

**Minutes of the Canadian Foreign Exchange Committee  
Meeting #95**

**Held at 12:00 a.m., Tuesday, 22 May 2018  
Toronto**

Present: Jean-Philippe Blais, BMO Capital Markets (substitute)  
Steve Boecker, Magna International Inc.  
Earl Davis, Ontario Teachers' Pension Plan  
Dagmara Fijalkowski, RBC Global Asset Management  
Lorne Gavsie, CI Investments  
Dale Haver, State Street Global Markets (substitute)  
James Iorio, NEX Group (substitute)  
William Kellett, Scotiabank  
Simon Labrosse, National Bank Financial  
Scott Lampard, HSBC Bank Canada  
Russell Lascale, Deutsche Bank  
Arden Majewski, CIBC World Markets  
Philippe Savoy, RBC Capital Markets (substitute)  
Jill Sigelbaum, Thomson Reuters  
Christopher Vogel, TD Securities  
Nicolas Marion, Department of Finance  
Paul Chilcott, Bank of Canada (Chair)  
Harri Vikstedt, Bank of Canada  
Nicholas Broz, Bank of Canada  
Ilya Vorobyev, Bank of Canada (Secretary)

Regrets: Glenn Crotty, Bank of America Merrill Lynch  
Laurent Desbois, Caisse de depot et placement du Quebec

The meeting was hosted at CIBC.

**1 Adoption of Agenda**

The Committee adopted the agenda, as written. Jill Sigelbaum, Jean-Philippe Blais, Dale Haver and James Iorio attended their first meeting.

**2 Tour de table – FX, Financial and Economic Developments**

Members discussed FX market functioning and developments since the last meeting, including factors behind the recent appreciation of the US dollar and large moves in FX basis swaps seen across several major currencies.

Members cited a number of factors that could be driving the US dollar higher, including widening interest rate differentials in favour of the US, recent signs of slowing economic growth and delays in monetary policy tightening outside of the US, and global political uncertainty. Technical factors, such as the scaling back of large short US dollar positions that existed earlier this year, were also discussed. Members noted that the Canadian dollar was among the best performing currencies this year, supported by high oil prices, although the bilateral rate versus the US dollar had depreciated, given the generalised US dollar strength.

Members generally agreed that structural features of short-term US dollar funding markets, rather than macro fundamentals or banks credit concerns, were major factors driving FX basis swaps against US dollar. For example, members noted that in anticipation of US dollars shortage some market participants had overfunded in US dollars. It was mentioned that despite relative abundance of US dollars, all-in rates in US dollars are seen as high relative to many other currencies, given recent increases in short-term USD rates.

### **3 FX Global Code update**

Members of the Global Foreign Exchange Committee (GFXC) working groups provided updates on the work being done by their respective working groups in relation to Principles 11 and 17 of the Code.

- **Pre-hedging examples.** The Bank shared draft examples of negative pre-hedging practices that will be discussed at the GFXC meeting in June. Members provided their comments. Members thought that the examples, like the Code in general, should remain relatively high level.
- **Cover and deal.** Scotiabank provided an update on the progress of the working group. The group's objective is to prepare a note on cover and deal market practices and related issues for the GFXC meeting in June.
- **Transparency and disclosure.** RBC Global Asset Management provided an update on the progress of the working group. The group has been asked to prepare a note on transparency and disclosure issues in relation to E-Trading practices for the GFXC meeting in June.

The Bank shared the findings of a short survey conducted among CFEC members on adoption and implementation of the Global Code. The major takeaway from the answers received was that adoption of the Code by sell-side participants was good, whereas adoption by buy-side participants had been slower. RBC Capital Markets shared high level

observations from their global clients survey on the Global Code, which were generally in line with observations from the CFEC members survey.

The Chair also informed the Committee that the Bank would publish its Statement of Commitment shortly.

#### **4 IBOR benchmark reform and its potential effect on FX swap and forward markets**

Based on its previous discussions with market participants the Bank provided a brief overview of current links between IBOR rates and pricing of FX products.

Members noted that IBOR rates are more important for the functioning of basis swap and longer-term forwards markets than for the shorter-term forwards market. Members generally agreed that in order for the market to transition to the new risk-free benchmarks it was important that the underlying derivatives were sufficiently liquid. Members also noted that valuation of long-term legacy IBOR-referencing products (e.g. FX basis swaps) might become an issue if IBOR rates were discontinued. Members thought that so far there had been no decline in trading volumes of IBOR-referencing products even for maturities after the end of 2021, after which date the FCA had indicated it would not attempt to compel banks to remain on LIBOR panels.

#### **5 Other business**

The Bank provided a brief update on its discussions with [CLS](#) in relation to the proposed implementation of [CLS Now](#).

Some members reported that general market level of fees being charged to clients for executing transactions at FX benchmark mid-rates had declined recently. As covered in the Global Code, this would be an issue if fees did not adequately reflect the risks to the banks associated with executing such transactions. However, other members reported that market fees had not changed recently. It was noted that the issue might be raised at the GFXC meeting in June.

**Next CFEC Meeting:** 25 September 2018 in Toronto.