

**Minutes of the Canadian Foreign Exchange Committee
Meeting #103**

**11:30 – 13:00
1 December 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
Nicolas Marion, Department of Finance
Russell Lascala, Deutsche Bank
Les Radvanyi, HSBC
Martin Legault, National Bank Financial
Chris Soriano, NEX Group
Dagmara Fijalkowski, RBC Global Asset Management
Tom Gillie, RBC Capital Markets
Jill Sigelbaum, Refinitiv
Bill Kellett, Scotiabank
Gaetan Reid, State Street Global Markets
Greg Debienne, TD Securities (substitute)
Dino Kos, CLS Bank International

Grahame Johnson, Bank of Canada (Chair)
Zahir Antia, Bank of Canada (Secretary)
Harri Vikstedt, Bank of Canada
Wendy Chan, Bank of Canada

The meeting was conducted as a conference call.

1 Adoption of Agenda

The Committee adopted the agenda, as written. The Chair welcomed Les Radvanyi as HSBC's new representative on the Committee.

2 FX market conditions

Members discussed FX market developments since the last CFEC meeting. It was noted that after a slight increase in volatility prior to the US election, the news of Covid-19

vaccines led to a more positive tone in financial markets. The US dollar, which has been correlated with the broader risk tone in financial markets, depreciated as investors increased their exposure to non-US dollar denominated assets, especially in emerging markets and Europe. One member noted that the Chinese Renminbi was trading at the strongest level against the US dollar in two years. The Chinese currency has also been supported by positive economic data. Month-end rebalancing flows at the end of November put further downward pressure on the US dollar. The Canadian dollar has appreciated against the US dollar, but its performance against other G-10 currencies has been mixed. FX implied volatility remains muted but above pre-Covid-19 levels.

Members discussed funding condition around the end of the year. It was noted that there had been some tightening in US dollar cross-currency funding conditions since the last CFEC meeting, although when compared to previous years, funding pressures around year-end were relatively benign. Excess US dollar liquidity as a result of the various facilities implemented by the Federal Reserve has reduced funding pressures. It was also suggested that commercial banks have been better at managing their balance sheets around year-end, and have been more willing to provide US dollar funding to clients. Canadian funding markets have also been stable, supported by excess Canadian dollar liquidity and the temporary regulatory relief provided to commercial banks by OSFI.

3 Update from CLS Group

Dino Kos from CLS Bank presented recent trends in CLS settlement volumes, netting efficiency and settlement-related operational events. He noted that there was a sharp increase in settlement volumes in March 2020 around the peak of the COVID-19 crisis. Despite heavier volumes and 70 per cent of staff working from home, CLS operational performance had been strong over the period. He informed members that CLS has been engaging with the BIS to better analyze settlement risk in the FX market and is undertaking a “deep dive” analysis with settlement members to better understand the internal flows and settlement processes. Finally, he emphasized that CLS supports any enhancement to the FX Global Code to encourage the use of payment versus payment services where available to reduce settlement risk.

3 Update on GFXC workstreams

The Chair provided a preview of the agenda of upcoming GFXC meeting. Refinitiv Benchmark Services will provide an update on WM/Reuters benchmarks. There will also be a short presentation on fallbacks for non-deliverable forward contracts by the Global Financial Markets Association. The focus of the meeting will be a progress update by the Working Groups on the three-year review of the FX Global Code.

A member from the Buy-side Engagement Working Group updated members on the group's work on a feasibility study to assess impact of the Code. Another member presented the key messages of the discussion papers from the Disclosures, Anonymous Trading, and Execution Principles Working Groups. Members discussed the key implications and provided feedback on the various papers which will be summarized by the CFEC secretary and sent to the leads of the various working groups.

4 Other business

There will be four CFEC meetings in 2021. Two will proceed GFXC meetings. The next CFEC meeting will be in the first quarter of 2021. The Secretary will work with members to determine date for the meeting.