



SUMMARY OF THE DISCUSSION

Toronto, 25 January 2016, 4 p.m. to 6 p.m.

1. Recent Market Conditions and Outlook for 2016Q1

Members reviewed recent conditions in fixed-income markets, and the outlook for the first quarter of 2016. The beginning of 2016 was described as challenging, with members noting the impact of large price declines in global equity markets and the price of crude oil, as well as the increase in credit spreads.

Members discussed the slow start to new credit issuance in Canada in January, citing the increased volatility arising from global uncertainty as a major factor contributing to the relatively low level of demand for new bond issues. This volatility was also reported to be negatively affecting secondary market trading. As additional factors, participants mentioned reduced foreign interest in some provincial bonds, and decreased demand for short-term assets that had been associated with total return swap transactions. One member observed that new BBB- corporate issues were also becoming smaller, as investors were more risk averse. It was noted, however, that despite the slow start in Canada, Canadian banks had taken advantage of strong international demand to successfully issue new debt in foreign currencies.

The recent increase in bond settlement fails in both Canada and the United States was also discussed. The rise in fails in the United States was considered temporary and was believed to be caused by the increase in short selling ahead of the December meeting of the Federal Open Market Committee, as well as by unexpected changes to the settlement process at some custodians with respect to auto-settlements, which caused dealers to become more operationally efficient with their settlements. It was noted that while fails had risen in Canada, they had done so from very low levels and had only increased to their 2015 average, in contrast to the United States, where they rose to their highest levels of the year.

2. Update on International Developments and Work

The Bank of Canada presented a brief update on some of the fixed-income-related work that is being done internationally. The Bank for International Settlements (BIS) foreign exchange working group, which was established with the goal of developing a single global code of conduct standards and principles in foreign exchange markets, has begun consultations with market participants, including both the buy and sell sides, as well as with electronic trading platform providers. This work is being coordinated globally through the various foreign exchange committees, as well as through a global Market Participants Group. Progress toward

the development of the code will continue to be shared publicly. The code is expected to be finalized in May 2017.

The Bank summarized progress in a range of jurisdictions to reform existing interbank interest rate benchmarks in order to make them consistent with the International Organization of Securities Commissions' principles for financial benchmarks. It was also noted that these jurisdictions have made progress in identifying potential new risk-free interest rate benchmarks. An updated progress report is scheduled to be published by the Financial Stability Board in July 2016.

The Bank noted the recent publication of two reports by the BIS outlining trends in [fixed-income liquidity](#) and the [electronification of the fixed-income market](#). If there is enough interest from members, the reports will be discussed in greater detail at the CFIF meeting in April.

The Bank also mentioned that, in light of the December 2015 update to its [Framework for Conducting Monetary Policy at Low Interest Rates](#), it has been consulting with market participants and market infrastructures to validate that systems are able to accommodate unconventional policy tools, should they ever be required.

3. Bond Market Transparency

The Bank of Canada presented an overview of ongoing global and domestic work on bond market transparency issues. The global discussion centred on the recent request by the U.S. Treasury for comment ([RFI](#)) on the evolving structure of the U.S. Treasury market, including whether there was enough transparency in the market. Members also discussed the impact of the European Union's Markets in Financial Instruments Directive (MiFID) II, and its possible effects on transparency.

The domestic discussion focused on the proposal by the Canadian Securities Administrators (CSA) to use the Market Trading Reporting System (MTRS) 2.0 to improve transparency in the Canadian corporate market. While some members said there would be benefits for retail participants, other members suggested that, because of the delay in publication of the data, there would not be a significant impact on the functioning of the wholesale market. A few members also thought there was a potential for unintended consequences from the transparency initiative, including a further decline in liquidity for more illiquid instruments.

Some buy-side members said that improved pre-trade transparency in the Government of Canada market would be beneficial for liquidity. They thought that, in the current market environment, what they viewed as a limited availability of pre-trade information discouraged active foreign investors from trading less-liquid non-benchmark bonds. It was also noted that the current CSA transparency exemption for government bond trades expires in 2018, and that consideration will soon need to be given as to whether the exemption should be renewed.

4. Bond Market Trends

Trends in the Canadian and U.S. corporate bond markets were presented by the Bank of Canada. The presentation concluded that (i) both corporate bond new issuance and trading volumes have increased, while average trade sizes have remained relatively unchanged in Canada; (ii) corporate bond trading is concentrated in a small number of issues; and (iii) trading of individual issues declines as a bond ages.

One member asked whether trends in the United States, which showed trading volumes increasing while trade size and turnover decreased, signalled a deterioration of liquidity in the market. Most members, however, thought that the smaller trade sizes were likely a result of the increased electronification of markets, since participants generally traded smaller sizes on the platforms. Some members also noted that this pattern was consistent with what was seen in the equity markets.

5. Proposed Working Groups

Members discussed two working group proposals regarding (i) current liquidity dynamics in Canadian credit markets, and (ii) the impact of changes in market liquidity on buy-side behaviour. There was broad agreement that such analysis would be useful, but members believed that the scope of both was potentially too broad and needed to be narrowed. Members also concluded that, to undertake a comprehensive analysis of either topic, it would be necessary to solicit the viewpoints of market participants external to the forum, either through surveys or as potential working group members. The co-chairs leading the potential working groups agreed to redefine their proposals and suggest possible members for the working groups before the next meeting. A status update will be presented at the April CFIF meeting.

6. Review of 2016 Discussion Topics and Agenda Items

Due to time constraints, topics for the April CFIF meeting were not discussed. Instead, members were asked to consider which, if any, external organizations they wanted to see presentations from at future CFIF meetings. Discussion topics and agenda items for 2016 will be finalized based on member feedback.

The next CFIF meeting will be held in Toronto on 25 April 2016.

7. List of Attendees

Market Representatives

Jean-François Pépin, Addenda Capital

John McArthur, Bank of America Merrill Lynch

Michael Taylor, BlueCrest Capital Management

Chris Beauchemin, British Columbia Investment Management Corporation

Marc Cormier, Caisse de dépôt et placement du Québec

Roger Casgrain, Casgrain & Company

Chris Kalbfleisch, Connor, Clark & Lunn Investment Management

Daniel Bergen, Great West Life Assurance Company
Murray Shackleton, Manufacturers Life Insurance Company
Daniel Duggan, National Bank Financial
Jason Chang, Ontario Teachers' Pension Plan
Jim Byrd, RBC Capital Markets
Andrew Branion, Scotiabank

Bank of Canada

Lynn Patterson (Co-chair)
Toni Gravelle (Co-chair)
Harri Vikstedt
Paul Chilcott
Grahame Johnson
Eric Tuer
Maksym Padalko
Samantha Sohal