

Minutes of the Canadian Foreign Exchange Committee Meeting #69

**Held at 10:30 a.m., Tuesday, April 28, 2009
Toronto**

- Present: Firas Askari, BMO Capital Markets (substitute)
Joe Barbaro, Thomson Reuters Canada (substitute)
Peter Dymott, RBC Capital Markets (substitute)
Jeff Feig, Citigroup
Mark Johnson, Chair – CCFP
Moti Jungreis, TD Securities
Russell Lascala, Deutsche Bank
Jack Linker, Thomson Reuters America
Brendan Luxton, Bank of Nova Scotia (substitute)
Brad Meredith, HSBC Bank Canada
John Nixon, ICAP North America
Nan Noonan, CLS Bank International (guest)
Richard Poirier, National Bank (substitute)
Duncan Rule, CIBC World Markets (substitute/guest)
Evan Steed, President – FMAC
John Walks, State Street Canada
Tim Lane, Bank of Canada
Donna Howard, Bank of Canada (Chair)
Rob Ogrodnick, Bank of Canada (Secretary)
- Regrets: Harry Culham (CIBC World Markets)
Clifton Lee-Sing (Department of Finance)
Ed Monaghan (RBC Capital Markets)
Jamie Thorsen (BMO Capital Markets)
Barry Wainstein (Scotia Capital)

69.1 Adoption of Agenda

The Committee adopted the agenda, as written. The Chair welcomed Duncan Rule, Mark Johnson (the new Chair of the CCFP), Deputy Governor Tim Lane, and Nan Noonan from CLS Bank to their first meeting with the Committee. It was noted that Sharon Grewal had chaired the CCFP for six years and also served as the President of FMAC for two years. On behalf of everyone, Donna Howard and Evan Steed thanked Sharon for her eight years of service and dedication to the CFEC, CCFP and FMAC.

69.2 Report of the Membership Subcommittee

Donna Howard reported that the Membership Subcommittee (MSC), consisting Brad Meredith, Jamie Thorsen, Barry Wainstein and Donna Howard, met on April 17th and would like to announce the following changes:

- Harry Culham from CIBC World Markets will fill the vacancy created by the departure of Craig Ellis.
- Ed Monaghan from RBC Capital Markets will fill the vacancy created after Harry Samuel stepped down from the Committee
- The terms of three CFEC members (Jeff Feig, Moti Jungreis and Jamie Thorsen) will expire on April 30th of this year. All three members were invited and have accepted the invitation to remain on the Committee for another three-year term. (Jamie abstained from the discussion concerning her membership renewal.)
- With regard to the Membership Subcommittee, the MSC decided to extend the term of Jamie Thorsen for another three-year term. (Once again, as an MSC member, Jamie abstained from the discussion regarding this decision.)

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

The Tour de table is not reported in the minutes.

69.4 Discussion with CLS Bank International

Nan Noonan of CLS Bank gave a presentation to the CFEC on the liquidity analysis and progress toward introducing a same day settlement cycle in North America for same day USD/CAD trades. Based on the data collected during the month of February 2009, it is estimated that the total daily value of USD/CAD same day activity for likely CLS counterparties is approximately \$US 35 to \$US 40 billion. She noted that there are a number of converging factors that may favour proceeding now. In particular: (1) in light of the financial market turmoil over the past year, there is an increased focus on the importance of settlement and credit risk; (2) there is a higher level of bank participation within CLS (for example, the Bank of Nova Scotia has become a shareholder of CLS and is expected to go live as a settlement member in the near term¹): and (3) the Bank of Canada's temporary expansion of Tranche 1 eligible collateral within LVTS.

¹ Among the domestic Canadian banks, the Canadian Imperial Bank of Commerce and the Royal Bank of Canada are also settlement members.

Ms. Noonan reported that the CLS Treasurers Working Group, an advisory group to CLS Bank, was supportive of the move to introduce a same day USD/CAD settlement cycle, subject to an acceptable business case. The time line for this to happen has not been established. CLS Bank will need to get feedback from their technology provider and CLS members will need time to make system changes as well.

The CFEC members were also interested in recent developments related to the participation model in which some settlement members provide third party services to third party participants. Ms. Noonan said that CLS Bank has spoken to a number of the third party service providers and none of them were intending to exit this business. However, some third party service providers are using the experience of the Lehman bankruptcy to re-price and re-negotiate the terms with their clients of providing this third party service.

Similarly, some third party bank participants are comparing the cost of being a third party participant versus the cost of becoming a settlement member. At this meeting, TD Securities (and at the previous CFEC meeting the Bank of Montreal), informed the Committee of their intention to transition from third party participation to settlement membership. Ms. Noonan said that while transition has been accomplished in as little as six months, depending on the circumstances, it can take as long as 12 months or a little more.

In response to an earlier query, Ms. Noonan reported that in addition to the 17 currencies that are currently eligible for CLS settlement, CLS has received Letters of Intent for the prospective inclusion of two more currencies - the new Turkish lira and the Chilean peso.

In conclusion, the CFEC members were very supportive of the CLS initiative to introduce a same day settlement cycle for same day USD/CAD trades. From the perspective of Canadian banks that have considerable activity in the USD/CAD currency pair, a same day settlement cycle is critical for meeting their business needs. Ms. Noonan welcomed this support and had earlier noted that a Same Day Settlement Working Group of bank participants will be established to facilitate this development. As well, she said that CLS Bank and the working group would like to discuss with the Bank of Canada the possibility of extending the temporary expansion of Tranche 1 eligible collateral within LVTS. Ms. Howard encouraged Ms. Noonan to contact the CFEC if there is anything she needs from the Committee.

69.5 FMAC News

Evan Steed reported on the very successful (attended by 150 people) Annual General Assembly and Conference that was held on February 18th. He also informed the members of the upcoming 13th annual charity golf tournament on June 7th which raises funds for the Hospital for Sick Children Foundation.

69.6 Other Business

Rob Ogrodnick distributed the CFEC's draft 2008 Report on Activities and asked for any changes or comments from the members over the next week.

69.7 Next Meeting

The next meeting will be held in Toronto on September 30th.