIS triennial survey of foreign exchange and derivatives markets.

73.2 Discussion of the OTC Derivatives Standardization/CCP Project

Steven Butler and Jeff Cooper, who are representing CFEC on the Capital Markets Infrastructure Committee's OTC Derivatives Committee, joined the meeting to provide the members with an update on the committee's work. The OTC Derivative Committee is examining greater standardization and increased use of central counterparties (CCPs) for the clearing and settlement of derivative transactions. While the group is currently primarily focussed on non-FX related derivative transactions (interest rate, equity and commodity derivatives, as well as credit default swaps), it is understood that there is potential for greater use of CCPs in FX, although it was acknowledged that FX products should leverage the fact that the majority of FX trades are settled through CLS which helps to mitigate settlement risk. The CFEC representatives outlined the three basic options to achieve OTC derivatives clearing: (1) direct and indirect participation in global CCPs; (2) a multi-asset Canadian CCP; and (3) direct participation in the Canadian hub of a global CCP.

A number of the members felt that the preferred option was a global solution for foreign exchange given that FX is traded globally with a significant average daily volume of \$US 4 trillion, and that there are netting advantages to having just one global solicitor. It was also pointed out that FX already has CLS Bank (for settlement) and widespread use of ISDA Agreements with Credit Support Annexes (CSAs). It was also noted that there was no market appetite for the first central FX counterparty (FXMarketSpace). However, it was also mentioned that central clearing of some FX products may be mandated by regulators. Members questioned what it would mean for Canadian regulators if all derivatives are cleared globally outside of Canada, and whether domestic financial institutions would have access to domestic central bank liquidity and lender of last resort facilities if there is only a global solution.

It was noted by the CFEC representatives that the outcome with respect to OTC derivative clearing had not yet been determined and that all the options are still to be fully examined. Requests for information have been sent to various potential suppliers of clearing services for OTC derivatives and they have been asked to respond back to the OTC Derivatives Committee in November.

73.3 Tour de table – FX, Financial Market and Economic Developments

The Tour de table is not reported in the minutes.

73.4 Results of the Bank of Canada Canadian FX Hedging Survey

Harri Vikstedt presented the results of the Bank of Canada's survey of the banks on the FX hedging practices of their clients. The survey was sent to 15 participants, including all 11 CFEC member banks. The 2010 survey was expanded to include institutional accounts in addition to corporate customers, including foreign institutional accounts with Canadian dollar assets. The survey questions were also expanded to include questions on the impact of the financial crisis on FX hedging, as well as questions covering the operational aspects of hedging, including the impact of technology and documentation.

The results of the survey will be published on the Bank of Canada's website. Members agreed to the proposal to split the survey into two separate annual surveys covering the two user segments (institutional accounts and corporate customers) separately. One member suggested that it would be interesting to know what proportion of the total FX trading by institutional accounts would be for hedging as opposed to outright trading, and that they thought that it would be small.

73.5 Discussion of Progress on CLS Same Day Settlement Project

The CLS same day settlement project will be discussed at the CLS Board meeting in January 2011. More Canadian dollar FX trade data were submitted by a number of the banks to CLS Bank at the end of September to allow CLS to evaluate the netting benefit of same-day settlement and therefore the impact on intra-day liquidity requirements.

73.6 Other Business

Forex Network Canada on November 10th

The President of FMAC, Blake Jespersen, informed the members about the joint Profit & Loss Magazine/FMAC event coming up on November 10th. The details on this one-day conference can be found on the FMAC website at www.fmac.ca.

73.7 Next Meeting

The next (supplementary) meeting will be held on November 30th in Ottawa.