

**Minutes of the Canadian Foreign Exchange Committee  
Meeting #79**

**Held at 1:30 p.m., Tuesday, 16 October 2012  
Toronto**

- Present: Joe Barbaro, Thomson Reuters (substitute)  
Jean-Philippe Bégin, National Bank of Canada (substitute)  
Jeff Feig, Citigroup  
C.J. Gavsie, BMO Capital Markets  
Michael Gibbens, TD Securities  
John Glover, Barclays Capital  
Michele Hardeman, State Street Global Markets  
Jason Henderson, HSBC Bank Canada  
Blake Jespersen, President – FMAC  
James Kemp, CIBC World Markets (substitute)  
Clifton Lee-Sing, Department of Finance  
Brendan Luxton, Scotiabank (substitute)  
Gil Mandelzis, EBS Dealing Resources  
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  
Rob Ogrodnick, Bank of Canada (Secretary)
- Regrets: Harry Culham, CIBC World Markets  
Laurent Ferreira, National Bank Financial Group  
Adam Howard, BAML Canada  
Mark Johnson, Chair – CCFP  
Jack Linker, Thomson Reuters America  
Barry Wainstein, Scotiabank

**79.1 Adoption of Agenda**

The Committee adopted the agenda, as written. The Chair welcomed John Glover, Michele Hardeman, Gil Mandelzis and James Kemp to their first meeting with the CFEC.

## **79.2 Recommendations of the Membership Subcommittee**

The Membership Subcommittee (MSC) of the CFEC<sup>1</sup> recommended that the following individuals be invited to join the CFEC:

- John Glover, Director, Barclays Capital (Toronto);
- Michele Hardeman, Managing Director, Head of FX Sales for the Americas, State Street Global Markets (Boston);
- Gil Mandelzis, Chief Executive Officer EBS, EBS Dealing Resources (New York).

CFEC members unanimously voted to approve these recommendations of the MSC.

In addition, at the last CFEC meeting in May, the President of FMAC, Blake Jespersen, outlined some of the problems their Association has been having. These included a declining membership base, a large annual deficit, poor attendance at events and declining support from the banks themselves. It was concluded that the decision to continue lies with the financial institutions sponsoring FMAC, and the CFEC would support any decision taken by those institutions. In July, the FMAC Board dissolved its affiliation with the ACI and on 11 October the Board voted to dissolve its association with the CFEC. However, FMAC will continue to exist with a new mandate to provide networking opportunities for professionals in the Canadian FX industry and to sponsor FX related events in Canada. As a result of this change, the (non-voting) representation of FMAC on the CFEC will be removed. The Chair thanked Blake Jespersen for his contributions to the Committee.

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

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

## **79.4 High Frequency Trading (HFT)**

Jason Shell introduced Gil Mandelzis who gave a presentation on high frequency trading (HFT). Mr. Mandelzis said that when HFT first entered the FX market it had a positive impact: spreads tightened, price discovery improved and there was evidence of increased market making. However, as HFT began to predominate, the execution costs for liquidity providers and large institutional

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<sup>1</sup> The Membership Subcommittee is comprised of Donna Howard (Chair), Barry Wainstein, Ed Monaghan and Jeff Feig.

orders increased. It became more difficult to execute larger orders at the quoted bid or offer side of the market. He also mentioned that effectively, a “technology arms race to the bottom” was created wherein the priority became speed rather than effective market functioning. He noted that clients and market makers want certainty of execution and a fair price, and not necessarily the highest possible speed of execution.

He pointed out that HFT has resulted in the erosion of market quality and the public’s trust in financial markets; the exit of non-HFT market makers; defection to dark pools, bilateral trading and voice broking; and greater internalization of trades at large banks (than would have otherwise been the case). In response to this evolution, EBS has made a number of changes including moving from decimalization to half pips and full pips in a selection of core currency pairs. The result of this change has been an increase in the depth (liquidity) at the top of the book, and a reduction in both price flashing and algo trading on the EBS trading system.

## **79.5 Results of the Bank of Canada’s 2012 FX Hedging Survey**

Harri Vikstedt thanked the banks for their participation in the Bank of Canada’s latest FX hedging survey which covers the hedging activity of their corporate and institutional clients. He noted that, according to the survey participants, all banks have generally introduced a credit valuation adjustment (CVA) to their pricing, in some cases for maturities starting at three months. Survey participants also indicated that the use of electronic trading platforms has continued to increase and has resulted in narrower pricing margins. He mentioned that, according to the survey, the use of FX options continues to decline despite low implied volatility, in part due to the narrow trading range of most currencies.

The results of the survey will be published on the Bank of Canada’s website.

## **79.6 Other Business and Updates**

**Proposed Changes to the CFEC Semi-annual FX Volume Survey** – Rob Ogrodnick will send, to the reporting member banks, the recommended changes to the CFEC semi-annual FX volume survey for their final comment and approval. These recommendations are based on the feedback from a questionnaire sent at the end of August to the participating banks.

**Update on FX Trade Repository Reporting** – Harri Vikstedt provided an update on FX trade repository reporting. Implementation of U.S. FX trade reporting is expected to commence in mid-January (90 days after the

commencement of credit and interest rate reporting – 12 October 2012. Only spot FX trades will be exempt. In mid-September, the CFTC granted approval to the Depository Trust & Clearing Corporation (DTCC) to operate its DTCC data repository (DDR) as a multi-asset class repository in the U.S. covering credit, equity, interest rate and FX derivatives. Some other jurisdictions have also announced timelines for FX reporting, including Japan (effective 1 November, 2012), while the reporting requirements in Europe are expected to commence in mid-2013.

## **79.7 Organizational Developments and Review**

Donna Howard spoke about a number of organizational developments and reviews related to the CFEC. She referenced the discussion at the May meeting where it was agreed that a decision taken by the banks in regards to the future of FMAC would be supported by the Committee. On 11 October, FMAC ended its association with the CFEC and adopted a new mandate. As such, FMAC will no longer be represented on the CFEC. The role of the Canadian Committee for Professionalism (CCFP) with respect to CFEC will also need to be re-examined. She asked all the CFEC members to review the draft of the updated and revised CFEC Document of Objectives and Organization that was circulated to the Committee. She proposed that, depending on the extent of any further changes, members would be asked to vote on the new Document at an upcoming meeting.

The CFEC is also examining the issue of the code of best market practice for the Canadian FX market. As part of this process, the Bank of Canada would like to conduct bilateral meetings with some of the CFEC member banks on the codes of conduct.

## **79.8 Next Meeting**

On 30 January 2013 in Ottawa.