

# **Canadian Foreign Exchange Committee**

## **Report on Activities**

### **2012**

The Canadian Foreign Exchange Committee (CFEC) is composed of senior officers from financial institutions actively involved in Canada's foreign exchange market and the Canadian dollar market globally, as well as inter-dealer brokers, the Bank of Canada and the Department of Finance (see the Membership List attached).

The CFEC's objective is to provide a forum for the regular discussion of issues and developments pertinent to the foreign exchange market, including the review of market practices and procedures (see the Document of Objectives and Organization of the CFEC attached). In 2012, efforts focused on:

- Monitoring foreign exchange developments in the context of the global reform agenda and technological advancement (including high-frequency trading);
- Promoting progress on the CLS Canadian/US dollar same-day settlement initiative in order to address settlement risk;
- Reviewing, updating and strengthening the governance and membership of CFEC; and
- Changing the semi-annual foreign exchange volume survey to align with the new reporting format for the BIS triennial survey.

The sections below expand on these priorities and activities.

#### **Recent Priorities of the CFEC**

##### **CLS**

In *The Canadian Foreign Exchange Market: Developments and Opportunities*, 5 March 2010, CFEC noted that sound clearing and settlement processes help to reduce risk in the FX market. Specifically, it identified that CLS Bank (CLS) provides payment-versus-payment (PVP) settlement services in 17 currencies, eliminating the settlement risk due to the time lag between the payment and receipt of flows in two different currencies. Moreover, it recommended that efforts by CLS to increase the number of currencies, regions, products, and participants should be supported where possible, including the provision for same-day settlement in USD-CAD spot FX. (The extensive reliance of Canadian banks on the USD-CAD swap market to meet same-day funding requirements reinforces the importance of this initiative.)

To this end, and in alignment with the BIS Basel Committee on Banking Supervision recommendation that a bank should reduce its principal risk as much as practicable by settling FX transactions through the use of financial market infrastructure that provide PVP arrangements, CFEC bank members have been actively engaged with CLS Bank, other U.S. banks, the Bank of Canada and the New York Federal Reserve to introduce a same-day settlement cycle for same-day USD-CAD trades. In addition to the meetings between CLS and the member banks, additional meetings were held with CFEC members, two in Toronto and, in conjunction with the (New York) Foreign Exchange Committee and Federal Reserve Bank, two in New York. Significant progress has been made and a CLS same-day settlement cycle is tracking toward implementation in September 2013.

### **Governance and Membership**

There were a number of membership changes on the CFEC in 2012, partly in an effort to strengthen representation on the Committee. Two new members were added to the Committee, John Glover and Michele Hardeman. As well, C.J Gavsie and Adam Howard replaced Jamie Thorsen and Lynn Patterson who had retired. Michael Gibbens and Gil Mandelzis replaced Moti Jungreis and John Nixon, both of whom will remain affiliated with the Committee as substitute members.

In light of the continuing evolution of the FX market in Canada and the Canadian dollar market globally, the CFEC is undertaking a review of its organizational structure. The Committee's Document of Objectives and Organization, last updated in 2003, was redrafted and circulated to the CFEC for a review prior to the January 2013 vote.

In addition, there was a review of associated groups or subcommittees, in particular the Financial Markets Association of Canada (FMAC) and the Canadian Committee for Professionalism (CCFP).

Regarding FMAC, this Association had an important history. It was founded in 1972 as the Foreign Exchange (FOREX) Association of Canada, the Canadian chapter of the global ACI. As the FX market evolved, recently FMAC experienced challenges, including a declining membership base and an annual deficit. Leading up to this period, the ACI education certification had largely been replaced by internal training programs within the individual banks. As a result, FMAC severed its affiliation with the global ACI in July 2012 and adopted a new mandate focused on providing networking opportunities for professionals in the Canadian FX industry and sponsoring FX related events in Canada. With no affiliation to the ACI and no role in education or training, FMAC's representation on the CFEC as a non-voting, ex-officio member was terminated.

With respect to the CCFP, the broad mission was to promote a high standard of professionalism and ethical conduct in the Canadian FX market. In recent years, the

CCFP was not very active and some stated objectives were not being fulfilled or were no longer relevant. At the CFEC meeting in January 2013, the members were to discuss whether to re-work the specific objectives of the CCFP or to disband the CCFP and create ad hoc subcommittees or working groups to deal with specific issues as they arise.

### **Codes of Best Market Practice**

The ACI code of best market practice adopted by the CFEC in 2001 for the Canadian FX market is under review by the CFEC. The CCFP and the FMAC undertook a preliminary review of that code and two other major codes that are available internationally. Some of the key elements that were reviewed included the detail and coverage of the codes, the timeliness of updates, time zone and geography, relevance for the Canadian market, whether the code is written from the perspective of the individual trader or the financial institution, and the extent of Canadian representation on the code's sponsoring entity. As a next step, the Bank of Canada will be reviewing with the CFEC member banks their use of both external and internal codes of conduct in order to provide guidance to the CFEC in assessing the appropriate approach to take for a code of conduct for the Canadian FX market.

### **Liaison with Other FX Committees**

Since 2006, representatives from the FX committees in London, New York, Frankfurt, Tokyo, Singapore, Hong Kong, Australia and Canada have met periodically to exchange views on trends and developments in FX markets, to promote collaboration among the respective committees, and to share perspectives of common interest on the structure and functioning of the FX market, which is by nature global. The last meeting was held in March in Frankfurt, hosted by the European Central Bank.<sup>1</sup> At this meeting<sup>2</sup>, topics included, but were not limited to, developments in FX best practices, international regulatory reform initiatives, and development in FX transaction reporting, including the semi-annual turnover surveys. Of note, the committees are working on text that would highlight the high-level principles associated with the various codes of conduct.

