

**Minutes of the Canadian Foreign Exchange Committee
Meeting #100**

12:00 – 14:30

18 February 2020

RBC Global Asset Management, Toronto

Present: Christine Bourgeois, Caisse de depot et placement du Quebec
Greg Debiegne, TD Securities
Dagmara Fijalkowski, RBC Global Asset Management
Lorne Gavsie, CI Investments
Harleen Bains, RBC Capital Markets (substitute)
William Kellett, Scotiabank
Martin Legault, National Bank Financial
Chris Naylor, Refinitiv
Miro Vucetic, Citibank
Simon Watkins, BMO Capital Markets
Jim McCrindle, Bank of America, Merrill Lynch
Chris Soriano, CME Group
Les Radvanyi, HSBC
Dino Kos, CLS Group
Nicolas Marion, Department of Finance
Paul Chilcott, Bank of Canada (Chair)
Zahir Antia, Bank of Canada (Secretary)
Harri Vikstedt, Bank of Canada
Grahame Johnson, Bank of Canada

The meeting was hosted at RBC Global Asset Management.

1 Adoption of Agenda

The Committee adopted the agenda, as written.

The Chair informed members that after six years, he will be stepping down as the Chair of CFEC to focus on other key Bank of Canada initiatives. Grahame Johnson, Managing Director of the Financial Markets Department at the Bank of Canada will replace Mr. Chilcott as the Chair.

2 Tour de table – FX, Financial and Economic Developments

The Chair provided a summary of the results of the October 2019 CFEC Foreign Exchange Volume survey. The monthly turnover in October of traditional foreign exchange products

(defined as spot transactions, outright forwards and foreign exchange swaps) totaled over US\$ 2.74 trillion. On an average daily basis, total turnover increased by almost 34 per cent to US\$ 130.6 billion from April 2019. The large increase reflects an increase in foreign exchange swaps volumes. Members noted that growth in FX swap volumes was likely driven by clients prudently securing US dollar funding over year-end through FX swaps in case some of the funding pressures that emerged in September re-surfaced. One member questioned whether the declining trend in the Canadian dollar's share of FX trading in Canada was as a result of increased interest to trade or hedge other currencies.

Members then discussed developments in the funding markets over the end of 2019. Members agreed that there were no funding pressures over year-end, largely driven by three factors. First, temporary open market operations by the Federal Reserve provided ample US dollar liquidity. Second, large US banks managed their balance sheets (specifically their G-SIB scores) more effectively going into year-end and were therefore able to provide funding to clients. Finally, some clients had hedged their year-end US dollar funding needs earlier than before given the issues seen in September.

Members also discussed developments in the FX market since the last meeting and the outlook for major currencies. Members noted that FX volatility in most currencies continued to move lower despite the recent risk events. Most currencies pairs were expected to trade in well-established trading ranges, with interest rate differentials (carry) being one of the main drivers of FX markets given the low interest-rate environment in most major jurisdictions. Members highlight the impact of COVID-19 virus on economic growth as a key near-term risk to financial markets. One member noted that they expected the Canadian dollar to continue to trade in the past year's very narrow range but that the risks were towards a weaker Canadian dollar reflecting the risks to global economic growth.

3 GFXC Meeting update

The Chair provided a summary of the GFXC meeting in Sydney in December 2019.

GFXC members discussed the 2019 GFXC Survey which showed that the adoption of the Code continued to grow, with most respondents also publishing their commitment on one of the publicly available registers. However, the survey indicated the buy-side adoption of the Code remains a challenge. It also highlighted the growth of algorithmic trading in the FX market.

Consistent with the priorities decided for the upcoming 3-year review of the FX Global Code, the GFXC leadership established five workstreams: (i) buy-side outreach; (ii) anonymous trading; (iii) disclosures; (iv) algorithmic trading; and (v) executions principles. CFEC members will be actively participating in some of the workstreams. The goal is to present draft guidance on these issues at the next GFXC meeting in June. One

member who is part of the buy-side workgroup emphasized that promoting the Code to Canadian market participants was a responsibility shared by all CFEC members. The Chair stressed that getting the buy-side to adopt the Code will help improve market functioning. [Strategies to improve buy-side understanding and ultimately adoption of the Code in Canada will be a focus for CFEC in 2020.]

4 Update from CLS Group

Dino Kos from CLS Bank presented the recent trends in CLS settlement volumes, netting efficiency and settlement-related operational events. He provided an overview of the recently launched CLSNow and other strategic priorities, including CLSNet and triReduce FX Compression. He also summarized the takeaways from a recent “war game” CLS ran with a group of members and regulators that simulated the resolution of a large international bank.

5 Study Group on FX Execution Algorithms

The Secretary provided a high-level summary of the upcoming report from the BIS Markets Committee’s Study Group on FX execution algorithms. Members were also presented a brief summary of the January Markets Committee workshop on algorithmic execution attended by the one of the members. Feedback obtained from the workshop will further inform the final report of the Study Group, which is expected to be published in the summer.

6 Other business

The next CFEC meeting will be in June in Montreal.

The Secretary updated members on the progress of the CFEC website migration initiative. The target date for the launch is still expected to be sometime in Spring 2020.

Members thanked Mr. Chilcott for his leadership of CFEC over the past six years, [noting his contribution to the development of the FX Global Code and the formation of the GFXC].