

**Minutes of the Canadian Foreign Exchange Committee  
Meeting #78**

**Held at 1:30 p.m., Tuesday, 15 May 2012  
Toronto**

- Present:      Jean-Philippe Bégin, National Bank of Canada (substitute)  
                 Harry Culham, CIBC World Markets  
                 C.J. Gavsie, BMO Capital Markets  
                 Michael Gibbens, TD Securities  
                 Andrew Grosso, Citigroup (substitute)  
                 Jason Henderson, HSBC Bank Canada  
                 Blake Jespersen, President – FMAC  
                 Mark Johnson, Chair – CCFP  
                 Clifton Lee-Sing, Department of Finance  
                 Jack Linker, Thomson Reuters America  
                 Brendan Luxton, Scotiabank (substitute)  
                 Ed Monaghan, RBC Capital Markets  
                 John Nixon, ICAP North America  
                 Jamie Pfeifer, Federal Reserve Bank of New York (guest)  
                 Jason Shell, Deutsche Bank  
                 Rocky Zannella, Bank of America Merrill Lynch (substitute)  
                 Donna Howard, Bank of Canada (Chair)  
                 Harri Vikstedt, Bank of Canada  
                 Rob Ogrodnick, Bank of Canada (Secretary)
- Regrets:      Jeff Feig, Citigroup  
                 Laurent Ferreira, National Bank Financial Group  
                 Adam Howard, Bank of America Merrill Lynch  
                 Barry Wainstein, Scotiabank

**78.1 Adoption of Agenda**

The Committee adopted the agenda, as written. The Chair welcomed C.J. Gavsie (the new member from BMO Capital Markets replacing Jamie Thorsen) and Jamie Pfeifer (Secretary of the New York Foreign Exchange Committee) to their first meeting with the CFEC.

## **78.2 Report of the Membership Subcommittee**

Donna Howard reported on a number of membership changes on the CFEC and the Membership Subcommittee:

- C.J. Gavsie from BMO Capital Markets has replaced Jamie Thorsen who retired.
- Adam Howard from Bank of America Merrill Lynch has joined the Committee, replacing Lynn Patterson who retired last year. Rocky Zannella, who had been attending in the interim, will continue as the substitute member on the Committee.
- Michael Gibbens from TD Securities is replacing Moti Jungreis on the Committee. Moti will stay on as the substitute member.
- The terms for four banks expired on 30 April 2012 (BMO Capital Markets, Citigroup, TD Securities and RBC Capital Markets). All four have been renewed for three years, with the terms of C.J. Gavsie, Jeff Feig, Michael Gibbens and Ed Monaghan now expiring on 30 April 2015.
- On the Membership Subcommittee, Jeff Feig and Ed Monaghan are replacing Moti Jungreis and Jamie Thorsen (with Jeff and Ed's terms expiring on 30 April 2013 and 30 April 2015 respectively). The CFEC members approved these changes.

## **78.3 Tour de table – FX, Financial Market and Economic Developments**

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

### **Global Meeting of FX Committees**

Since 2006, representatives from the foreign exchange committees in London, New York, Frankfurt, Tokyo, Singapore, Hong Kong, Australia and Canada meet periodically in order to exchange views on trends and developments in foreign exchange markets, promote collaboration among the respective committees, and share ideas and experiences of common interest on the structure and the functioning of the foreign exchange market, which is by nature global.

The last meeting joining the various foreign exchange committees was held in March in Frankfurt, hosted by the European Central Bank. At this meeting, topics included, but were not limited to, developments in foreign exchange best practices, international regulatory reform initiatives, and developments in foreign exchange transaction reporting, including the semi-annual turnover surveys. CFEC was represented by Donna Howard, Ed Monaghan and Rob Ogrodnick at

the meeting. Ed Monaghan briefed the Committee on the key points of the discussions in Frankfurt.

## **78.4 Codes of Best Market Practice**

### **FX Committees Review of Global Codes**

Jamie Pfeifer, Secretary of the New York Foreign Exchange Committee, spoke about the recent work done by the global FX committees to map out and compare the content of the various codes of best foreign exchange market practice globally. She discussed the high-level similarities and differences between the various codes. Ms. Pfeifer also described the FXC's process to update their Guidelines for FX Trading Activities and their 60 Best Practices for the Management of Operational Risk in FX, which can be found on the FXC website ([www.ny.frb.org/fxc/](http://www.ny.frb.org/fxc/)).

