

CANADIAN FOREIGN EXCHANGE COMMITTEE

# **Report on Activities**

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**2006**

# **Canadian Foreign Exchange Committee**

## **Report on Activities**

### **2006**

The Canadian Foreign Exchange Committee (CFEC) is composed of senior representatives from financial institutions actively involved in the foreign exchange market in Canada and the U.S. dollar/Canadian dollar market globally (see membership list on page 8). Formed in 1989, its objective is to provide a forum for the regular discussion of issues and developments pertinent to the foreign exchange market. This includes the review of market practices and procedures, and the promotion of professionalism and integrity in the industry. It also serves as a channel of communication between the foreign exchange market in Canada and other organizations and official institutions, both within Canada and abroad.<sup>1</sup>

### **Market Developments and Policy Issues**

A recent initiative at CFEC meetings has been to have a featured discussion in which speakers are invited to give a presentation on developments in the foreign exchange market. At its February meeting, representatives from Reuters and EBS spoke about electronic trading, prime brokerage and non-bank participants. Committee members discussed the implications for the foreign exchange market of allowing participants of the professional trading community access to inter-bank pricing via a prime brokerage channel. Similarly, at the June meeting, the Committee member from Reuters gave a presentation on recent developments in the electronic foreign exchange trading space. The ongoing expansion on the existing Reuters Matching platform, including the increased use of the AutoQuote (API) application, was reviewed. As well, he described the new joint venture, FXMarketSpace, being launched with the CME.

The meetings are also an opportunity for representatives of the Bank of Canada to discuss policy issues and other topics with senior representatives of the foreign exchange market. At one meeting, Deputy Governor David Longworth outlined the Bank's participation on two committees of the Bank for International Settlements: the Markets Committee and the Committee on the Global Financial System (CGFS). The Markets Committee is an international forum, for officials from the central banks of the G10 and other countries, to exchange views on recent developments and structural changes in foreign exchange and related financial markets. This Committee is also responsible for the triennial central bank survey of foreign exchange and derivatives markets. The

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<sup>1</sup>The full document of Objectives and Organization, which was originally developed by the Committee in 1990, and was most recently revised in May 2003, can be found on pages 10-11.

CGFS, which is composed of officials from a similar group of central banks, has been mandated to monitor and examine broad issues related to central banks' responsibilities for the stability of financial markets and the global financial system.

Carolyn Wilkins from the Bank of Canada described the Bank's new effective exchange rate index<sup>2</sup>, the Canadian Dollar Effective Exchange Rate Index (CERI), that has now replaced the C-6. The C-6 index was based on weights over the 1994-96 period and had become dated given that Canada's trade profile has changed over the last decade. In addition to the more recent data, there are two methodological differences that improve the CERI compared with the C-6 index. First, the CERI trade weights are computed using trade not only in manufactured goods but also in commodities (excluding energy) and services (tourism and other services). Second, the CERI uses multilateral, as opposed to bilateral, trade weights that account for the geographical distribution of trade. It takes into account that domestic firms compete with foreign firms not only directly in the domestic market and the local market of the foreign firm, but also indirectly in third markets. A detailed article on CERI was published in the Autumn 2006 issue of the Bank of Canada Review, which can be found on the Bank's website ([www.bankofcanada.ca](http://www.bankofcanada.ca)).

Another issue discussed by the CFEC in 2006 was the foreign exchange hedging activity of Canadian corporations. The results of the third survey of banks (in three years) conducted by the Bank of Canada at the end of 2005 were presented at the February meeting of the Committee. A "Summary of the CFEC Survey on Foreign Exchange Hedging" can be found on the CFEC website ([www.cfec.ca](http://www.cfec.ca)) under Announcements.

Twice each year, the CFEC members take turns hosting a lunch before the meeting in which a speaker is invited to give his/her views on a topic of interest to the Committee. TD Bank Financial Group hosted one of the lunches and Don Drummond, their Chief Economist, presented his outlook for foreign exchange markets. The second lunch was hosted by the Bank of Canada and Governor David Dodge.

## **Liaison with Other Foreign Exchange Committees**

The CFEC continued to strengthen relations with other foreign exchange committees outside of Canada during the year. Dino Kos of the Federal Reserve Bank of New York attended the February meeting of the CFEC and provided an update on some of the recent projects of the New York Foreign Exchange Committee. This included work on foreign exchange prime brokerage, white labeling and retail aggregation.

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<sup>2</sup> An effective exchange rate is a measure of the value of a country's currency vis-à-vis the currencies of its most important trading partners.

In October, representatives of the CFEC (George Pickering, Jamie Thorsen and Rob Ogrodnick) attended the first ever global meeting of all the foreign exchange committees. The meeting was hosted by the Federal Reserve Bank of New York and there were representatives from eight foreign exchange committees in attendance (New York, London, ECB, Tokyo, Singapore, Hong Kong, Australia and Canada).

