

**Minutes of the Canadian Foreign Exchange Committee**  
**10 June 2021**  
**11:00 – 13:00**

Present: Christine Bourgeois, Caisse de dépôt et placement du Québec  
Dagmara Fijalkowski, RBC Global Asset Management  
Lorne Gavsie, CI Global Asset Management  
Tom Gillie, RBC Capital Markets  
William Kellett, Scotiabank  
Sharon Kim, TD Securities  
Russell Lascale, Deutsche Bank  
Martin Legault, National Bank Financial  
Nicolas Marion, Department of Finance, Canada  
James McCrindle, Bank of America  
Manuel Mondedeu, CIBC World Markets  
Les Radvanyi, HSBC Bank Canada  
Gaétan Reid, State Street Global Markets  
Jill Sigelbaum, Refinitiv  
Chris Soriano, NEX Group  
Miro Vucetic, Citibank  
Jean-Philippe Blaise, BMO Capital Markets (substitute)

Grahame Johnson, Bank of Canada (Chair)  
Zahir Antia, Bank of Canada (Secretary)  
Harri Vikstedt, Bank of Canada  
Wendy Chan, Bank of Canada  
Thomas Thorn, Bank of Canada  
Sean Durr, Bank of Canada  
Marie-Elodie Gabreau, Bank of Canada

Speakers:  
Scott Hendry, Bank of Canada  
Melanie Achtemichuk, Bank of Canada  
Danny Auger, Bank of Canada

The meeting was conducted as a video conference call.

**1 Adoption of Agenda**

The Committee adopted the agenda, as written.

## **2 Central bank digital currency (CBDC) and cross-border payments**

The Bank of Canada provided an overview on central bank digital currencies and discussed their potential implications. The presenter highlighted potential benefits, costs and risks of creating a retail CBDC. The Bank of Canada's perspective is that there is not a compelling case to issue a retail CBDC at this time and Canadians will continue to be well-served by the existing payment ecosystem, provided it is modernized and remains fit for purpose. There was a brief discussion on the potential merits of creating a wholesale tokenized CBDC to improve settlement efficiency of financial asset transactions.

The Bank of Canada also provided an update of the global work on cross-border payments. In its Stage 3 roadmap to enhance cross-border payments, the Financial Stability Board (FSB) identified nineteen building blocks. Next steps for this work include public consultations for proposals and to seek G20 endorsement of quantitative targets in the fall. The Bank of Canada will review these building blocks with key stakeholder in a Canadian context.

## **3 Effective Means of Buy-Side Engagement**

The Bank of Canada presented the recommendations from the Global Foreign Exchange Committee (GFXC) on ways to enhance buy-side adoption of the FX Global Code (the Code). As the 3-year review of the Code concludes, its implementation will be a priority for the GFXC.

To enhance buy-side adoption of the Code, the GFXC recommends local authorities should actively communicate the benefits of the Code to the buy-side firms. It also recommends focusing on the concept of "proportionality". The principle of proportionality implies that the nature, complexity and scale of a firm's FX market activity will guide steps a market participant takes to adhere to the Code. The GFXC has committed to providing more guidance to the local FX committees on the proportionality concept. Another recommendation was to engage with industry associations to further expand buy-side outreach efforts.

The Bank of Canada emphasized that the Code sets out global principles of good practice in the FX market and is expected to apply to all wholesale FX market participants. Adopting the Code sends a positive signal to clients and external stakeholders by showing commitment to good practice and improving internal disciplines by benchmarking internal practices against a set of principles of the Code. The Bank also noted that since the Code has been written to cover all types of stakeholders in the FX ecosystem, not all Principles apply to all market participants. Therefore, it is important for market participants to take into account proportionality when reviewing their operations against the Code.

Members agreed to create a sub-group to examine the role of the CFEC, dealers and the Bank of Canada, and develop a strategy to enhance engagement with buy-side firms in Canada.

#### **4 Feedback on FX Global Code review documents**

Members reviewed the proposed changes to the Code, which incorporates feedback from a public consultation. The GFXC will seek approval of the final changes to the Code at the upcoming GFXC meeting. CFEC members were requested to provide only “fatal flaw” comments at this stage. Members also reviewed the final version of the guidance paper on pre-hedging, which will be discussed at the next GFXC meeting.

#### **5 FX market conditions**

Members discussed FX market developments since the last CFEC meeting. It was noted that markets remain focused on the potential risks and implications for higher inflation, given the recent CPI data in the US. One member noted that financial market pricing appears consistent with the Federal Reserve’s view that the recent spike in inflation is transitory as longer-term bond yields have declined recently as some inflation concerns appear to be receding. Markets are focused on an expected announcement later this year by the Federal Reserve on the pace of its asset purchase program.

The US dollar is modestly weaker on a trade-weighted basis since the last CFEC meeting. Commodity currencies, including the Canadian dollar, have broadly outperformed other currencies over the same period, supported by higher commodity prices. The market is currently pricing in rate increases by the Bank of Canada ahead of the Federal Reserve, which has further supported the Canadian dollar. Implied volatility remains muted for the Canadian dollar, and indeed, most other currencies.

Bank of Canada staff provided an overview of recent trends in Canadian Overnight Repo Rate Average (CORRA). It was noted that CORRA has been setting between 0.13% - 0.25% since the Bank became the administrator in June 2021 and between 0.17% - 0.20% over the last month. The Bank highlighted that while many factors influence CORRA, elevated LVTS balances have been a major influence since the start of COVID-19, and that the recent changes to the Bank of Canada’s Securities Repo Operation have somewhat moderated this impact on the rate.

#### **6 Workplan update**

Members agreed to initiate a CFEC led project to provide further insight into the use and adoption of FX execution algorithms in Canada. The project will build on the [Report](#) by the BIS Markets Committee on FX execution algorithms and market functioning. The project will involve surveying Canadian buy-side firms on their usage of FX execution algorithms and commercial banks on their suite of algorithms offered to clients. Members discussed next steps and proposed timelines for the project.

## **7 Other business**

The Chair informed CFEC members that September 30th has been designated a statutory holiday for the National Day for Truth and Reconciliation. He noted that some financial and FX contracts currently settle on September 30th and authorities were seeking feedback from market participants on the implications for trade settlement if the settlement and payment systems were closed. Members generally preferred that FX contracts maturing on that day should revert to settling on September 29th rather than October 1st. The Chair noted that numerous discussions were taking place on this issue with industry and that no decision had been taken by Payments Canada. Members discussed whether they should avoid entering new contracts that settle on that day before a decision had been made by Payments Canada.

The next meeting is scheduled for September 14<sup>th</sup>.