

Minutes of the Canadian Foreign Exchange Committee Meeting #82

**Held at 12:00 p.m., Tuesday, 8 October 2013
Toronto**

- Present: Firas Askari, BMO Capital Markets (substitute)
Jean-Philippe Bégin, National Bank (substitute)
Steve Boucouvalas, HSBC Bank Canada (substitute)
Jeff Feig, Citigroup
Courtney Gibson, Oanda (guest, agenda item #3)
John Glover, Barclays Capital Canada
Michele Hardeman, State Street Global Markets
Moti Jungreis, TD Bank
James Kemp, CIBC Global Markets (substitute)
Russ Lascala, Deutsche Bank
Clifton Lee-Sing, Department of Finance
Jack Linker, Thomson Reuters America
Gil Mandelzis, EBS Dealing Resources
Ed Monaghan, RBC Capital Markets
Camilla Sutton, Scotiabank (guest)
Barry Wainstein, Scotiabank
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
C.J. Gavsie, BMO Capital Markets
Jason Henderson, HSBC Bank Canada
Adam Howard, BAML Canada

82.1 Adoption of Agenda

The Committee adopted the agenda, as written. The Chair welcomed Moti Jungreis and Russ Lascala back to the CFEC as members. Moti had returned to Toronto from London, and Russ (who had also previously been on the Committee) is replacing Jason Shell.

82.2 Overview of FX Market Developments and Tour de table

Camilla Sutton, Chief Currency Strategist of Scotiabank, presented her FX market outlook, focussing on what she saw as the three main themes or drivers in FX markets: central bank policy and diverging policy paths; differing growth rates in the various regions of the global economy; and politics and geopolitical developments.

The Tour de table discussion is not reported in the minutes.

82.3 Electronic Trading: Trends, Developments and Implications

The discussion was motivated by the fact that electronic trading has become increasingly prevalent in the FX market. With large volumes, system failures can result in large losses in a short period of time. This underscores the importance of best practices to improve the safety and soundness of electronic trading systems.

Courtney Gibson, Vice President at Oanda, an internet-based FX trading and currency information company, gave a presentation on their approach to risk management, particularly as it applies to operational risk associated with electronic trading systems. The presentation included an overview of the review process for “best practices”, including the software release process; procedures to catch errors; and monitoring and other risk management tools including “smarter” circuit breakers. One element highlighted was the potential risk of anonymous trading. Specifically, should there be a system failure, knowing your counterparty is extremely important if there is a desire to explore unwinding of erroneous trades. Another note was that counterparty systems are often able to identify problems within very short timeframes.

Members of the Committee expressed interest in pursuing this topic and agreed that consideration should be given to reviewing best practices for electronic trading systems. The Chair asked the Secretary to survey CFEC members as to their preferred approach: a sub-group of the CFEC or a joint effort with an FXC subcommittee.

82.4 CFEC Code of Conduct Proposal

The Chair summarized the recent history of the CFEC on this topic. In 2011, the CFEC asked the CCFP and FMAC to undertake a preliminary review to assess whether it was still appropriate to maintain the ACI Code of Conduct adopted in 2001 and, if not, to explore appropriate alternatives. Following the preliminary review, the Bank of Canada conducted bilateral meetings with a

number of CFEC member banks to survey their internal approaches (as reported at the May 2013 meeting). It was determined that the ACI Code has declined in use and is only used as a reference for their internal codes. The internal codes, policies, guidelines and procedures of the banks interviewed appeared, in fact, to be more extensive than the minimum requirements articulated in the ACI Code. As well, some aspects of the ACI Code are addressed through prudential regulation and related international standards. A high-level gap analysis was undertaken comparing the ACI Code with existing prudential regulation and guidance from the Basel Committee on Banking Supervision. Based on the review it was concluded that the ACI Code no longer serves the same function as it has in the past and that the combination of banks' internal codes and prudential regulation cover similar principles to the ACI Code.

Therefore, the approach proposed for CFEC members' approval is to adopt a principles-based approach consisting of two elements:

- (1) The adoption of the five high-level principles that were embedded in the global FX committees' statement on "Codes of Best Market Practice and Shared Global Principles". (*Secretary's note: These principles were endorsed by the CFEC at their 9 May 2013 meeting, and the statement was published by the CFEC and seven other FX committees on 29 May 2013.*)
- (2) A commitment to take into account relevant regulations and reference codes (listed in the proposal).

The members were asked to review the draft "Guiding Principles for Conduct in the Canadian Foreign Exchange Market" with their compliance departments and other relevant senior management. Members were asked to conduct a final review and indicate by 8 November if there were any outstanding issues. A final decision on this issue is expected to be taken at the 9 December 2013 meeting.

82.5 Other Business

Bank of Canada 2013 FX Hedging Survey

Harri Vikstedt presented the results of the Bank of Canada's 2013 FX hedging survey and thanked the CFEC member banks for their participation in the survey. The results provide the banks, their clients, the Bank of Canada and the general public with insight into Canadian FX hedging practices. The results of the survey will be published on the Bank of Canada website in October, with a copy being circulated to the CFEC members in advance of that date. A link to those results will also be posted on the CFEC website.

The Bank of Canada will conduct the survey again next year with a similar set of banks. As part of the future process, the Bank plans to contact large institutional accounts to compliment the key survey findings. As well, the Bank is interested in the views of the CFEC member banks on the topics that they would like to see covered in the next survey. **The members will be contacted in the spring of 2014 for their views.**

Global FX Committee Meeting

The next global meeting of FX committees will be hosted by the Reserve Bank of Australia and the Australian Foreign Exchange Committee on 11 April 2014. (*Secretary's note: C.J. Gavsie, BMO Capital Markets, will attend as the CFEC industry representative.*)

Reporting Basis for the CFEC FX Volume Survey

There was a short discussion on the reporting basis for the CFEC semi-annual FX volume survey and whether it should be changed from the location of the trading desk (as currently undertaken in the CFEC and most other FX committee surveys). One option is to change to the location of the sales desk (as in the BIS triennial survey). It was also noted that in an increasingly global business with electronic trading and single pricing engines, reporting by location has become less meaningful and more difficult (which could argue for global consolidated reporting).

It was agreed that a Working Group would be formed so that all the banks (current and potential reporters) can provide their views on the reporting basis methodology for the survey. CFEC members will nominate individuals from their firms and they will be contacted by the Secretary.

CLS Same-day Settlement Initiative

The Chair thanked the banks for their participation and hard work in the CLS same-day settlement initiative for USD-CAD transactions, welcoming the inclusion of one Canadian bank in the introduction and looking forward to the inclusion of four others in early 2014.

82.6 Adjournment and Next Meeting

The meeting was adjourned at 2:30 pm. The next meeting will be held on 9 December in Ottawa.