The intent of the meeting was fivefold: (1) to foster understanding of each Committees' mandate and organizing principles; (2) to share perspectives on developments and trends in the global foreign exchange market; (3) to discuss key Committee initiatives and projects; (4) to begin to determine ways the global committees can enhance their collaboration; and (5) to improve communication amongst the Committees. The event was viewed as very constructive and helpful, and will likely be repeated in the future.

### **Canadian Committee for Professionalism**

The Canadian Committee for Professionalism (CCFP), which is sponsored jointly by the CFEC and the Financial Markets Association of Canada (FMAC), was inaugurated in 1993. This independent Committee reports regularly to the CFEC, and its guiding mission is to promote a high standard of professionalism and ethical conduct in the Canadian foreign exchange market. The Document of Organization for the CCFP, which can be found on pages 12-13 of this Report, was last updated in January 2007. The CCFP met regularly in 2006 and has been active in promoting its objectives in conjunction with the CFEC. A list of the members can be found on page 9.

Another objective of the CCFP is to arbitrate disputes, upon request, between two or more counterparties. While it is only on rare occasions that the CCFP has received any formal request for arbitration, the Committee has provided advice and direction on issues related to best market practices.

In 2006, the New York Chief Dealers Group, a working group of the Foreign Exchange Committee, proposed to have a representative from the Canadian foreign exchange community. Mark Griffiths from RBC Capital Markets will be fulfilling that role and will keep the CCFP informed of any issues arising from the Chief Dealers Group meetings that may be of interest to the Canadian market.

### **ACI Model Code**

In 2001 the CFEC, along with the CCFP and the FMAC, adopted the *ACI Model Code* as the standard for best market practices in the Canadian foreign exchange market. This Code replaced guidelines that were previously revised in 1997. The Model Code was first published in the year 2000 by ACI - The Financial Markets Association, the

global umbrella organization of foreign exchange associations. It combined the recommendations for six pre-existing codes of conduct (those of New York, London, France, Singapore, Tokyo and the original ACI Code). The Code is kept current through updates that result from the regular review of the Code by the ACI Committee for Professionalism, a committee which includes Canadian representation (currently Lynn Kennedy, from BMO Capital Markets, who is also on the CCFP). A link to the latest version of the *ACI Model Code* can be found at the CFEC website ([www.cfec.ca](http://www.cfec.ca)) under Announcements.

### **Bank of Canada Noon Rate Setting**

In 2005, the Bank of Canada reviewed, in consultation with the CCFP, the procedure for calculating, and the timing of the release of, the setting of the Bank's noon exchange rates. After reviewing a range of options, the Bank of Canada introduced, starting on November 7, 2005, a two-minute averaging window (from 11:59 a.m. to 12:01 p.m.) for the US\$/Can\$ bilateral exchange rate. This rate is made publicly available shortly after 12:01 p.m. through the Bank of Canada's pages on the Bloomberg (BOFC5), Bridge (3194) and Reuters (BOFC) news services. Other indicative exchange rate pairs involving the Canadian dollar are released a little later on these news services and on the Bank of Canada website ([www.bankofcanada.ca](http://www.bankofcanada.ca)).

These changes were implemented on a six-month trial basis to allow the Bank of Canada to assess whether further refinements are required to ensure the rates remain an accurate reflection of mid-day rates in wholesale markets. The assessment in 2006 revealed that the Bank of Canada and the vast majority of market participants were very satisfied with the results of the two-minute window. Some concern was expressed that data from only the Reuters Matching System, and not from voice brokers, are being used. However, given that the Reuters Matching System has a very significant share of the interbank US\$/Can\$ market, and the data are transparent, verifiable and timely, it was decided that for the time being the sole medium for determining the rate would continue to be data from Reuters.

Users of this information are reminded that the exchange rates, which are published as a service of the Bank of Canada, are nominal quotations – not buying or selling rates – intended for statistical or analytical purposes only. Some market participants have chosen to use these rates for other purposes such as the pricing of transactions. Although obtained from sources believed to be reliable, the data are for informational purposes only, and the Bank of Canada does not guarantee the accuracy, completeness or appropriateness of the rates for transactional purposes.

## **Operations Managers Working Group**

The Operations Managers Working Group (OMWG) was established in 2003 and held its inaugural meeting in September of that year. The purpose of this group is to focus on operational issues such as delivery or settlement problems, confirmation procedures and best practices, business continuity planning, SWIFT messaging issues, increased straight through processing and electronic confirmations etc. A list of the members can be found on page 9.

In 2004, the Canadian OMWG endorsed two best practices documents that were published by the New York Foreign Exchange Committee. The first publication, *Management of Operational Risk in Foreign Exchange*, recommends 60 best practices for financial institutions to use as a resource or checklist for when they regularly evaluate their policies and procedures to manage operational risk. The second publication, *Recommendations for Nondealer Participants*, is a condensed version of the 60 best practices that is geared towards nondealer participants who, while perhaps not as active in foreign exchange, could benefit from the recommendations. A link to these documents can be found on the CFEC website ([www.cfec.ca](http://www.cfec.ca)) under Announcements. Two members of the Canadian OMWG also attend the meetings of the New York OMWG.

