

Minutes of the Canadian Foreign Exchange Committee

11:00 – 13:00
20 March 2024
Bank of Canada

Present: Dagmara Fijalkowski, RBC Global Asset Management (Co-Chair)
Stephen Best, Refinitiv
Lorne Gavsie, CI Global Asset Management
Mark Burnatowski, Scotiabank
Greg Debienne, TD Securities
Tobias Jungmann, Bank of America
Manuel Mondedeu, CIBC World Markets
Charles Perreault, Department of Finance, Canada
Gaétan Reid, State Street Global Markets
Miro Vucetic, Citibank
Jean-Philippe Blais, BMO Capital Markets
Matthew Gierke, CME
Jian Cao, RBC Capital Markets
Sean Macdonald, CPPIB
Ivan Pelipenko, OTPP

Stephane Lavoie, Bank of Canada (Chair)
Zahir Antia, Bank of Canada (Secretary)
Harri Vikstedt, Bank of Canada
Wendy Chan, Bank of Canada

External speakers:

Mark Dowding, RBC BlueBay Asset Management
Natalie Lovell, Bank of England
Matthew Conway, Bank of England

The meeting was conducted in-person with a video-conference option.

1 Adoption of Agenda

The co-chairs welcomed members. They welcomed Tobias Jungmann to the Committee as the new CFEC representative from Bank of America. The Committee adopted the agenda as written.

2 FX Settlement Risk

Ms. Natalie Lovell and Mr. Matthew Conway from the Bank of England (BoE) presented a new approach for collecting FX settlement data. The BoE, in conjunction with FX market participants and other central banks, had reviewed the BIS Triennial Survey reporting Template and Guidelines and developed a new methodology to measure FX settlement risk. The main updates to the FX settlement risk survey include (i) improved definitions to make the questions more clear and less open to interpretation; (ii) a focus on FX volume settled during the reporting period rather than turnover volume; and (iii) a breakdown of the various settlement methods firms employ. Also, under the new approach, FX settlement data is reported on a global banking group basis (as opposed to a trading/sales desk perspective). They informed CFEC members that the central banks that conduct semi-annual FX surveys would adopt the new approach in their surveys in 2024, and that the BIS will also adopt the updated template for the 2025 Triennial Survey.

The Bank of Canada informed members that it has committed to collecting FX settlement risk data as part of its CFEC semi-annual survey. The Bank has sent the new template and guidelines to survey participants. The April survey will be used as a “dry run” to ensure banks’ systems are able to report the data. The new template is expected to “go live” for the October 2024 semi-annual survey. CFEC members were requested to work with their respective data reporting groups to ensure this data will be available.

3 Summary of the November GFXC meeting and Next Steps

The co-chair provided a summary of the main issues from the November 2023 (virtual) GFXC meeting. He noted that feedback on the Proportionality Self-Assessment Tool has been very positive. Local foreign exchange committees were asked to continue raising awareness of the Tool and seek feedback as to how the Tool could be further enhanced. The Motivation for Adherence Working Group continues to promote the benefits of Code adherence. ISDA presented two options they are evaluating to adjust the price of FX trades for unexpected holidays. The Bank of England presented the key takeaways from the 2023 GFXC survey. The survey indicated that most respondents thought the Code was still fit for purpose and that major changes are not required. Finally, there was a panel on Accelerated Settlement and its impact on FX markets. The panel discussed the main challenges and potential implications for the FX market given the shortening of the US securities settlement cycle. The co-chair informed members that the [minutes](#) of the meeting are available on the GFXC website.

The Secretary updated members on the key priorities identified by the GFXC for the 2024 Code Review and the proposed timelines. The three main priorities are: i) increasing the adoption of the Code, (ii) further mitigating settlement risk in FX transactions, and (iii) enhancing transparency of FX transactions and providing guidance on the use of FX data. The Motivation for Adherence Working Group will continue to examine ways to increase adoption of the Code. Two new working groups will be established to work on the other

two priorities. The Working Groups will present their initial proposals at the GFXC meeting in July. The goal is to publish any revisions to the Code by the end of the year.

4 TradeTech conference summary

A member from the Bank of Canada provided a summary of a panel and Q&A session on the FX Global Code at the recent TradeTech FX USA conference. The objective of the panel, which included the Bank of Canada, the Federal Reserve Bank of New York, the Bank of Mexico, and RBC Global Asset Management, was to promote awareness and adoption of the Code amongst buy-side firms. The panel also outlined the key priorities for the GFXC for 2024.

5 Economic and financial market outlook

Mark Dowding, Chief Investment Officer for RBC BlueBay fixed income, presented his outlook on the global economy and financial markets. He noted the exceptional resilience of the US economy, which has exceeded most economists' expectations. However, he still expects economic activity to moderate in the coming months, with a "soft landing" of the economy as the most likely scenario. The FOMC is expected to start cutting rates in the coming months. He expects inflation will likely settle higher than the Federal Reserve's target going forward due to factors such as de-globalization, climate related transition costs, and an aging population. He also highlighted the deteriorating fiscal position of the US, with the deficit currently at 6.5% of GDP. Although the US economy remains strong, and the currency is a global reserve currency, there is a risk that investors could start requiring a higher premium for holding US treasury bonds as debt levels continue to climb.

He noted that the growth trajectory is much weaker in the EU than the US and the ECB will likely start cutting rates before the Federal Reserve in his view. He does not expect the Bank of England to cut rates this year as inflation remains elevated and wage growth is too high, even though the UK economy remains weak. He expects the Bank of Japan to raise its overnight rate to 0.50% by the end of the year as inflation is expected to increase in Japan on a sustained basis. Finally, he expects the Chinese economy to remain weak due to the ongoing weakness in its property market.

Members discussed trading conditions in the Canadian dollar market. They noted that liquidity in the currency has been good in the spot market, however the CAD FX derivatives market did experience bouts of illiquidity recently. Overall, the currency has been trading in a relatively narrow range against the US dollar and spot implied volatility has declined.

6 Member's feedback on T+1 settlement

Members discussed potential issues related to the transition to T+1 settlement for US and Canadian securities. They noted that some international clients are moving some of their FX settlement operations to North America to facilitate timely settlement. Clients are also

being requested to provide FX trade confirmations by 6pm ET to ensure trades are settled in time. Some members also noted that the move to T+1 settlement could increase the demand for FX trades that settle T+0. A few members believe that FX liquidity could increase around the North American close as more trades are executed later in the day. The member from LSEG informed members about a [White Paper](#) it published on this topic.

7 Other business

The next meeting will be held on June 17th.