

**Minutes of the Canadian Foreign Exchange Committee  
Meeting #98**

**Held at 11:00 a.m., Monday, 3 June 2019  
Ottawa**

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

The meeting was hosted at Bank of Canada.

**1 Adoption of Agenda**

The Committee adopted the agenda, as written. Sharon Kim and Harleen Bains attended their first meeting.

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

Members discussed developments in the FX market since the last meeting. It was noted that geopolitical issues such as evolving global trade tensions, European parliamentary elections, and Brexit, remain key drivers of exchange rates. However, despite elevated levels of geopolitical uncertainty, FX volatility has been low. Several members said that

the increased geopolitical uncertainty was resulting in declining investor activity in FX markets, driving volatility lower. It was also observed that market volatility rose around specific risk events (e.g. the original March Brexit deadline) but then tended to fall back even if the underlying uncertainty persisted. Other reasons cited for the low FX volatility were: (1) that the high geopolitical uncertainty had not resulted so far in substantially lower economic growth; (2) continued accommodative central bank monetary policies; (3) prevalence of volatility selling strategies by market participants to earn a higher return in a low interest environment; and (4) US accounting rule changes which make it less attractive for corporations to use (buy) options to hedge their FX risk.

Members also observed that the Canadian dollar had 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. One member thought that the correlation to oil prices was lower because oil prices were currently below levels required to entice foreign direct investment into the Canadian oil sector. Some members also noted that recently, the Canadian dollar had become more correlated with market sentiment, including with the performance of the S&P 500 Index, which had led some investors to sell the Canadian dollar as a portfolio hedge against a broader equity market downturn.

Members also discussed the increased use of electronic trading tools in the FX market. Members largely viewed this as a positive development as it reduces operational risks. However, some members expressed concern about liquidity on electronic platforms under certain market conditions. One member noted that there might be more short-term market dislocations (such as the Yen flash crash event in January 2019 or the sterling flash event in 2016) because of increased use of electronic trading systems. It was also noted that given the increased use of electronic trade execution systems, market participants may not have the capacity or knowledge for voice execution if liquidity declines on electronic platforms in a period of extreme volatility.

### **3 GFXC Meeting update**

The Chair provided a summary of the GFXC meeting that took place in Tokyo in May.

He informed members that Guy Debelle, Deputy Governor of the Reserve Bank of Australia, has been elected as GFXC Chair for a two-year term, effective in early July 2019.

He updated members on the GFXC discussion on the work done by the various GFXC working groups. The Cover and Deal working group had presented draft negative examples for possible inclusion in the FX Global Code. The Disclosures group presented its work on disclosures related to anonymous e-trading platforms. It has developed a framework to map the flow of information across parties engaging on anonymous trading platforms. This work will form the basis of a public report to generate broader understanding of anonymous

trading platforms. The Buy-side Outreach working group provided an update on its engagement efforts to increase awareness and adoption of the Code, including through developing outreach material such as webinars presentations, FAQs and gap analysis tools to promote the adoption of the Code by buy-side firms. The “Embedding the Code” working group has reviewed how the Statement of Commitment has been used by market participants and will produce new guidance to simplify the process for market participants that are in the process of signing up to the Global Code. This working group will work on the 2019 GFXC survey, which is expected to take place in the second half of this year.

The Chair also informed members that the GFXC will review the Code next year, in accordance with the GFXC's Terms of Reference. Finally, the Chair noted that there was a discussion around the January 3<sup>rd</sup> Yen flash crash. The factors noted as being behind that flash crash were similar to those that were presented at the February [CFEC meeting](#).

### **3 Presentation on Prime Brokerage in FX markets**

Russell Lascala (Deutsche Bank) presented on market trends in FX Prime Brokerage (PB). He provided an overview on how PB services, a growing part of the FX business, can deliver efficiencies for clients.

Mr Lascala described the growth and evolution of the PB market since its emergence in the 1990s, who the key players are, and some of the recent technological developments such as the introduction of blockchain technology. He also identified some of the current and future challenges and developments in the market. He noted that there was an increasing trend towards automation, including real-time credit and risk monitoring. Finally, he highlighted specific provisions in the FX Global Code relating to PB activities.

### **4 BIS Triennial survey**

Michal Kozak (Bank of Canada) provided an overview of the BIS triennial FX turnover survey. He informed members that two new questions on internalisation of spot FX activity and settlement methods had been added in the 2019 survey. He also noted that the BIS plans to publish the preliminary survey result in September 2019, with the final results being available in mid-December.