In May, the CFEC and the OMWG wrote a letter to foreign exchange market participants that addressed the issuance of authorization letters. This matter relates to a practice in which customers in the foreign exchange market send letters to dealing firms that include restrictions on the authority of individuals to undertake trade or post-trade activities on their company's behalf. This practice is viewed as a unilateral attempt by customers to shift the burden of enforcing compliance with their own internal policies and procedures to the dealing counterparty, and is not seen as being consistent with best practices in the foreign exchange market. A more detailed letter has been issued by the New York Foreign Exchange Committee on this practice. The Canadian letter (attached) indicates where the more detailed FEC letter can be found on the CFEC website.

## **Market Statistics**

### **2007 Triennial Survey**

Preliminary work has been completed on the next triennial central bank survey of foreign exchange and derivatives market activity that will be conducted during the month of April 2007 for turnover data and as of June 30, 2007 for amounts outstanding. In particular, work was undertaken with the Bank for International Settlements and other participating countries to refine the reporting guidelines and clarify reporting procedures. The template and guidelines for the survey have been distributed to the participating banks.

## **Regular Derivatives Market Statistics**

Statistics on derivatives markets from approximately 60 major global dealers in the Group of 10 (G10) countries are collected regularly. This was originally a proposal of the Euro-currency Standing Committee of the BIS and was approved by the governors of the central banks of the G10 countries in January 1997. Three Canadian financial institutions are participating in this reporting, and consolidated amounts outstanding were collected for the first time as of 30 June 1998 and have been collected every six months thereafter. The data collected covers foreign exchange, interest rate, equity and commodity derivatives, and credit default swaps. The BIS issues a press release with the aggregated global summary results of this survey after each reporting date.

## **CFEC Semi-annual Foreign Exchange Volume Survey**

In October 2005, the daily/weekly report to the Bank of Canada on foreign exchange volumes was replaced by a semi-annual survey (during the months of October and April). The new semi-annual survey is more comprehensive in that it includes other currency pairs in addition to US\$/Can\$. As well, it has a new table on the method of execution for foreign exchange trades, and different counterparty definitions similar to those in the triennial survey. In general, the new report is similar in nature to, but not directly comparable with, the BIS triennial survey. It includes only the larger participants in the Canadian foreign exchange market, but their volume accounts for most of the market. A number of other jurisdictions, including New York, London, Tokyo and Singapore, have adopted similar surveys. The Canadian semi-annual data are made available on the CFEC's website ([www.cfec.ca](http://www.cfec.ca)) a few months after the survey. It is jointly released with several other countries. The October 2006 data have been appended to this Report.

## **IFXCO, IFEMA and ICOM Master Agreements**

Over the last few years the CFEC has, in conjunction with the Foreign Exchange Committee of New York, the British Bankers' Association and the Tokyo Foreign Exchange Market Practices Committee, sponsored work on three Master Agreements: the International Foreign Exchange Master Agreement (IFEMA), the International Currency Options Market Master Agreement (ICOM), and the International Foreign Exchange and Options Master Agreement (FEOMA). In 1997, the CFEC, along with the above-noted committees, obtained legal opinions as to the enforceability and validity of the netting provisions of the updated IFEMA, ICOM and FEOMA Master Agreements in various jurisdictions including Canada. An update on the legal opinion is obtained each year. In 2004, the CFEC agreed to co-sponsor an updated master agreement known as the International Foreign Exchange and Currency Option (IFXCO) Master Agreement.

IFXCO is based on the 1997 FEOMA agreement. Like FEOMA, IFXCO covers spot and forward foreign exchange transactions and currency options.

## **Business Continuity Planning**

While each financial institution undertakes its own business continuity planning which includes having back-up systems and off-site facilities, there is an interest to also ensure that system-wide business continuity arrangements are in place. Following a review of the experience in the wake of the September 11, 2001 terrorist attacks, the CFEC compiled a contact list for the Canadian foreign exchange market. The intention of the list, which is updated regularly, is to give participants in the foreign exchange market the means to contact one another in the event of an emergency if the normal channels of communication are not working.

## **Organization and Membership**

The CFEC issues this Report on an annual basis to inform financial institutions that are active in the foreign exchange market about the Committee's activities and membership. Over the course of the year, updates on the activities of the Committee can be found on the CFEC's website ([www.cfec.ca](http://www.cfec.ca)) under the links to either the Announcements of the Committee or the Minutes of meetings. The website also contains an up-to-date membership list, information on foreign exchange volumes and rates, articles of interest to the foreign exchange community and links to the websites of other foreign exchange committees and organizations.

There were a number of membership changes on the Committee in 2006. Jack Linker from Reuters America replaced Susan Gammage, Evan Steed from TD Securities has replaced Carmen Perricone of State Street as the new President of the Financial Markets Association of Canada, and Clifton Lee-Sing from the Department of Finance is replacing Sandra Lavoratore. The term of Bernard Piché from Laurentian Bank expired at the end of April.

