

**Minutes of the Canadian Foreign Exchange Committee
Meeting #92**

**Held at 12:15 p.m., Monday, 15 May 2017
Toronto**

Present: Greg Debiegne, TD Securities (substitute)
C.J. Gavsie, BMO Capital Markets
Darryl Hooker, EBS Broker Tec
Simon Labrosse, National Bank Financial
Russell Lascale, Deutsche Bank
Arden Majewski, CIBC World Markets
Mervin Merkowsky, Department of Finance
Fredrik Nilsson, Scotiabank (substitute)
Gaétan Reid, State Street Global Markets
Philippe Savoy, RBC Capital Markets (substitute)
Paul Chilcott, Bank of Canada (Chair)
Harri Vikstedt, Bank of Canada
Zahir Antia, Bank of Canada
Rob Ogrodnick, Bank of Canada (Secretary)

Regrets: Martha Campbell, Thomson Reuters
Glenn Crotty, BAML
Jason Henderson, HSBC Bank Canada
Ed Monaghan, RBC Capital Markets
Michael Twaits, TD Securities

The meeting was hosted at National Bank Financial.

92.1 Adoption of Agenda

The Committee adopted the agenda, as written. Greg Debiegne and Fredrik Nilsson attended their first meeting.

92.2 Tour de table – FX, Financial and Economic Developments

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

92.3 Report from the Membership Subcommittee

With the FX Global Code final and about to be published, the Chair reported that the Buy-side Contact Group that had been formed to provide feedback on drafts of the Code has been disbanded. However, as previously discussed, a smaller number of buy-side participants would now be invited to join CFEC itself; some of these new members are likely to be drawn from the Contact Group. Given a number of other departures some other changes to CFEC are also pending. The Membership Sub-Committee will continue to discuss these issues, and it was hoped that the changes would be largely complete by the time of the next CFEC meeting, in September.

92.4 FX Global Code

It was confirmed that the Global Code would be published on May 25th. At that time, the ownership of the Code including its maintenance and updating would become the responsibility of a more formalized and expanded Global Foreign Exchange Committee (GFXC), the global association of major national foreign exchange committees. The GFXC would itself meet on May 24th, in part to discuss these new arrangements. It was reported that the Chair of the GFXC will in future serve a two-year term and will be a central bank representative (the new chair was expected to be Chris Salmon, Bank of England). There will now also be a Vice-chair, who will be a senior representative from the private sector. The GFXC will review the Global Code every year, with a more comprehensive and consultative review every three years. It is expected that the Markets Committee of the BIS will itself undertake an assessment of the effectiveness of the Code three years after the launch of the Code in May 2017. It was envisaged that a consultation for feedback on aspects of “last look” will be launched at the time the Code is released.

The GFXC website (www.globalfxc.org), containing the FX Global Code, the FXWG Report on Adherence to the Global Code, the Statement of Commitment, the request for feedback on last look, the Terms of Reference and membership on the GFXC and other information, will be linked to the CFEC website.

As previously discussed at CFEC, signing the Statement of Commitment will in future be a condition for membership of CFEC. Based on feedback globally, it is anticipated that most participants will need approximately 6 to 12 months to be in a position to endorse the Statement.

92.5 Review of the BIS Report “The sterling ‘flash crash’ of 7 October 2016”

In January, the BIS Markets Committee published a report on the 7 October 2016 “flash crash” event in which sterling depreciated by around 9 per cent versus the dollar in early Asian trading, before quickly retracing much of the move

(<http://www.bis.org/publ/mktc09.pdf>). Given the potential significance of the analysis for FX markets more broadly, the report was being drawn to the attention of CFEC members. The analysis in the BIS report points to a confluence of factors catalysing sterling's move, rather than to a single clear driver. These included: the time of day (early Asian trading when the market is less liquid); significant demand to sell sterling to hedge options positions as the currency depreciated; the execution of stop-loss orders and the closing-out of positions as the currency traded through key levels; and the presence, outside the currency's core time zone, of staff less experienced in trading sterling, with lower risk limits and risk appetite. These and other factors were discussed by the Committee members.

92.6 Feedback on the Publication of the Bank of Canada's new FX Rate data

As discussed at previous meetings, effective 1 March 2017, the Bank of Canada changed the number, frequency and calculation methodology of its published FX rates: (1) the number of currencies published was reduced to 26; (2) only a single indicative rate per currency pair is published each day at 4:30 pm ET instead of two (noon and closing); and (3) a new calculation methodology is used that broadly reflects the average exchange rate observable throughout the Canadian business day, rather than at a single point in time. (See <http://www.bankofcanada.ca/2017/05/calculation-methodology-foreign-exchange-rates/> for details on the calculation methodology.) These changes reinforce the distinction between FX rate fixings used as benchmarks for transactional purposes and Bank of Canada exchange rates that are provided as a public good for statistical, analytical and informational purposes only.

In March and April, exchange rates were published using both the old and the new methodologies. As of May 1st, only the daily average rates are being published using the new methodology. It was felt that the Canadian industry seemed to have managed this change smoothly, helped by the long lead time.

92.7 Next CFEC Meeting

- 18 September 2017 in Ottawa