### **The Code of Best Practices for Canada**

The Canadian Committee for Professionalism (CCFP) and the Financial Markets Association of Canada (FMAC) provided their review of whether the ACI Model Code is the most appropriate code for use in the Canadian FX market. Mark Johnson explained that, in addition to the ACI Code, a number of other codes were evaluated -- drawing on the global committees' exercise -- including the New York FXC's Code and London's NIPs Code. The key factors that were reviewed included the detail and coverage of the code, the timeliness of updates, time zone and geography, relevance for the Canadian market, including which international banks the Canadian banks do most of their business with, whether the code is written from the perspective of the individual trader or the financial institution, and the extent of Canadian representation on the code's sponsoring FX committee.

Based on these factors, and although each code had some costs associated with it (as well as benefits), there was a consensus within the CCFP and FMAC to make a preliminary recommendation that the FXC Code was the most appropriate code for the Canadian FX market. In the discussion that followed, there was also strong support for the idea of having a more principles based code, such as the NIPs Code, versus one that is more prescriptive. It was noted by several members that the banks are also governed by their own internal codes which take precedence over the external code. These internal codes are also more rigorous and more prescriptive in nature than the external codes. It was also noted that not all the banks, the 30 or so counterparties that a bank may have in the inter-bank market, are Canadian based and therefore abiding by the specific Canadian code.

It was agreed that the CCFP and FMAC would expand their analysis before a final recommendation is made to CFEC. They were asked to include more representation from other areas of their individual banks such as credit, legal etc. The CCFP will report back at the next meeting.

## **78.5 FMAC: Its Role and Its Future**

The President of FMAC, Blake Jespersen, outlined some of the problems their Association has been having. These include a declining membership base, a large annual deficit, poor attendance at events and declining support from the banks themselves. With technological change and electronic trading the market has become smaller in terms of personnel, even as volumes have risen. Inter-bank networking is also less important in a more electronic, as opposed to telephone based, market. Mr. Jespersen felt there was a need for renewed support from financial institutions and possibly a new mandate or the Association could be wound down. FMAC members did not generally indicate support at the meeting, although it was noted that a couple of events in Montreal are well attended. Ultimately, the decision to continue lies with the financial institutions sponsoring FMAC, and the CFEC will support any decision taken by those institutions. On behalf of the Committee, the Chair noted the long and important role that FMAC (its predecessor, the FOREX Association of Canada) and its affiliation to the ACI played in the history of the FX market in Canada.

## **78.6 Other**

**CLS Same-day Settlement in USD-CAD** – The next meeting of Canadian and U.S. banks, the Federal Reserve, the Bank of Canada and CLS Bank on the same-day settlement initiative will take place on June 11.

**Trading with Uncollateralized Clients** – There was a brief discussion on Credit Valuation Adjustments (CVAs) which refers to the credit charge associated with the risk of a trade with an uncollateralized client.

**High Frequency Trading** – John Nixon and Jason Shell will give a presentation to the CFEC on this topic at the next meeting in October.

**Bank of Canada's 2012 FX Hedging Survey** – Mr. Vikstedt reported that the Bank of Canada will undertake its survey of banks on the hedging activities of their clients again this year. The tentative time line for the survey is as follows. The draft institutional and corporate templates for the survey will be sent to the participants with feedback requested by June 1<sup>st</sup>. The final survey will be sent to the participating banks' client desks in early June, with responses requested by the end of June. This will be followed by bilateral discussions with the survey

reporters in July. The responses and feedback will be discussed at the October CFEC meeting, with the summary results being posted on the Bank of Canada website after the CFEC meeting. The participating banks were thanked in advance for their contribution to the survey.

**FX Trade Repository Public Reporting** – Jamie Pfeifer reported on an informal working group of FX committees and the BIS on FX trade repository public reporting. The working group is providing the Depository Trust & Clearing Corporation (DTCC) with advice with respect to the public reporting of FX trades. The DTCC is a trade repository for OTC FX trades for both regulatory and public reporting.

#### **78.7 Next Meeting**

The next meeting will be held on October 16<sup>th</sup> in Toronto.