The contributions of all the members on the CFEC and its subcommittees and working groups are greatly appreciated, as are the contributions of those who have left the Committee over the past year.

George Pickering  
Chair  
Rob Ogrodnick  
Secretary  
Canadian Foreign Exchange Committee  
2006 Report on Activities



**Canadian Foreign Exchange Committee  
Membership, January 2007**

George Pickering, Adviser (Chair)  
Bank of Canada, Ottawa

Richard Audet, Managing Director & Treasurer  
Société Générale Securities, Montreal

Vincent Butkiewicz, Vice President  
National Bank of Canada, Montreal

Craig Ellis, Managing Director  
CIBC World Markets, Toronto

Jeff Feig, Managing Director  
Citigroup, New York

Sharon Grewal, Executive Director (Chair, CCFP, an ex officio post)  
CIBC World Markets, Toronto

Moti Jungreis, Managing Director  
TD Securities, London

Russell Lascala, Managing Director  
Deutsche Bank, New York

Clifton Lee-Sing, Acting Chief  
Department of Finance, Ottawa

Jack Linker, Director  
Reuters America, New York

Brad Meredith, Executive Vice President  
HSBC Bank Canada, Toronto

Tim Miles, Senior Vice President  
ICAP Capital Markets Canada, Toronto

Harry Samuel, Managing Director  
RBC Capital Markets, London

Evan Steed, Vice President and Director (President, FMAC an ex officio post)  
TD Securities, Toronto

Jamie Thorsen, Executive Managing Director  
BMO Capital Markets, Chicago

Barry Wainstein, Vice Chairman  
The Bank of Nova Scotia, Toronto

Rob Ogrodnick, Senior Analyst (Secretary)  
Bank of Canada, Toronto

## **Other Committee Members January 2007**

### **Canadian Committee for Professionalism (CCFP)**

Sharon Grewal (Chair)	CIBC World Markets
Joe Barbaro	Reuters Information Services (Canada)
Mark Johnson	RBC Capital Markets
Lynn Kennedy	BMO Capital Markets
Steve Kent	TD Securities
Martin Legault	National Bank of Canada
Brendan Luxton	Bank of Nova Scotia
Brad Meredith	HSBC Bank Canada
Tim Miles	ICAP Capital Markets Canada
Rob Ogrodnick	Bank of Canada
Evan Steed	President, FMAC
John Walks	State Street Canada

### **Operations Managers Working Group (OMWG)**

Andy Sittambalam (Chair)	Scotiabank
Becky Alush	CIBC World Markets
Paul Davidson	HSBC Bank Canada
Alain DeMontigny	Bank of Montreal
Nathalie Desautels	National Bank
Sam Jeries	TD Bank Financial Group
Jean Napthine	RBC Capital Markets
Catherine Paquin	Laurentian Bank
Donna Wareham	State Street Canada
Rob Ogrodnick (Secretary)	Bank of Canada

### **Membership Subcommittee**

George Pickering (Chair)	Bank of Canada
Craig Ellis	CIBC World Markets
Jamie Thorsen	BMO Capital Markets
Barry Wainstein	Bank of Nova Scotia

# **CANADIAN FOREIGN EXCHANGE COMMITTEE**

## **Document of Objectives and Organization May 2003**

### **I. Objectives**

The objectives of the Committee are:

- to provide a forum for the regular exchange of views on foreign exchange market developments;
- to identify, analyse and comment on issues pertinent to the foreign exchange market;
- to review procedures, practices, and technical issues on the foreign exchange and related financial markets;
- to provide a channel for communication between the foreign exchange market in Canada and organizations and official institutions within Canada and abroad; and,
- to promote, to the community at large, the activities, decisions and views of the Committee, as representative of the Canadian foreign exchange market generally;

### **II. Organization**

1. The Committee is comprised of senior officers of institutions actively participating in the Canadian foreign exchange market and the Canadian dollar market globally.
2. The composition of the Committee is to reflect the interests of the major Canadian dollar market-making institutions in Canada and such other interests of the foreign exchange community as the standing Membership Subcommittee (as described below) believes will contribute positively to the ongoing work of the Committee. It shall include one representative each from the inter-dealer voice and electronic broking communities, the Department of Finance and the Bank of Canada. The Committee may also include up to two non-resident representatives from major Canadian dollar market-making institutions based outside of Canada.
3. The President of the Financial Markets Association of Canada and the Chairperson of the Canadian Committee for Professionalism, if they are not already members in their own right, are to be non-voting, ex-officio members.

