

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

**11:00 – 13:00**

**16 November 2021**

**Video conference call**

Present: Christine Bourgeois, Caisse de dépôt et placement du Québec  
Dagmara Fijalkowski, RBC Global Asset Management  
Lorne Gavsie, CI Global Asset Management  
William Kellett, Scotiabank  
Sharon Kim, TD Securities  
Martin Legault, National Bank Financial  
Charles Perreault, Department of Finance, Canada  
Jim McCrindle, Bank of America  
Manuel Mondedeu, CIBC World Markets  
Jill Sigelbaum, Refinitiv  
Miro Vucetic, Citibank

Grahame Johnson, Bank of Canada (Chair)  
Zahir Antia, Bank of Canada (Secretary)  
Harri Vikstedt, Bank of Canada  
Thomas Thorn, Bank of Canada  
Marie Gabreau, Bank of Canada

External speakers:

James Kemp, GFMA  
Sara Scognamiglio, GFMA

The meeting was conducted as a video conference call.

## **1 Adoption of Agenda**

The Committee adopted the agenda as written. The Chair welcomed Charles Perreault from the Department of Finance, who has replaced Nicholas Marion.

## **2 ESG and FX**

James Kemp and Sara Scognamiglio of GFMA's Global FX Division presented a [White Paper on ESG and FX](#). The paper examines how a firm's FX business might be implicated by the growing interest in ESG themes, and the potential challenges and opportunities. The paper identifies several areas where ESG factors could have a direct or indirect impact on the FX industry. The first area is with respect to policy, laws, regulation and industry best

practices. Mr. Kemp noted that adherence to the FX Global Code would appear to be consistent as a way of demonstrating good governance mandates for firms. Adherence to the Code could potentially also be linked to the UN Sustainable Development Goals given its focus on fair and regulated financial markets. Finally, Code adherence could also be considered in the context of the UN-supported Principles for Responsible Investment (PRIs).

A second area identified is in the context of corporate and business-line ESG goals and performance. The paper identifies the future potential for firms to place increasing importance on ESG factors when trading with a client or counterparty. For example, a firm could reduce or increase its FX business with a counterparty based on their ESG rating. Some members noted that clients were starting to factor ESG considerations in their overall counterparty evaluations. Finally, ESG considerations could factor into investment or currency strategy and FX products offerings. Ms. Scognamiglio provided public examples of how firms have linked FX products to certain ESG criteria.

### **3 FX market conditions**

Members discussed current economic conditions and the impact on the FX market. One member noted that despite increasing focus on central bank policy expectations, short-term interest rate differentials don't appear to be the key driver behind recent moves in FX markets. For example, the Pound Sterling and New Zealand dollar have both depreciated recently even though markets are expecting the two central banks to raise rates imminently. In contrast, the Federal Reserve is still expected to raise rates around the middle of 2022, in spite of elevated levels of inflation. He pointed out that there has been significant volatility in the front-end of the interest rate curve, but FX markets, and indeed many other asset prices, have been more subdued.

The member observed that the Canadian dollar also does not appear to be trading in line with its traditional fundamental drivers. In his estimation, the CAD should be materially stronger given the current price of oil and interest rate differentials. Members opined on reasons for this apparent disconnect. Some members suggested that the moves in short-end interest rates have been exaggerated by poor liquidity conditions and may not accurately reflect central bank expectations. Some members suggested that the CAD is being impacted by hedging flows.

Another member highlighted recent developments in FX swap funding markets. He noted that the premium to borrow US dollars over year-end in the FX swap markets has increased, but levels remain below those seen last year. In addition, markets have been functioning well. There is abundant USD liquidity and the Fed's recent announcement to taper its asset purchases has not had an impact on basis swap spreads. In his view, year-end pressures could be related to new regulations regarding counterparty credit risk (SA-CCR) which limits a bank's ability to provide credit to certain clients. He also expects institutions that

have excess US dollars to take advantage of the higher rates to lend funds in the FX swap market.

#### **4 Update on buy-side outreach initiatives**

A member from the Bank of Canada updated the Committee on the Bank's outreach efforts to raise awareness of the Code amongst buy-side firms. The Bank has engaged bilaterally with some large buy-side firms to encourage them to adopt the Code. The Bank of Canada has also been collaborating with international FX Committees to share perspectives on outreach efforts. In addition, the Committee will engage with industry associations and look to participate in ESG conferences.

#### **5 Member update on renewal of Statement of Commitment**

Members provided an update on their plans to renew their Statements of Commitment to be consistent with the updated version of the Code. Most members have created internal working groups to review the impact of the recent changes of the Code on their FX operations. Members do not foresee any significant challenges to updating their Statement of Commitment by the middle of 2022.

#### **6 CFEC project update**

The Secretary presented the initial results of the CFEC survey on algorithmic trading in Canada. He noted that Canadian pension funds and asset managers were the main users of FX execution algorithms (EA) in Canada. They use EA to trade spot and forwards in most G10 currencies. Corporations do not generally use EA as their operations are not large enough. The Secretary will provide further analysis of the data in the future.

#### **7 Other business**

The Secretary will send out calendar invitations for meetings in 2022. Subject to public health regulations, the Committee expressed interest in having an in-person meeting in Q1 2022.