

**Minutes of the Canadian Foreign Exchange Committee
Meeting #101**

**12:00 – 13:00
4 June 2020
Conference call**

Present: Jim McCrindle (Bank of America Merrill Lynch)
Simon Watkins (BMO Capital Markets)
Christine Bourgeois (Caisse de depot et placement du Quebec)
Lorne Gavsie (CI Investments)
Manuel Mondedeu (CIBC World Markets)
Miro Vucetic (Citi)
Russell Lascale (Deutsche Bank)
Scott Lampard (HSBC)
Martin Legault (National Bank Financial)
Chris Soriano (NEX Group)
Dagmara Fijalkowski (RBC Global Asset Management)
Sian Hurrell (RBC Capital Markets)
Jill Sigelbaum (Refinitiv)
Bill Kellett (Scotiabank)
Gaetan Reid (State Street Global Markets)
Sharon Kim (TD Securities)
Nicolas Marion, Department of Finance
Grahame Johnson, Bank of Canada (Chair)
Zahir Antia, Bank of Canada (Secretary)
Harri Vikstedt, Bank of Canada

The meeting was conducted as a conference call.

1 Adoption of Agenda

The Committee adopted the agenda, as written.

2 Preview of June 22nd GFXC call

The Chair informed members that the GFXC meeting that was to be held in Zurich has been replaced by a conference call on June 22nd. At the meeting, GFXC members will discuss (i) FX market conditions, (ii) operational resilience during the COVID-19 crisis, (iii) FX settlement risk, and (iv) the GFXC work program. The CFEC agenda reflected issues that will be discussed on the GFXC call.

3 FX market conditions

Members discussed market conditions since the start of the COVID-19 crisis. They noted that the CAD market has functioned relatively well. Liquidity conditions deteriorated in March but have steadily improved. Total volumes traded increased in March and early-April but subsequently declined. Inter-dealer trading migrated to primary trading platforms, although there was a sharp widening in bid-offer spreads. Since early April, market conditions have been gradually normalizing. Daily volumes on primary trading venues have returned to pre-COVID-19 crisis levels, but investor activity remains light. Bid-offer spreads have narrowed since April, although they remain wider than pre-crisis levels, both at top of book and to execute larger sizes.

It was noted that the CAD forward market did not experience the same degree of stress that was evident in some other currency pairs. However, liquidity in forwards declined, particularly in longer dated forwards. There were also very brief pockets of severe illiquidity with prices gapping. CAD basis swap spreads widen in March, but the moves were more muted than in other currencies. However, as conditions improved in other currency pairs in April, CAD implied basis took longer to “normalize”.

Finally, members indicated the CAD has been driven primarily by the sentiment around the economic impact of COVID-19 and, to a lesser extent, oil prices.

4 Operational resilience

Members discussed the operational challenges associated with the alternate working arrangements due to the COVID-19 crisis. As part of their contingency plans, firms split their operations into three locations when the COVID-19 crisis escalated. Some staff worked from their respective head offices and back up sites, while many worked from home. Although there were some technical and communication issues at first, overall, members noted that there were no significant operational issues. Their main risk identified was the lack of oversight of employees who were working from home. Members felt that the current principles in the FX Global Code around operational risk and business continuity were suitable.

5 FX Settlement risk

The Chair highlighted some of the key messages from a recent BIS paper on the potential increase in FX settlement risk. Settlement risk in the FX market is estimated to be about \$9 trillion per day. This reflects an increase relative to 2013, the last time exposures were estimated (using a different methodology). Settlement risk is greater in emerging market economies than advanced economies as these countries settle far more of their FX trades

without payment-versus-payment (PvP) protection. Members indicated that settlement risk in Canada is likely modest and as more firms join CLSNow, this risk should diminish.

6 Update on GFXC workstreams

Work on the three-year review of the FX Global Code was halted as a result of the COVID-19 pandemic. Most of the workstreams have not met since early March. The Bank of Canada informed members that work on the review will restart the work after the GFXC meeting with new timelines to be determined at the GFXC meeting.

7 Other business

The next CFEC meeting will be in late October / early November. The Secretary will work with members to determine a date.

The Secretary informed members that work the CFEC website migration initiative has been delayed due to other priorities following the COVID-19 pandemic. The target date for the launch will likely be sometime in the second half of 2020.