4. An officer of the Bank of Canada will serve as Secretary to the Committee.
5. The Committee will not exceed 16 voting members, excluding the Secretary. A quorum is two-thirds of voting members. Members each have one vote. The Chair votes only in the case of a tie. Members appoint substitutes, from their own organizations, to attend on their behalf on an exceptional basis. Substitutes are to be considered possible candidates for future membership.
6. Initially, one third of the members will serve a term of three years, one third for a term of two years, and a final third for one year. Thereafter, each member will normally serve for a term of three years, although membership will remain, at all times, at the pleasure of the Committee. For consistency, all terms will be deemed to end on April 30.
7. Members serve on the Committee as individuals, to reflect the broader interests of the foreign exchange market, rather than that of the firm which employs them.
8. The Chair of the Committee is elected by and from the current members of the Committee, for a term determined by the Committee. The standing Membership Subcommittee (see below) recommends appropriate candidates for this position.
9. The Committee meets three times each year, or more frequently, as required. At each meeting, the date and location of the next meeting are decided by those present.
10. A standing Membership Subcommittee, consisting of a Chairperson, who is the member from the Bank of Canada, and three other members, as determined by the full Committee, identifies and proposes individuals for membership, based on their personal stature, breadth of experience and anticipated ability to contribute to the work of the Committee. The three other member positions serve a term of three years, with each one expiring in a different year on April 30.
11. The Committee may form ad hoc subcommittees, chaired by any of its members, to study specific issues. Outside participants may be invited to serve on such subcommittees.
12. The Committee will issue an Annual Report of its Activities, to be sent to all financial institutions in Canada known to be active in the foreign exchange market, informing them of the Committee's activities and membership.
13. The Secretary prepares and circulates a notice and the minutes of each meeting to all members and their substitutes.

**CANADIAN COMMITTEE FOR PROFESSIONALISM**  
**Document of Organization**  
**January 2007**

The Canadian Foreign Exchange Committee (CFEC) and the Financial Markets Association of Canada (FMAC) are joint sponsors of an independent Canadian Committee for Professionalism (CCFP), formed in 1993.

**Mission Statement:**

To promote a high standard of professionalism and ethical conduct in the Canadian foreign exchange markets.

**Objectives:**

1. To *advocate* the continuing improvement of market practices to enhance the self-regulatory nature of the foreign exchange markets in Canada.
2. To provide *educational* vehicles which foster the understanding of the foreign exchange markets and related financial markets, in practice and theory.
3. To *arbitrate* disputes, upon request, between two or more members of the community or the institutions they represent.
4. To *communicate* with foreign exchange market professionals, and related trade associations, on matters relating to market practices and ethical conduct.

**Committee Members:**

The Committee is composed of a maximum of thirteen individuals who will be invited to join the CCFP at the request of the CFEC and FMAC, for a term of two years, with half the sitting Committee being present making a quorum, as follows:

1. The Chairperson of the CFEC or his/her designate.
2. The President of FMAC or his/her designate.
3. One member representing each of the major Canadian dollar market-making institutions in Canada.

4. One representative each from the Montreal foreign exchange community, the inter-dealer voice broker association, the inter-dealer electronic broking community, the foreign bank sector and the Bank of Canada.

Each individual on the Committee may satisfy one or more of the above requirements. A minimum of two members on the Committee should also be sitting members on the CFEC. All the members should have a broad knowledge of the foreign exchange markets in Canada, sufficient stature in the community to engender respect, and an anticipated ability to contribute to the work of the Committee. Traditionally the past President of FMAC has been asked to chair the Committee. If that is not possible, the Committee will select a Chairperson from its membership.

**Committee Procedures:**

1. The Committee will meet at the Chair's request. The format of the meeting will be informal, and the Committee will report to the CFEC on a regular basis. Any recommendation or issue paper prepared by the Committee will be presented for discussion at the CFEC before distribution and public disclosure.
2. The Committee will use FMAC as a vehicle to distribute information to the market.

# THE CANADIAN FOREIGN EXCHANGE COMMITTEE LE COMITÉ CANADIEN DU MARCHÉ DES CHANGES

150 King Street West  
Suite 2000  
Toronto, Ontario  
M5H 1J9

May 2, 2006

Dear Foreign Exchange Market Participant,

The issuance of authorization letters refers to a practice in which customers in the foreign exchange market send letters to dealing firms that include restrictions on the authority of individuals to undertake trade or post-trade activities on their company's behalf.

For example, a client might specify not only which particular individual(s) is/are authorized to confirm trades or issue settlement instructions, they may also impose restrictions on the amount or currencies the individual(s) is/are authorized to confirm. This is viewed as a unilateral attempt by customers to shift the burden of enforcing compliance with their own internal policies and procedures to the dealing counterparty, and is not seen as being consistent with best practices in the foreign exchange market.

On July 14, 2005 the New York Foreign Exchange Committee (FEC) issued a detailed letter to market participants on this practice. As this behaviour is not consistent with best market practices, the Canadian Foreign Exchange Committee (CFEC) and its working group, the Operations Managers Working Group (OMWG), supports the FEC letter and endorses it as an appropriate and important guideline for the Canadian foreign exchange market.

