



SUMMARY OF THE DISCUSSION

Vancouver, October 3, 2017, 2 p.m. to 4:15 p.m.

The meeting began with the co-chairs thanking departing members, Jean-François Pépin, Marc Cormier, and Daniel Duggan, for their valued participation on the committee. They then welcomed new members: Sandra Lau, Alberta Investment Management Corporation; Karl Wildi, CIBC World Markets; and Philippe Ouellette, Fiera Capital.

1. Recent Bond Market Developments and Near-Term Outlook

Members reviewed conditions in the Canadian fixed-income market since the last meeting. Overall market conditions were described as favourable, with no major issues in liquidity or market functioning across most fixed-income asset classes.

Members discussed current market valuations, focusing primarily on the apparent divergence between risk assets and longer-dated sovereign bond yields. Many members believed the divergence was not particularly unusual, and that it could be explained by three underlying factors supporting both markets: low inflation expectations, muted financial and economic volatility, and still-elevated global liquidity. Members also highlighted the favourable conditions in both provincial and corporate primary markets. An increased diversification of the types of corporate issuers was noted, particularly in regard to the robust issuance of Maple bonds, which was described as covering a much broader issuer base than in the period before the financial crisis (2005–07). While members described current conditions as supportive of financial markets, they also cited a few key risks to the financial market outlook, including an unexpected rise in inflationary pressures, an intensification of geopolitical events and potential market impacts from the implementation of new regulations.¹

Members briefly discussed the potential impact on fixed-income market functioning of the US Federal Reserve's balance-sheet normalization. Most members believed that in the near-term, the effect on markets would be minimal, given the slow pace of normalization and the well-articulated strategy for balance-sheet reduction. Some members also noted that, globally, central bank liquidity was continuing to expand despite the US tapering.

¹ New regulations include the net stable funding ratio (NSFR) and fundamental review of the trading book (FRTB).

2. Update on International Developments and Work

The Bank of Canada provided an update on global progress to implement the Financial Stability Board's recommendation to reform existing interbank interest rate (IBOR) benchmarks and identify new risk-free rate (RFR) benchmarks in a number of currencies. Such RFRs could act as replacements to IBORs if the latter became unsustainable. Given these global efforts, the committee discussed the creation of a CFIF working group to analyze and develop a Canadian term RFR that could act as a complementary reference rate for the Canadian market. The Canadian instrument would operate alongside the Canadian-Dollar Offered Rate (CDOR). It was agreed that the working group would be co-chaired by the Bank of Canada and should include participants from all relevant stakeholders in Canadian financial markets. The proposed mandate and membership will be finalized before the next CFIF meeting based on feedback from CFIF members and various Canadian stakeholder groups.

Members also briefly [discussed](#) the potential impact of the Markets in Financial Instruments Directive (MiFID) II transparency and investment research requirements on the Canadian fixed-income market. At this stage, the overall impact on Canadian market participants and Canadian fixed-income market functioning was unclear. However, some members suggested that MiFID II would lead to a greater use of electronic trading to satisfy reporting needs.

3. Review of Agenda Items for Next Meeting

Members briefly discussed possible topics for the next CFIF meeting. In addition to a review of the forum's long-term workplan, suggested topics included a discussion on corporate bond trading platforms and their impact on corporate bond liquidity, as well as the potential effect of NSFR on market functioning. Discussion topics and agenda items will be finalized based on member feedback.

The next CFIF meeting will be held in Toronto and is tentatively scheduled for January 23, 2018.

4. Discussion on Fixed-Income Indices

FTSE Russell (FTSE) provided an [overview](#) of their Canadian fixed-income index products, including how they are constructed, governed and used by market participants. FTSE noted that their goal was to produce indices that are both as useful as possible for the end user and representative of the market. They emphasized their endorsement of the International Organization of Securities Commissions (IOSCO) principles, and their adherence to its standards for benchmark administrators, together with their anticipated compliance with the EU Benchmarks Regulation coming into effect in January 2018. FTSE also mentioned that any changes to the rules governing the methodology or management of their indices was overseen by a robust governance process—including an internal governance board and external advisory committee—as well as by their engagement in market consultations for input.

Members noted that important considerations for their use of any fixed-income indices were transparency in the index-construction process and the accuracy of the bond prices used to construct the indices. Thus, members emphasized the need for a clear and transparent

governance process, including input from a wide range of market participants. Some members also suggested that a more standardized communication style with a timetable of expected changes and additional information surrounding rule changes would help to enhance the transparency of index management. Some members also suggested that the rules for index construction and bond pricing should be reviewed, given the changes in the Canadian fixed-income market over the past decade. FTSE noted that they are currently engaging in several development initiatives, including reviews of their index rules in accordance with their governance processes, and continuing to invest resources into their Canadian suite of products. CFIF will follow up with FTSE in early 2018 to review their progress.

5. List of Attendees

FTSE Russell (present for and observed agenda item four only)

Waqas Samad

Marina Mets

Market Representatives

Sandra Lau, Alberta Investment Management Corporation

John McArthur, Bank of America Merrill Lynch

Chris Beauchemin, British Columbia Investment Management Corporation

Roger Casgrain, Casgrain & Company Limited

Karl Wildi, CIBC World Markets

Chris Kalbfleisch, Connor, Clark & Lunn Investment Management

Martin Bellefeuille, Desjardins Securities

Philippe Ouellette, Fiera Capital

Daniel Bergen, The Great-West Life Assurance Company

Michael Taylor, GWN Capital Management

Jason Chang, Ontario Teachers' Pension Plan

Jim Byrd, RBC Capital Markets

Andrew Branion, Scotiabank

Bradley Pederson, TD Securities

Bank of Canada

Lynn Patterson (Co-chair)

Toni Gravelle (Co-chair)

Paul Chilcott

Harri Vikstedt

Samantha Sohal