

**Minutes of the Canadian Foreign Exchange Committee
Meeting #77**

**Held at 1:15 p.m., Wednesday, 5 October 2011
Toronto**

Present: Joe Barbaro, Thomson Reuters – substitute
Harry Culham, CIBC World Markets
Jason Henderson, HSBC Bank Canada
Donna Howard, Bank of Canada (Chair)
Blake Jespersen, President – FMAC
Mark Johnson, Chair – CCFP
Moti Jungreis, TD Securities
Clifton Lee-Sing, Department of Finance
Ed Monaghan, RBC Capital Markets
Jason Shell, Deutsche Bank
Rhonda Staskow, Bank of Canada (Substitute Secretary)
Jamie Thorsen, BMO Capital Markets
Harri Vikstedt, Bank of Canada
Barry Wainstein, Scotia Capital

Regrets: Jeff Feig, Citigroup
Laurent Ferreira, National Bank Financial Group
Jack Linker, Thomson Reuters America
John Nixon, ICAP North America
Rob Ogrodnick, Bank of Canada (Secretary)
Rocky Zannella, Bank of America Merrill Lynch – substitute

77.1 Adoption of Agenda

The Committee adopted the agenda, as written.

77.2 CLS Bank and Same-day Settlement in USD/CAD

Donna Howard noted that initial challenges identified for the adoption of a same-day CLS settlement session were related to intraday liquidity concerns. More recently, intraday credit concerns related to third-party (nostro) settlement were also identified. The banks have been asked to provide further background on the nature of the challenge.

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

The discussion on current financial market and economic developments are not reported in the minutes.

77.4 Results of the Bank of Canada's 2011 FX Hedging Survey

Harri Vikstedt presented the preliminary results from the Bank of Canada's survey of the hedging practices of both corporate and institutional bank clients that have Canadian dollar exposures. The survey was sent to 14 participants, including all 11 CFEC member banks. The 2011 hedging survey was split into two, each separately covering the corporate and institutional client base.

The results of the survey will be published on the Bank of Canada's website.

77.5 Other Business

BIS Report on High Frequency Trading in the FX Market – Mr. Vikstedt also commented on the recently released BIS report on high frequency trading. He noted that the report provided a comprehensive basis for discussion with respect to HFT in FX with the study group having investigated the behaviour of HFT participants in FX during two recent periods of market stress, including the May 2009 “flash crash” in equities and the sharp fall in USD/JPY in March after the Japanese earthquake. The report concluded that HFT may be beneficial in normal times but that there were some concerns with respect to the behaviour of HFT during a period of stress. He also pointed out that the report questioned the ability of prime brokers to monitor risk fast enough to keep up with the transactions. He also mentioned that several FX committees are currently reviewing their codes of conduct with respect to HFT.

77.6 Next Meeting

The next meeting will be held early next year with the final date to be determined.

Secretary's Note: A hardcopy of the BIS executive summary on the BIS FX High Frequency Trading (HFT) report was distributed at the meeting. In addition, following the meeting, links to the BIS HFT report and the BIS Supervisory Guidance of Managing FX Settlement Risk were also circulated to CFEC members as noted below.

Supervisory Guidance for Managing Settlement Risk in Foreign Exchange Transactions (2000)

<http://www.bis.org/publ/bcbs73.htm>

<http://www.bis.org/publ/bcbs73.pdf>

Progress in reducing foreign exchange settlement risk

CPSS Publications No 83

May 2008

<http://www.bis.org/publ/cpss83.htm>

<http://www.bis.org/publ/cpss83.pdf>

BCBS and CPSS to issue guidance on foreign exchange settlement risk

17 March 2011

<http://www.bis.org/press/p110317.htm>

High-frequency trading in the foreign exchange market: new report from the Markets Committee

27 September 2011

<http://www.bis.org/press/p110927.htm>

<http://www.bis.org/publ/mktc05.pdf>