This letter and the more detailed FEC letter have been posted under "Announcements" on the CFEC website ([www.cfec.ca](http://www.cfec.ca)). The membership of the Canadian OMWG can also be found on the CFEC website under "Members."

Yours truly,

Richard Audet, *Société Générale Securities Inc.*  
Vincent Butkiewicz, *Banque Nationale du Canada*  
Craig Ellis, *CIBC World Markets*  
Jeff Feig, *Citigroup*  
Susan B. Gammage, *Reuters America Inc.*  
Sharon Grewal, *Chair, Canadian Committee for Professionalism*  
Moti Jungreis, *TD Securities*  
Russell Lascale, *Deutsche Bank*  
J. Brad Meredith, *HSBC Bank Canada*  
Timothy Miles, *Garban Intercapital*  
Carmen Perricone, *State Street Canada, and*  
*President, Financial Markets Association of Canada*  
Bernard Piché, *Laurentian Bank*  
Harry J. Samuel, *RBC Capital Markets*  
Jamie K. Thorsen, *Bank of Montreal*  
Barry Wainstein, *Scotia Capital*

# THE CANADIAN FOREIGN EXCHANGE COMMITTEE LE COMITÉ CANADIEN DU MARCHÉ DES CHANGES

150 King Street West  
Suite 2000  
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M5H 1J9

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Email: rogridnick@bankofcanada.ca

## CFEC Releases Results of October 2006 Foreign Exchange Volume Survey

**January 22, 2007** - The Canadian Foreign Exchange Committee (CFEC) released today the results of its third semi-annual survey of foreign exchange volumes in Canada. The purpose of the survey is to provide reasonably comprehensive information on the size and structure of the foreign exchange and foreign exchange derivatives market in Canada. Volumes are broken down by product, currency, counterparty, maturity and execution method. The eight banks with the largest foreign exchange activity in Canada participate.

The survey is similar in nature to the Bank for International Settlements' (BIS) Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity. However, the two surveys are not directly comparable because of some differences in reporting methodology. Most importantly, in the CFEC survey the basis for reporting is the location of the trading desk in Canada, i.e., it includes all transactions that are priced and executed by traders in Canada. In contrast, in the global BIS survey the basis for reporting is the location of the sales desk of any trade.<sup>3</sup>

The summary highlights of the October 2006 survey include the following:

- The monthly turnover in October of traditional foreign exchange products (defined as spot transactions, outright forwards and foreign exchange swaps) totaled just over \$US 1 trillion, an increase of almost 1% over April 2006.
- However, with 21 business days in October versus only 19 days in April, the average daily turnover of traditional foreign exchange products amounted to \$US 48.0 billion in October compared with \$US 52.6 billion in April, a decline of 8.7%.
- Compared with the first survey, which was conducted one year ago in October 2005, on an annual basis the average daily turnover of traditional foreign exchange products was 1% lower, at \$US 48.0 billion in 2006 versus \$US 48.5 billion in 2005.
- The average daily turnover of foreign exchange derivatives (currency swaps and over-the-counter options) totaled \$US 2.1 billion, a decline of 27.6% over the April 2006 survey.

The detailed results of the survey are presented in the summary tables attached.

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<sup>3</sup> Where no sales desk is involved in a transaction, for example in an interbank deal, volumes are based on the trading desk.



The CFEC is an industry group composed of senior representatives from financial institutions actively involved in the foreign exchange market in Canada and the U.S. dollar/Canadian dollar market globally. Formed in 1989, its objective is to provide a forum for the regular discussion of issues and developments pertinent to the foreign exchange market. This includes the review of market practices and procedures, and the promotion of professionalism and integrity in the industry. The Bank of Canada chairs the CFEC and provides secretariat services to the Committee.

The Bank of Canada also co-ordinates the CFEC survey on behalf of the market participants. The eight banks that participate in the survey are:

- Bank of Nova Scotia
- BMO Capital Markets
- CIBC World Markets
- HSBC Bank Canada
- National Bank of Canada
- RBC Capital Markets
- State Street (Canada)
- TD Securities

Globally a number of other foreign exchange committees conduct similar surveys and they are also releasing their results today on their websites. These include the (London) Foreign Exchange Joint Standing Committee, the (New York) Foreign Exchange Committee, the Tokyo Foreign Exchange Market Committee and the Singapore Foreign Exchange Market Committee. Links to their websites can be found on the CFEC website ( [www.cfec.ca](http://www.cfec.ca) ). Alternatively, the direct links to their survey results are provided below:

<http://www.bankofengland.co.uk/markets/forex/fxjsc/index.htm>

<http://www.newyorkfed.org/fxc/volumesurvey/mshare.html>

[http://www.fxcomtky.com/index\\_e.html](http://www.fxcomtky.com/index_e.html)

<http://www.sfemc.org>

**The Canadian Foreign Exchange Committee**  
**Semi-annual Foreign Exchange Volume Survey**  
October, 2006

**Summary Tables**



January 22, 2007

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**Table 1: Traditional foreign exchange turnover in Canada**  
**Summary of surveys**  
**Billions of U.S. dollars**

