

**Minutes of the Canadian Foreign Exchange Committee  
Meeting #99**

**12:00 – 14:30  
18 November 2019  
Bank of Montréal, Toronto**

Present: Christine Bourgeois, Caisse de depot et placement du Quebec  
Sharon Kim, TD Securities  
Dagmara Fijalkowski, RBC Global Asset Management  
Lorne Gavsie, CI Investments  
Harleen Bains, RBC Capital Markets (substitute)  
William Kellett, Scotiabank  
David Gary, Deutsche Bank  
Martin Legault, National Bank Financial  
Jill Sigelbaum, Refinitiv  
Miro Vucetic, Citi  
Simon Watkins, BMO Capital Markets  
Jim McCrindle, Bank of America, Merrill Lynch  
Nicolas Marion, Department of Finance  
Paul Chilcott, Bank of Canada (Chair)  
Zahir Antia, Bank of Canada (Secretary)  
Harri Vikstedt, Bank of Canada

The meeting was hosted at the Bank of Montreal.

**1 Adoption of Agenda**

The Committee adopted the agenda, as written.

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

The Chair provided a summary of the results of the 2019 BIS Triennial Central Bank Survey of Foreign Exchange and Derivatives market activity. Trading in FX markets reached \$6.6 trillion per day in April 2019, up from \$5.1 trillion three years earlier. Growth in total volumes was driven primarily by an increase in FX swaps, which grew faster than spot trading. FX swaps accounted 49% of total FX market turnover in April 2019. Although the volume of spot trades increased relative to April 2016, the share of spot trades continued to fall, to 30% in 2019 compared with 33% in 2016. The survey also found that FX trading

with smaller banks, hedge funds and proprietary trading firms (PTFs), increased relative to inter-dealer trading volumes. In Canada, total turnover of FX transactions rose from US\$1.8 trillion in April 2016 to almost US\$2.3 trillion in April 2019, an increase of almost 28 percent. The growth in turnover in Canada has also been driven by an increase in FX swap activity.

The Chair noted that CLS had, as previously announced, ended its Same-Day Settlement (SDS) service for USD/CAD as of October. This was associated with the launch of its new CLSNow service, which will operate in a wider range of currency pairs. The deactivation of SDS was reported to have gone smoothly. Although only a small number of participants have migrated to CLSNow so far, a larger number of banks are committed to joining over the next year or so.

Members discussed developments in the FX market since the last meeting. It was noted that FX volatility in most currencies remained low in contrast to higher fixed-income volatility. The broad-based US dollar index has been trading in a fairly narrow range despite elevated geopolitical uncertainty. Several members said that the increased geopolitical uncertainty has been a factor in reducing investor activity in FX markets, driving volatility lower. It was suggested that the changing market structure, specifically the growth in the number of trading venues and increased use of FX execution algorithms could also be reducing volatility in FX markets.

The Canadian dollar has traded in a very narrow range for the past year. Implied volatility in the Canadian dollar has declined and is now at multi-year lows. The currency has become less correlated with oil prices and interest rate differentials, which have historically been the main factors behind movements in the Canadian dollar relative the US dollar. It was observed that recently moves in the Canadian dollar seem to have been driven more by changes in global growth sentiment. Several members felt the Canadian dollar was somewhat undervalued based on traditional FX valuation models but that longer-term structural factors appeared to be weighing on the currency.

Members also discussed the recent dislocations in the US repo market and spill-overs to the Canadian FX market. The spike in repo rates in the US was thought likely to have been caused by a confluence of factors, including the reduction in excess reserves, the settlement of recent US bond auctions and the timing of corporate tax payments. It was noted that there were limited spillovers to Canadian funding markets, although there was a very brief impact on the liquidity conditions in the CAD FX forward market. Most members felt the measures taken by the FRBNY would likely alleviate funding pressures going forward, although concerns remained about conditions for the calendar year-end given that some banks might want to reduce the size of their balance sheet at year-end. It was noted that some buy-side participants have also been more strategic in taking advantage of the funding dislocations by lending US dollar cash at higher rates through the FX swap market.

### **3 GFXC Meeting update**

The Chair provided a preview of the GFXC meeting that will take place in Sydney in December.

The main topic of discussion at the GFXC meeting will be to finalize the priorities for the 3-year review of the FX Global Code. Based on initial feedback from the recent GFXC survey and national FX committees (including CFEC), the GFXC leadership has come up with five priorities for the review: (i) improve buy-side adoption of the Code; (ii) develop principles around the roles and obligations that anonymous trading venues and prime brokers may have in promoting the fair and effective functioning of the FX market; (iii) provide guidance on disclosures on trading platforms; (iv) update the language and review the trading logic of algorithms; and (v) provide better guidance or additional material on trading principles including pre-hedging and last look. Members broadly agreed with the priorities and suggested specific areas for the review to focus on.

The GFXC will be discussing the effectiveness of the FSB's [recommendations on FX benchmarks](#). Specifically, the GFXC will be discussing (i) the provision of benchmark fixing services (including whether such fixing services are priced in a manner that is transparent and consistent with the risk borne in such services, as recommended in the FSB Report); and (ii) the effectiveness of the benchmarks five years on from the FSB's recommendations. In this context, a Bank of Canada official provided a summary of recent discussions with sell-side members of CFEC on the evolution of their FX benchmark business. Total volume traded against FX benchmarks has been increasing, largely driven by the growth in passive asset management. The WM/Reuters London close (11am ET) continues to remain the primary FX benchmark. Anecdotally, around 80% to 90% of fixing flows reference this benchmark. However, benchmark fixing flows seem to be getting more concentrated in a few of the larger global banks that have segregated their fixing business from their regular trading activity. Smaller banks tend not to have segregated the business but are reported to have strict guidelines on how the flows are managed and hedged. Feedback on extending the window from 1 minute to 5 minutes has been positive, as it has allowed dealers more time to execute their fixing trades. There has been less volatility around the fixing price. The member from Refinitiv presented high-level data on USDCAD volumes around the London close fixing window. The data shows that trading volumes increase substantially and bid-offer spreads narrow in the fixing window.

### **4 Other business**

The next CFEC meeting will be in late February. The Secretary will coordinate with members to find a suitable date. It was agreed that one meeting will be hosted in Montreal every two years, alternating with the meeting in Ottawa.

The Secretary informed members that the CFEC website will migrate to the Bank of Canada website. The target date for the launch will be sometime in H1 2020.