### **Update on Regular Activities**

The CFEC reviewed the reporting in its semi-annual FX volume survey. The reporting banks agreed to incorporate most of the major changes that are being implemented in the April 2013 BIS triennial survey. These changes include a breakdown of the "other financial institutions" category, reporting on non-deliverable forwards, a

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<sup>1</sup> Previous meetings had been hosted by the Federal Reserve Bank of New York in New York in October 2006, the Bank of England in London in April 2008, and the Monetary Authority of Singapore in Singapore in December 2009, and the Bank of Canada in Ottawa in April 2011.

<sup>2</sup> The CFEC was represented by Donna Howard, Ed Monaghan and Rob Ogrodnick.

revised execution methods table, and a breakout of prime brokerage trades for dealers who have acted as FX prime brokers. The latest CFEC survey (for October 2012) can be found at [http://www.cfec.ca/files/announcement\\_pressrelease\\_oct2012.pdf](http://www.cfec.ca/files/announcement_pressrelease_oct2012.pdf)

The CFEC member banks participated in the Bank of Canada's 2012 qualitative survey of the Canadian FX hedging practices of their corporate and institutional customers. The results of the survey were published on the Bank of Canada's website in November and can also be found at <http://www.cfec.ca/announce.html>

Given the extended efforts on CLS and the related meetings that involved many of the members, the CFEC convened only twice rather than the usual three times in 2012, at the offices of the Royal Bank of Canada and the Bank of Montreal. Details of each meeting can be found at <http://www.cfec.ca/minutes.html>

## **Report on Activities**

The CFEC issues this Report on an annual basis to publically communicate the Committee's activities and membership. Throughout 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. We are working on an "About Us" page that will provide information on the ongoing activities and historic role of the CFEC. The website also contains an up-to-date membership list, information on FX volumes and rates, articles of interest to the foreign exchange community and links to the websites of other foreign exchange committees and organizations.

The valuable contributions of those who have left the Committee over the past year, as well as those still on the CFEC and its subcommittees, are greatly appreciated.

Donna Howard  
Chair  
Canadian Foreign Exchange Committee  
2012 Report on Activities

**Canadian Foreign Exchange Committee  
Membership, December 2012**

Donna Howard, Adviser to the Governor (Chair)  
Bank of Canada, Ottawa

Harry Culham, Group Co-Head Wholesale Banking  
CIBC World Markets, Toronto

Jeff Feig, Managing Director  
Citigroup, New York

Laurent Ferreira, EVP & Managing Director - Derivatives  
National Bank of Canada, Montreal

C.J. Gavsie, Managing Director, Global Head of Foreign Exchange Products  
BMO Capital Markets, Toronto

Michael Gibbens, Managing Director, Global Head of Foreign Exchange  
TD Securities, Toronto

John Glover, Managing Director  
Barclay's Capital, Toronto

Michele Hardeman, Managing Director, Head of FX Sales for the Americas  
State Street Global Markets, Boston

Jason Henderson, EVP and Managing Director, Treasurer and Head of Global Markets  
HSBC Bank Canada, Toronto

Adam Howard, President and Country Head  
Bank of America Merrill Lynch Canada, Toronto

Mark Johnson, Managing Director (Chair, CCFP, an ex officio post)  
RBC Capital Markets, Toronto

Clifton Lee-Sing, Chief, Reserves and Risk Management  
Department of Finance, Ottawa

Jack Linker, Director  
Thomson Reuters America, New York

Gil Mandelzis, Chief Executive Officer, EBS  
EBS Dealing Resources, New York

Ed Monaghan, Global Head of Foreign Exchange  
RBC Capital Markets, London

Jason Shell, Managing Director, Head of North American Foreign Exchange  
Deutsche Bank, New York

Barry Wainstein, Vice Chairman & Deputy Head, Global Head of Foreign Exchange,  
Precious and Base Metals  
Scotiabank, Toronto

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

# CANADIAN FOREIGN EXCHANGE COMMITTEE

## Document of Objectives and Organization

January 2013<sup>3</sup>

### 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 in 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 members who are representative 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. Members shall include at least one representative from the broking community, and a representative of the Bank of Canada selected by the Bank of Canada. The Committee may also include up to four non-resident members who are representatives from major institutions involved in the Canadian dollar market based outside of Canada.
3. The Chairperson of the Canadian Committee for Professionalism, if not already a member in his/her own right, is to be a non-voting, ex-officio member.
4. A representative from the Department of Finance is to be a non-voting, ex-officio member.
5. A non-member representative of the Bank of Canada will serve as Secretary to the Committee.

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<sup>3</sup> The new Document of Objectives and Organization, reflecting changes discussed at CFEC meetings, was shared with the Committee in 2012 and formally approved in January 2013.

6. 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 may appoint substitutes, from their own organizations, to attend and vote on their behalf on an exceptional basis. Substitutes may be considered possible candidates for future membership.
7. Each member will normally serve for a term of three years with roughly one-third of the membership terms expiring in any given year, although membership will remain, at all times, at the discretion of the Committee. For consistency, all terms will be deemed to end on April 30.
8. Members serve on the Committee as individuals, and are expected to reflect the broad interests of the foreign exchange market.
9. 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.
10. The Committee meets three times each year, or more frequently, as required. Prior to year-end, meeting dates are determined for the following calendar year. In unusual circumstances, additional meetings may be called.
11. 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.
12. 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.
13. The Committee will issue an Annual Report of its Activities, to be made publicly available, informing of the Committee's activities and membership.
14. The Secretary prepares and circulates a notice of each meeting to all members and their substitutes. The Secretary prepares and circulates draft minutes of each meeting to all members and their substitutes for review and posts the final version on the CFEC website.