	Traditional foreign exchange turnover				Number of business days	Average total daily turnover	Per cent change
	Spot	Outright forwards	FX swaps	Total			
Oct. 2005	223.8	60.9	685.5	970.2	20	48.5	
Apr. 2006	235.4	61.1	703.6	1000.1	19	52.6	8.5
Oct. 2006	229.2	62.8	716.9	1008.9	21	48.0	-8.7

**Table 2: Over-the-counter (OTC) derivatives market turnover in Canada**  
**Summary of surveys**  
**Average daily turnover in billions of U.S. dollars**

	Foreign exchange derivatives			Number of business days	Average total daily turnover	Per cent change
	Currency swaps	Options	Total			
Oct. 2005	24.6	55.2	79.8	20	4.0	
Apr. 2006	27.6	28.0	55.6	19	2.9	-27.5
Oct. 2006	18.4	25.5	43.9	21	2.1	-27.6

**Table 3: Total reported foreign exchange turnover in Canada**  
Millions of U.S. dollars

Instrument and counterparty	Canadian dollar against U.S. dollar			U.S. dollar against currencies other than the Canadian dollar			Canadian dollar against currencies other than the U.S. dollar			All other currency pairs			All currencies		
	Apr-06	Oct-06	Per cent growth	Apr-06	Oct-06	Per cent growth	Apr-06	Oct-06	Per cent growth	Apr-06	Oct-06	Per cent growth	Apr-06	Oct-06	Per cent growth
<b>Spot</b>	132,767	135,284	2	79,833	70,412	-12	11,286	14,077	25	11,540	9,434	-18	235,426	229,206	-3
Reporting dealers	28,081	24826	-12	2,762	5,343	93	160	51	-68	313	395	26	31,315	30,614	-2
Other dealers	68,985	72,022	4	66,088	55,080	-17	5,791	10,376	79	10,934	8,211	-25	151,798	145,689	-4
Other financial	14,169	16,244	15	7,673	5,829	-24	3,782	2,029	-46	210	434	107	25,833	24,536	-5
Non-financial customers	21,533	22,192	3	3,310	4,160	26	1,554	1,621	4	83	394	375	26,479	28,367	7
<b>Outright forwards</b>	32,928	36,124	10	17,249	18,315	6	8,032	6,548	-18	2,887	1,780	-38	61,096	62,767	3
Reporting dealers	3,064	1,287	-58	605	167	-72	335	11	-97	66	130	96	4,069	1,595	-61
Other dealers	7,010	12,758	82	9,268	8,041	-13	921	1,159	26	1,650	1,141	-31	18,849	23,099	23
Other financial	12,684	11,045	-13	5,141	6,132	19	6,129	4,520	-26	607	310	-49	24,560	22,007	-10
Non-financial customers	10,170	11,034	8	2,235	3,975	78	647	858	33	565	199	-65	13,617	16,066	18
<b>FX swaps</b>	405,208	438,697	8	287,854	267,294	-7	8,376	10,154	21	2,155	755	-65	703,593	716,899	2
Reporting dealers	62,520	59,043	-6	3,135	6,501	107	1,347	650	-52	26	42	62	67,027	66,235	-1
Other dealers	274,029	290,495	6	257,375	224,833	-13	1,649	2,103	28	1,527	42	-97	534,580	517,473	-3
Other financial	41,898	56,441	35	18,187	28,973	59	4,670	5,921	27	190	299	57	64,945	91,634	41
Non-financial customers	26,760	32,718	22	9,157	6,987	-24	711	1,480	108	413	372	-10	37,041	41,557	12
<b>Total dealers</b>	443,688	460,431	4	339,234	299,964	-12	10,202	14,349	41	14,515	9,960	-31	807,638	784,704	-3
Reporting	93,664	85,156	-9	6,502	12,010	85	1,841	711	-61	404	566	40	102,411	98,443	-4
Other	350,024	375,275	7	332,732	287,954	-13	8,360	13,638	63	14,111	9,394	-33	705,227	686,261	-3
<b>Total customers</b>	127,214	149,674	18	45,703	56,056	23	17,492	16,429	-6	2,067	2,008	-3	192,476	224,167	16
Financial	68,751	83,730	22	31,001	40,934	32	14,580	12,470	-14	1,006	1,043	4	115,338	138,177	20
Non-financial	58,463	65,944	13	14,702	15,122	3	2,912	3,959	36	1,061	965	-9	77,138	85,990	11
<b>Total turnover</b>	570,903	610,105	7	384,937	356,020	-8	27,694	30,778	11	16,582	11,968	-28	1,000,115	1,008,871	1
<i>Currency swaps</i>	9,885	7,442	-25	7,525	5,032	-33	11,819	5,918	-50	16	0	-100	27,605	18,391	-33
<i>OTC options</i>	18,743	17,500	-7	7,038	6,969	-1	2,092	635	-70	308	1,813	489	28,032	25,514	-9

