

Minutes of the Canadian Foreign Exchange Committee Meeting #81

**Held at 12:00 p.m., Thursday, 9 May 2013
Toronto**

Present: Joe Barbaro, Thomson Reuters (substitute)
Jean-Philippe Bégin, National Bank (substitute)
Steve Boucouvalas, HSBC Bank Canada (substitute)
Harry Culham, CIBC World Markets (until 1:30 p.m.)
C.J. Gavsie, BMO Capital Markets
Michael Gibbens, TD Securities
John Glover, Barclays Capital
Andrew Grosso, Citigroup (substitute)
Michele Hardeman, State Street Global Markets
Dino Kos, CLS Bank (guest)
Jack Linker, Thomson Reuters America
Brendan Luxton, Scotiabank (substitute)
Martin Mallett, Bank of England (guest)
Ed Monaghan, RBC Capital Markets
Jason Shell, Deutsche Bank
Rocky Zannella, BAML Canada (substitute)
Donna Howard, Bank of Canada (Chair)
Harri Vikstedt, Bank of Canada
Maksym Padaldo, Bank of Canada
Rob Ogrodnick, Bank of Canada (Secretary)

Regrets: Jeff Feig, Citigroup
Laurent Ferreira, National Bank Financial Group
Jason Henderson, HSBC Bank Canada
Adam Howard, BAML Canada
Clifton Lee-Sing, Department of Finance
Gil Mandelzis, EBS Dealing Resources
Barry Wainstein, Scotiabank

Lunch and Guest Speaker

The meeting was hosted at Thomson Reuters. The guest speaker over lunch was Dino Kos, Head of Global Regulatory Affairs at CLS Bank. Mr. Kos spoke about some of the current initiatives and future plans at CLS Bank. This included the CLS settlement methods survey which is being undertaken at the same time as

the April 2013 BIS triennial survey. This survey will provide a breakdown of the different methods used to settle foreign exchange and will allow for a comparison with the results of the BIS survey. An update was also provided on the CLS same-day settlement initiative for USD/CAD. Currently, an initial group of members is expected to go live in September 2013 with additional members coming on between Q4/13 and Q2/14, for a total of 17 banks. CLS may add, in the future, additional currencies to a same-day settlement cycle. Mr. Kos also spoke about CLS's ongoing efforts to bring on additional currencies and financial institutions.

81.1 Adoption of Agenda

The Committee adopted the agenda, as written. In addition to Dino Kos, the Chair welcomed Martin Mallett from the Bank of England and Maksym Padalko from the Bank of Canada to their first meeting.

Revised CFEC Document of Objectives and Organization

A revised draft version of the CFEC's Document of Objectives and Organization had been previously distributed to members by email. Item 3 in the January 2013 version had been amended to reflect the disbanding of the Canadian Committee for Professionalism (CCFP) as had been agreed at the January 2013 CFEC meeting. The CCFP will be replaced by ad hoc subcommittees and working groups as required. **Ed Monaghan moved that the CFEC adopt the revised Document of Objectives and Organization dated 9 May 2013. The motion was seconded by Jason Shell and unanimously carried by all voting CFEC members.**

Report of the Membership Subcommittee

As sent by email to the CFEC members, the Membership Subcommittee (consisting of Donna Howard - Chair, Jeff Feig, Ed Monaghan and Barry Wainstein) made the following recommendations, to be approved by the CFEC.

- (1) The terms of the following three members (with their substitute member shown in brackets) expired on 30 April and have been renewed for three years:
 - Harry Culham, CIBC World Markets (James Kemp);
 - Laurent Ferreira, National Bank Financial Group (Jean-Philippe Bégin); and
 - Adam Howard, Bank of America Merrill Lunch (Rocky Zannella).

- (2) Following his return to Toronto as Vice Chair, Head of Global Rates and Foreign Exchange from London, Moti Jungreis has agreed to rejoin the CFEC as the member. His substitute is Michael Gibbens.
- (3) The term of Jeff Feig on the Membership Subcommittee expired on 30 April. Having served only one year on the MSC (as opposed to the usual three-year term), Jeff has agreed to stay on the subcommittee.

Rocky Zannella moved that the recommendations of the Membership Subcommittee be accepted. C.J. Gavsie seconded the motion which was unanimously carried by all voting members.

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

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

Global Meeting of FX Committees – Donna Howard reported on the global meeting of foreign exchange committees that was hosted by the Hong Kong Monetary Authority on 15 March (attended by Donna Howard, Moti Jungreis and Rob Ogrodnick from the CFEC). Various aspects of regulatory reform were discussed including margin requirements for non-cleared transactions, U.S. regulatory initiatives, credit valuation adjustments and trade reporting. There were also presentations and discussions on interdealer and client execution, foreign exchange benchmark fixings and the latest developments in the offshore renminbi.

81.3 Discussion on Code of Conduct

Harri Vikstedt provided a summary of the high-level results of the Bank of Canada's bilateral meetings with the CFEC member banks with trading operations domiciled in Canada. The purpose of the meetings was to better understand how the ACI Model Code, adopted by CFEC in 2001, is currently being used by the CFEC member banks. The meetings revealed that while the ACI Code in Canada is no longer being used directly by any of the CFEC banks interviewed, the principles and topics included in the ACI Code are incorporated at various levels in the banks' own internal codes and policies, which have been strengthened considerably over the past several years. It was also noted that banks use it as a reference for developing their own internal codes.

The Canadian banks that are active in global FX markets tend to use comprehensive internal codes of conduct and policies as opposed to distinctive policies according to each local code of conduct. The internal codes of conduct and related policies are influenced by domestic regulation and supervision, as well

as the regulatory environments of the jurisdiction in which they operate including prudential regulation (OSFI in the case of Canada).

In summary, the internal codes, policies, guidelines and procedures of the CFEC member banks appear to be more extensive than the minimum requirements articulated in the ACI Code, and have evolved considerably since the ACI Code was adopted by CFEC in 2001. Some aspects of the ACI Code (and other FX codes of conduct) are addressed through prudential regulation and related international standards (e.g., the Basel Committee on Banking Supervision's *Supervisory guidance for managing risks associated with the settlement of foreign exchange transactions*). Moreover, there is some regulatory uncertainty associated with the global reforms underway, including FX derivative transactions.

Committee members agreed that CFEC should endorse the five high-level principles laid out in the global FX committees "Codes of Best Market Practice and Shared Global Principles" and continue to review the status of the ACI code.

81.4 Bank of Canada 2013 FX Hedging Survey

Maksym Padalko spoke about the upcoming FX hedging survey which will be similar to last year with one new question on regulation. The draft survey will be sent to the participants on 10 May with feedback requested by 17 May. The survey forms are expected to be sent to the participating banks' client desks in late May, with responses due by early June. This will be followed by bilateral discussions with the survey participants in middle to late June. The responses and feedback will be discussed at the October CFEC meeting, and the summary results will be posted on the Bank of Canada (and CFEC) websites after the meeting.

81.5 Adjournment and Next Meeting

The meeting was adjourned at 2:30 pm. The next meeting will be held on 8 October in Toronto.