

Minutes of the Canadian Foreign Exchange Committee Meeting #70

**Held at 1:30 p.m., Wednesday, September 30, 2009
Toronto**

- Present: Maura Craven, Deutsche Bank (substitute)
Jeff Feig, Citigroup
Laurent Ferreira, National Bank Financial Group
Mark Johnson, Chair – CCFP
Steve Kent, TD Securities (substitute)
Clifton Lee-Sing, Department of Finance
Jack Linker, Thomson Reuters America
Brad Meredith, HSBC Bank Canada
Ed Monaghan, RBC Capital Markets
Lynn Patterson, Bank of America Merrill Lynch Canada
Duncan Rule, CIBC World Markets (substitute)
Evan Steed, President – FMAC
Jamie Thorsen, BMO Capital Markets
Barry Wainstein, Scotia Capital
John Walks, State Street Canada
Simon Grensted, LCH.Clearnet (guest)
Simon Wheatley, LCH.Clearnet (guest)
Gavin Wells, LCH.Clearnet (guest)
Donna Howard, Bank of Canada (Chair)
Carolyn Wilkins, Bank of Canada
Rob Ogrodnick, Bank of Canada (Secretary)
- Regrets: Harry Culham, CIBC World Markets
Moti Jungreis, TD Securities
Russell Lascala, Deutsche Bank
John Nixon, ICAP North America

70.1 Adoption of Agenda

The Committee adopted the agenda, as written. The Chair welcomed Laurent Ferreira (new member), Lynn Patterson (new member) and Maura Craven (substitute member) to their first meeting with the Committee. The three guests in attendance for agenda items 70.1 and 70.2 were also welcomed (Simon Grensted, Simon Wheatley and Gavin Wells from LCH.Clearnet).

70.2 Presentation and Discussion with LCH.Clearnet on CCP Services

Simon Grensted, Simon Wheatley and Gavin Wells gave a presentation on the range of services provided by LCH.Clearnet, with a focus on the central counterparty (CCP) clearing services this company provides and the potential applications to foreign exchange markets. By way of background, the presenters noted that LCH.Clearnet clears a broad range of both exchange-traded and over-the-counter transactions in numerous asset classes including interest rate derivatives, fixed income and repos, equities, commodities and energy. They underscored the advantages in terms of managing counterparty risk of a clearinghouse becoming the legal counterparty to both sides of the trade, thereby assuming the counterparty risk and guaranteeing every trade.

The presenters noted that LCH.Clearnet has a default management process in place in the event of a counterparty default that begins with the initial collection of margin or collateral from every clearinghouse member, and involves significant stress testing and “dry runs” of the default resolution mechanisms. This process was activated during the Lehman Brothers bankruptcy and all the Lehman trades that were backed by the clearinghouse were unwound without loss to the LCH.Clearnet member counterparties.

LCH.Clearnet told the committee that it has been researching the FX market in terms of its size, the number of tickets, settlement cost per ticket etc. to assess the need and feasibility of offering CCP clearing services for FX products. They are in the consultation stage with FX market participants to better understand the needs and requirements of the FX market. It was thought that the most likely first candidates for that service would be FX options and swaps/forwards that settle outside of CLS.

In a discussion after the presentation, the CFEC members noted how the FX market differs from many other markets in that it is global in nature and the most liquid market in the world. As a result, committee members were of the view that any solutions should be tailored to the unique nature of FX markets and account for the fact that FX markets performed very well during the recent financial crisis. The members thought this would be a good topic for the next global meeting of FX committees.

70.3 Report of the Membership Subcommittee

The Membership Subcommittee (MSC) - composed of Donna Howard, Brad Meredith, Jamie Thorsen, Barry Wainstein - met for the second time this

year on September 21st. Ms. Howard announced the following changes and developments:

- Laurent Ferreira is the new member from the National Bank. (Richard Poirier will continue as the substitute member.)
- Lynn Patterson has joined the Committee from Bank of America Merrill Lynch Canada.
- Russ Lascala will need to be replaced given that he has been transferred to Deutsche Bank's Tokyo office. Until his replacement is named it was agreed that a substitute will attend on his behalf if he is unable to attend.

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

The Tour de table is not reported in the minutes.

70.5 Global Meeting of FX Committees

The next (third) global meeting of FX committees will be held on December 2nd in Singapore. These meetings are attended by three representatives from each of the eight FX committees globally: namely the Chair, the Secretary and a third representative, to ensure that both the industry and the central bank are represented from each committee.

70.6 FMAC News

Evan Steed reported that FMAC's Annual General Meeting (AGM) will be combined with a wine tasting dinner to be held on October 20th at Nota Bene Restaurant. FMAC also anticipates hosting a late winter speaker event and a spring Assembly with the goal of continued education in the FX and money market sector (similar to the event that was held in February of this year).

70.7 Next Meeting

The meeting dates for 2010 are to be determined.