

**Minutes of the Canadian Foreign Exchange Committee
Meeting #91**

**Held at 12:00 p.m., Thursday, 29 September 2016
Toronto**

- Present: Martha Campbell, Thomson Reuters (substitute)
Paul Galbraith, HSBC Bank Canada (substitute)
Darryl Hooker, EBS/ICAP (substitute)
Dino Kos, CLS Bank (first part of meeting)
Simon Labrosse, National Bank Financial
Russell Lascala, Deutsche Bank
Arden Majewski, CIBC World Markets
Mervin Merkowsky, Department of Finance
Ed Monaghan, RBC Capital Markets
Gaétan Reid, State Street Global Markets (substitute)
Camilla Sutton, Scotiabank
Michael Twaits, TD Securities (substitute)
Jamie Wilson, BMO Capital Markets (guest substitute)
Colin Gallagher, Bloomberg (from 2:00 to 3:15 pm)
Stephen Jonathan, Bloomberg (from 2:00 to 3:15 pm)
John Shupe, Curex (from 2:00 to 3:15 pm)
Franz Schmidpeter, Curex (from 2:00 to 3:15 pm)
Shirley Barrow, Thomson Reuters/WMR (from 2:00 to 3:15 pm)
Chris Naylor, Thomson Reuters/WMR (from 2:00 to 3:15 pm)
Paul Chilcott, Bank of Canada (Chair)
Harri Vikstedt, Bank of Canada
Zahir Antia, Bank of Canada
Rob Ogradnick, Bank of Canada (Secretary)
- Regrets: Glenn Crotty, BAML
C.J. Gavsie, BMO Capital Markets
Andrew Grosso, Citibank
Jason Henderson, HSBC Bank Canada
Moti Jungreis, TD Bank
Jack Linker, Thomson Reuters
Gil Mandelzis, EBS Dealing Resources

The meeting was hosted at Scotiabank Centre.

The luncheon speaker was Dino Kos, Head of Regulatory Affairs at CLS Bank, who provided his annual update to the Committee on recent CLS developments and future priorities. On participation, there are now 66 settlement members in CLS and over 21,000 third parties. In addition to the existing shareholder settlement membership, a non-shareholder membership category has been introduced. The results of a business continuity planning exercise that was undertaken by CLS and a number of market participants were also presented.

Three recent priorities were launched in the last year. First, CLS collaborated with TriOptima to launch triReduceCLS Forward FX Compression Service in October 2015. This compression service for non-centrally cleared FX forwards offers participants the opportunity to reduce the number of trades outstanding, limit their gross notional exposures and reduce counterparty credit risk. Second, CLS collaborated with IHC Markit to launch in November 2015 a payment versus payment (PvP) settlement solution in CLS for cross currency swaps. Third, also in November of last year, the Hungarian forint became the 18th currency to be settled through CLS.

Mr. Kos also outlined three other strategic initiatives. First, CLS is working with LCH.Clearnet to develop a service to facilitate the settlement of cleared FX products. This service is expected to launch in 2017, subject to all necessary approvals. Second, CLS is exploring the potential development of a standardized, automated bilateral payment netting service for buy-side and sell-side FX trades currently settled outside CLS. It is expected participants will benefit from operational risk mitigation, operational efficiencies and enhancements to capital and liquidity management. This service could be launched in late 2017 or early 2018, subject to regulatory approvals. A third initiative is a product called CLS Now that would provide for the same-day PvP settlement of FX trades on a gross basis, which means that same-day trades would be settled on a trade-by-trade basis throughout the day. Some of the benefits would include the mitigation of settlement risk by being able to settle the back end of In/Out swaps and potentially greater access to liquidity in a stress scenario.

91.1 Adoption of Agenda

The Committee adopted the agenda, as written.

91.2 Tour de table – FX, Financial and Economic Developments

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

91.3 Update on Drafting of the Global Code

The Chair (a member of the FX Working Group) and the CFEC members on the Market Participants Group updated the Committee on the drafting of Phase 2 of the Global Code, including the procedure for submitting and processing feedback. An update was also provided on some of the ideas the Adherence Group is working on to promote and incentivise adherence to the Code.

91.4 Presentations from FX Benchmark Providers

Introducing the topic, Harri Vikstedt noted that effective 1 March 2017 the Bank of Canada will reduce the number of currencies it publishes to approximately 25, and only one foreign exchange rate per currency pair will be published, at 4:30pm (ET), based on a new calculation methodology which will broadly reflect the average exchange rate observed through the Canadian business day, rather than a single point in time. Further details will be released in the fourth quarter of 2016. These changes reinforce the distinction between FX rate fixings used as benchmarks for transactional purposes and Bank of Canada exchange rates that are provided as a public good for statistical, analytical and informational purposes only. At the previous meeting in June, members had expressed an interest in having alternative FX benchmark providers present their methodologies.

Three globally active FX benchmark providers (Bloomberg, Curex and Thomson Reuters/WMR) were invited to give presentations at this meeting. They provided details on their FX benchmarking services, including the rates they offered which could be used as alternatives, for transactional purposes, to the rates currently published by the Bank of Canada. It was emphasised that other alternatives might be available and it was not the intention that CFEC should endorse any particular rates. It was for the parties to any particular contract or transaction to agree which reference rate to use. Information on the services offered by the benchmark providers who presented at the meeting can be found on the following websites:

Bloomberg

<http://www.bloomberg.com/markets/currencies/fixings>

Curex

<http://curexgroup.com/documents.html> website

<http://www.ftse.com/products/indices/curex> methodology on FTSE Russell website

Thomson Reuters/WMR

<http://financial.thomsonreuters.com/en/products/data-analytics/market-data/financial-benchmarks/spot-rates.html>

91.5 Next CFEC Meetings

- 2017 meeting schedule is to be determined
- Next meeting on Global Code is on 13 October 2016