

Minutes of the Canadian Foreign Exchange Committee Meeting #80

**Held at 11:30 a.m., Wednesday, 30 January 2013
Ottawa**

Present: Harry Culham, CIBC World Markets
Jeff Feig, Citigroup
Laurent Ferreira, National Bank Financial Group
Mark Johnson, Chair – CCFP
Moti Jungreis, TD Bank
C.J. Gavsie, BMO Capital Markets
John Glover, Barclays Capital
Michele Hardeman, State Street Global Markets
Jason Henderson, HSBC Bank Canada
Adam Howard, BAML Canada
Clifton Lee-Sing, Department of Finance
Jack Linker, Thomson Reuters America (by teleconference)
Gil Mandelzis, EBS Dealing Resources (by teleconference)
Ed Monaghan, RBC Capital Markets
Jason Shell, Deutsche Bank (by teleconference)
Barry Wainstein, Scotiabank
Donna Howard, Bank of Canada (Chair)
Harri Vikstedt, Bank of Canada
Rob Ogrodnick, Bank of Canada (Secretary)

Regrets: Michael Gibbens, TD Securities

80.1 Adoption of Agenda

The Committee adopted the agenda, as written. Adam Howard attended his first meeting.

The CFEC has a policy of in-person attendance only at meetings. However, the flights of three members were cancelled due to extreme weather conditions in New York. In light of some important issues regarding the organizational review of the Committee, those three individuals were connected by teleconference for this meeting.

80.2 Introductory Remarks

The Chair said that in keeping with the governance review, there would be a formal vote on the proposed revisions to the Document of Objectives and Organization. She also noted that in the course of bilateral conversations with CFEC members a majority indicated that the time allocated to guest speakers over lunch could be better allocated to discussions on key issues affecting the FX markets. That being said, the host's preferences will take precedence if they would prefer to have a speaker.

The Chair reiterated the five priorities to support the resilience of FX markets that were outlined in the CFEC's 2010 paper on the Canadian FX market. These included the establishment of USD-CAD same-day settlement in CLS and better mitigation of credit risk through increased use of Master Agreements and CSAs. Although the Committee has dedicated significant resources to the CLS initiative and has been regularly updated on progress, there has been limited discussion of the latter priority. **Jason Shell volunteered to start off the discussion on CSAs at a future meeting, and other members expressed an interest in extending to collateral issues more broadly.**

80.3 Update on CLS Same-day Settlement

Donna Howard noted that CLS Bank and the industry initiative to establish a same-day settlement cycle in USD-CAD transactions is scheduled for implementation in September 2013. CLS reported that 14 of 17 banks are on track with the other three banks slightly delayed.

80.4 CFEC Organizational Developments and Review

The Chair introduced this topic, noting three issues provided a backdrop to this review: the expanded membership criteria, the initial review by the CCFP and FMAC of the Code of Conduct, and the cut of the formal link to the ACI by the industry through FMAC, which adopted a new mandate for its Association. This led to a review of, and update to, the CFEC's Document of Objectives and Organization.

(1) Codes of Conduct

As mentioned at the last CFEC meeting, Harri Vikstedt said the Bank of Canada will be undertaking bilateral meetings to better understand how the ACI Model Code and other internal codes and guidelines are used within the banks. This work will support the efforts to determine an appropriate approach to a code of conduct for the Canadian FX market.

A copy of the draft questions will be sent to each CFEC member bank, with feedback on the questions requested by 11 February. Interviews will be held in February-March. Each CFEC member bank is asked to provide Rob Ogrodnick the name of a point person for coordinating the interviews.

(2) Revised CFEC Document of Objectives and Organization

The most significant changes include the authority to have up to four (formerly two) non-resident members on the Committee from major institutions involved in the Canadian dollar market, and the removal of representation from the Financial Markets Association of Canada now that its new mandate is strictly to provide networking opportunities. There are also some more minor changes related to the administration of the Committee.

