

Minutes of the Canadian Foreign Exchange Committee Meeting #88

**Held at 12:00 p.m., Wednesday, 7 October 2015
Toronto**

- Present: Glenn Crotty, BAML (guest substitute)
Paul Galbraith, HSBC Bank Canada (substitute)
C.J. Gavsie, BMO Capital Markets
Darryl Hooker, EBS/ICAP (substitute)
Moti Jungreis, TD Bank
James Kemp, CIBC World Markets
Dino Kos, CLS Bank (guest)
Simon Labrosse, National Bank Financial
Russell Lascala, Deutsche Bank
Clifton Lee-Sing, Department of Finance
Jack Linker, Thomson Reuters America
Ed Monaghan, RBC Capital Markets
Gaétan Reid, State Street Global Markets (substitute)
Camilla Sutton, Scotiabank
Paul Chilcott, Bank of Canada (Chair)
Harri Vikstedt, Bank of Canada
Eric Tuer, Bank of Canada
Rob Ogrodnick, Bank of Canada (Secretary)
- Regrets: Andrew Grosso, Citibank
Michele Hardeman, State Street Global Markets
Jason Henderson, HSBC Bank Canada
Adam Howard, BAML Canada
Gil Mandelzis, EBS Dealing Resources

The meeting was hosted at Bank of America Merrill Lynch Canada. The guest speaker over the lunch hour was Tod Van Name, Global Head of Bloomberg's Fixed Income, Currencies and Commodities products. Mr. Van Name spoke about the development of Bloomberg's FX business both globally and in Canada, and included information on new initiatives around Bloomberg chat and compliance.

88.1 Adoption of Agenda

The Committee adopted the agenda, as written. Camilla Sutton, Glenn Crotty, Paul Galbraith, Darryl Hooker and Gaétan Reid all attended their first CFEC meeting.

88.2 CLS Update

Dino Kos, Head of Global Regulatory Affairs at CLS Bank, provided his annual update on recent CLS developments and future priorities. Three near-term priorities were mentioned. First, CLS Bank has been working with TriOptima to deliver a compression service for non-centrally cleared FX forwards, offering participants a service to reduce the number of trades outstanding, limit their gross notional exposures and reduce counterparty credit risk. Second, CLS bank is working with settlement members and MarkitWire to allow cross currency swaps to be included in their existing settlement service. Third, the Hungarian forint is targeted to become the 18th currency to be settled through CLS. Subject to regulatory approvals, these priorities are expected to be launched before the end of 2015.

Mr. Kos also outlined three medium-term strategic priorities. First, CLS Bank is working with LCH.Clearnet to develop a service to facilitate the settlement of centrally cleared FX products. The service would use a separate payment-versus-payment (PvP) settlement session. Similar separate sessions could be established for other CCPs seeking to offer central clearing of FX products. Second, CLS has plans to add MXN to the same-day settlement (SDS) service for USD/CAD which went live in 2013. Subject to regulatory approvals, it is currently envisaged that these services would be launched in 2016. Third, settlement members are being migrated to new gateways that will make their connection to CLS more straightforward and less costly. Some settlement members have been migrated already and more will follow.

Among longer term initiatives, CLS is exploring the feasibility of offering a bilateral netting service with respect to non-CLS currencies. CLS is canvassing its members to gauge interest and solicit feedback about the details of such a service.

88.3 Tour de table – FX, Financial and Economic Developments

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

88.4 Drafting of the Global FX Code and Adherence

The Chair updated the Committee on the project to develop a new global FX code of conduct. At the global meeting of FX committees in March, after endorsing the new Global Preamble, the committees had agreed to discuss the scope for further harmonization of the various industry codes of conduct, and to examine ways to promote consistent adherence by FX market participants to the Global Preamble and the various codes. In May, the BIS Governors set up a Working Group (FXWG) under the auspices of the Markets Committee to take these issues forward with a view to facilitate the

establishment of a single global code of conduct standards and principles, and to promote greater adherence to these standards and principles.

The work program of the FXWG is organized around two work streams. The first work stream is tasked with drafting the new single global code of conduct and the second work stream is tasked with developing proposals to promote and incentivise adherence to the new code. A Market Participants Group (MPG) has also been formed to provide private sector markets expertise, including input and initial drafts on topics not adequately covered in current codes, and for consultation on adherence issues. The code is intended to cover all wholesale FX markets, and to be broad-ranging across market participants (sell-side and buy-side) and infrastructure providers, with appropriate consideration to local circumstances. The target for finalization of the code is May 2017, with parts of the code and other updates to be released prior to finalization. The FXWG and MPG will be looking to CFEC (and other FX committees and jurisdictions), and also to buy-side participants in Canada (and elsewhere), for their expertise and experience.

88.5 Other Business/Updates

FSB Progress Report on Implementing FX Benchmark Recommendations

The members discussed the Financial Stability Board's (FSB's) progress report, released October 1st, on implementing the September 2014 recommendations on the reform of FX benchmarks. The highlights of the report include:

- The overall assessment is that there has been good progress in implementing many of the recommendations, although in some cases progress has been mixed. In particular, it was re-emphasised that the FSB recommendations are intended to apply to *all* FX benchmarks, not just the WM/Reuters 4 pm London fix.
- That said, useful steps have been taken to reform the methodology of the widely used WMR 4 pm London fix, though there is scope for further progress on reforms.
- Recommendations to support more transparency in customer pricing for fixing transactions and to separate dealers' fixings business from other activities have seen good implementation among some participants and markets, but again there is room for further implementation by other participants and in other FX markets.
- During the fixing window, there has been an increase in dealer driven algorithmic trading, and less manual trading. Trading volume continues to peak during the fixing window, and trading volume around the fix is now more concentrated in the actual fixing window, with much less activity on either side of the window.

The full progress report on the implementation of the FSB's recommendations for FX benchmark reform can be found at:

<http://www.financialstabilityboard.org/2015/10/foreign-exchange-benchmarks-report-on-progress-in-implementing-the-september-2014-recommendations/>

Bank of Canada 2015 FX Hedging Survey

Harri Vikstedt explained that the Bank of Canada's 2015 FX hedging survey on banks' corporate and institutional clients has been substantially revised and is much shorter, focusing on Canadian dollar hedging activity. The survey will be sent out around the end of October.

88.6 Next CFEC Meeting: 2016 Meeting Schedule – to be determined