**Table 4: Reported traditional foreign exchange turnover in Canada by instrument and by counterparty**  
**Summary of surveys**  
**Billions of U.S. dollars (and percent shares)**

	Instrument						Counterparty							
							Dealers			Customers				
	Spot		Outright forwards		Foreign exchange swaps		Reporting		Other	Financial		Non-financial		
Oct-05	224	(23.1)	61	(6.3)	685	(70.7)	96	(9.9)	658	(67.8)	118	(12.1)	99	(10.2)
Apr-06	235	(23.5)	61	(6.1)	704	(70.4)	102	(10.2)	705	(70.5)	115	(11.5)	77	(7.7)
Oct-06	229	(22.7)	63	(6.2)	717	(71.1)	98	(9.8)	686	(68.0)	138	(13.7)	86	(8.5)

**Table 5: Currency distribution of traditional  
foreign exchange market turnover in Canada**  
**Summary of surveys**  
**Percent shares**

<b>Currency</b>	<b>October 2005</b>	<b>April 2006</b>	<b>October 2006</b>
U.S. dollar	96.1	95.6	95.8
Canadian dollar	59.5	59.9	63.5
Euro	14.0	11.9	11.7
Japanese yen	7.8	6.8	5.3
U.K. pound	5.8	5.9	6.4
Australian dollar	3.6	5.3	5.5
Sw iss franc	5.8	2.8	1.8
Other currencies	7.4	11.9	9.9
All currencies[1]	200.0	200.0	200.0

(1) Since every foreign exchange transaction involves two currencies, the reporting of all currencies necessarily sums to 200 per cent.

**Table 6: Reported foreign exchange  
market turnover in Canada by maturity<sup>a</sup>**  
Millions of U.S. dollars

Instrument	October-05		April-06		October-06	
	Amount	% share	Amount	% share	Amount	% share
<b>Outright forwards</b>						
Up to 1 month	42,527	69.1	45,619	70.0	48,727	75.7
1 month to 1 year	17,230	28.0	16,243	24.9	13,433	20.9
More than 1 year	1,755	2.9	3,303	5.1	2,201	3.4
<b>Total</b>	<b>61,512</b>	<b>100.0</b>	<b>65,165</b>	<b>100.0</b>	<b>64,361</b>	<b>100.0</b>
<b>Foreign exchange swaps</b>						
Up to 1 month	619,313	81.5	662,480	86.0	672,139	85.8
1 month to 1 year	133,479	17.6	101,078	13.1	106,308	13.6
More than 1 year	6,666	0.9	7,062	0.9	4,687	0.6
<b>Total</b>	<b>759,458</b>	<b>100.0</b>	<b>770,620</b>	<b>100.0</b>	<b>783,133</b>	<b>100.0</b>
<b>OTC options</b>						
Up to 1 month	30,165	52.4	12,351	42.4	13,630	43.1
1 month to 6 months	18,777	32.6	12,597	43.2	15,128	47.9
Over 6 months	8,647	15.0	4,211	14.4	2,851	9.0
<b>Total</b>	<b>57,589</b>	<b>100.0</b>	<b>29,160</b>	<b>100.0</b>	<b>31,609</b>	<b>100.0</b>

a. Not adjusted for local double counting.



**Table 7: Execution methods**  
 percent shares  
 October 2006

Classification	Execution Methods Primarily for Dealers			Execution Methods Primarily for Customers			TOTAL
	Direct	Electronic Broking	Voice Broking	Direct	Single-bank Proprietary Platforms	Multi-bank Dealing Systems	
<b>By Currency Pair:</b>							
<b>Canadian Dollar against</b>							
USD	33	31	15	20	1	1	100
Other	37	15	1	38	1	8	100
<b>U.S. Dollar against</b>							
EUR	18	44	22	13	0	2	100
JPY	22	40	20	17	0	2	100
GBP	14	40	29	13	0	3	100
<b>Total Currency Pairs</b>	<b>29</b>	<b>35</b>	<b>15</b>	<b>18</b>	<b>1</b>	<b>2</b>	<b>100</b>
<b>By Instrument:</b>							
Spot	29	45	6	17	2	1	100
Outright forwards	24	12	5	50	1	7	100
Foreign exchange swaps	30	33	20	15	0	1	100
Cross currency swaps	21	50	4	25	0	0	100
Options	19	54	9	18	0	0	100
<b>Total Instruments</b>	<b>29</b>	<b>35</b>	<b>15</b>	<b>18</b>	<b>1</b>	<b>2</b>	<b>100</b>
<b>By Counterparty:</b>							
With reporting dealers	53	31	16	0	0	0	100
With other dealers	32	48	20	0	0	0	100
With other financial institutions	0	0	1	87	2	9	100
With non-financial customers	0	2	1	91	3	3	100
<b>Total Counterparties</b>	<b>29</b>	<b>35</b>	<b>15</b>	<b>18</b>	<b>1</b>	<b>2</b>	<b>100</b>