Barry Wainstein moved that the CFEC adopt the revised Document of Objectives and Organization dated January 2013. The motion was seconded by Ed Monaghan and unanimously carried by all voting CFEC members.

(3) Review of the Canadian Committee for Professionalism (CCFP)

Background: The CFEC and FMAC have been co-sponsors of the (independent but reporting to the CFEC) CCFP. However FMAC is no longer represented on the CFEC, leaving CFEC as the sole sponsor of the Committee. The CCFP had the mission to promote a high standard of professionalism and ethical conduct in the Canadian FX market. In this context, it was noted that the FX market and its functioning has changed significantly over the years. The CCFP has not been as active as it once was and the specific objectives are either not being undertaken or have become dated. The options discussed by CFEC members were to re-work the specific objectives of the CCFP, or to address relevant issues through striking ad hoc subcommittees and working groups comprised of experts in the particular topics. After a discussion, members expressed a preference for disbanding the CCFP committee and relying on sub-committees/working groups.

Ed Monaghan moved that the CCFP be disbanded. Jason Henderson seconded the motion which was unanimously carried by all voting members. Mark Johnson, the Chair of the CCFP, was thanked for his efforts since 2009.

{Secretary's Note: In light of the decision to disband the CCFP, the CFEC Document of Objectives and Organization will need to be revised accordingly.}

80.5 Other Business and Updates

Global Meeting of FX Committees – The next global meeting of FX committees is being held in Hong Kong on 15 March. The representatives attending from the CFEC are Donna Howard (Chair), Moti Jungreis (industry representative) and Rob Ogrodnick (Secretary). Moti Jungreis will be speaking to two issues on behalf of the CFEC: (1) the impact of U.S. regulatory initiatives on Canadian banks; and (2) credit valuation adjustments (CVAs).

The members emphasized the importance of having a level international playing field with respect to capital and other rules. They also spoke about two way CSA agreements and the standard use of CVAs. Concern was expressed over the possibility of initial and variation margin requirements for FX forwards, and the potential negative impact on liquidity and costs, and an exacerbation of pressure on collateral. It was noted that the Working Group on Margin Requirements will publish a second consultative document soon.

Members were asked to provide their views on (1) the impact of U.S. regulatory initiatives on Canadian banks and (2) credit valuation adjustments to Moti Jungreis so he can represent them at the global FX committee meeting on 15 March.

Update on FX Trade Repository Reporting – Harri Vikstedt reported that the CSA published draft Model Provincial Rules for Trade Repositories and Derivatives Data Reporting, seeking public comment by 4 February. The CSA will evaluate the comments and recommend appropriate amendments to the proposed rule. With regard to the U.S., in November the U.S. Treasury announced that FX swaps and forwards would be exempt from the Dodd-Frank regulations. The DTCC launched the FX Trade Repository Service on 10 January, with mandatory reporting to begin 28 February.

Trading Desk versus Sales Desk Reporting Basis in the CFEC FX Volume Survey – The CFEC survey is reported on the basis of the location of the trading desk. A member from one of the reporting banks noted that a large FX participant was dropped because they no longer have a trading desk in Canada but still have a sales desk, and this raises the question whether the survey understates the amount of FX activity being reported for Canada, especially since some other major international banks only have a sales presence in Canada. It was noted, however, that most of the other FX committees use the trading desk basis for reporting. **Rob Ogrodnick will prepare a background note on the reporting basis for the survey, including the advantages and disadvantages of the different approaches.** Of note, at the end of May, banks will be submitting data

to the Bank of Canada using the two different approaches (CFEC semi-annual survey on a trading desk basis and BIS triennial survey on a sales desk basis).

80.6 Adjournment and Next Meeting

The CFEC meeting was adjourned at 12:30 pm. The next meeting will be held on 9 May in Toronto.

CFEC Luncheon with the Governor and Governing Council (12:45–2:00 pm)

After the meeting, the CFEC members present met with the Governor and Governing Council.