



SUMMARY OF THE DISCUSSION

Toronto, 20 June 2016, 4 p.m. to 6 p.m.

1. Recent Bond Market Developments and Near-Term Outlook

Members reviewed conditions in fixed-income markets since the last CFIF meeting. Fixed-income market liquidity was characterized as satisfactory but somewhat more variable across asset classes. This contributed to slightly higher spread volatility for credit products. Foreign portfolio inflows into the Canadian market were described as reasonably strong, but lower-paced than in the spring, and not as strong as some members expected, given the number of securities trading at negative rates globally.

Members discussed some of the changes in government bond markets, including the on-going adjustment to increases in some provincial borrowing programs. The increased issuance was noted to be relatively well received; however, one member mentioned that it was marginally more difficult to find an appropriate time window for a successful new bond issue. Members described GoC benchmark bond liquidity as good across the yield curve, with little change since the last meeting. However, there had been some reduction in liquidity for off-the-run GoC bonds, particularly in those bonds with more than 10 years to maturity.

The Canadian ETF bond market, which recently reached approximately \$25 billion in size, was briefly discussed. The current Canadian market was described as primarily a “create and redeem” market whereas, in the United States, the vast majority of the activity takes place in the secondary market.

2. Update on International Developments and Work

The Bank of Canada reported that the central bank [Foreign Exchange Working Group](#), established to develop a global foreign exchange code of conduct, published the first phase of its [code](#) at the end of May. The final phase of the code is due to be published in May 2017.

The Bank also summarized recent progress in relation to the reform of existing interbank interest rate benchmarks, as well as work to identify new risk-free interest rate benchmarks.

Finally, public responses to the US Treasury request for information on the evolving structure of the US Treasury market were summarized.

3. Update on CFIF Survey

The Bank of Canada provided a brief status update on the CFIF survey covering areas related to market liquidity, transparency and market access in Canadian fixed-income markets. The survey aims to identify changes in trading, execution and portfolio-management practices by both buy- and sell-side firms, and by active debt issuers participating in the Canadian fixed-income market. Following the CFIF meeting, the survey was distributed to over 1,500 individuals at more than 700 firms worldwide, targeting senior-level fixed-income specialists within each firm. It is envisaged that aggregated results will be published on the CFIF web page sometime in the fall.

4. Discussion on Regulation and Transparency in Fixed-Income Markets

The Ontario Securities Commission (OSC) and the Investment Industry Regulatory Organization of Canada (IIROC) discussed their efforts to address the key issues found in the OSC's 2015 report on Canadian fixed-income markets. These issues were primarily related to the amount and breadth of Canadian corporate bond market data made available to market participants and regulators.

The OSC spoke about [CSA Staff Notice 21-315 \(Next Steps in Regulation and Transparency of the Fixed Income Market\)](#) which described the plan for enhancing fixed income regulation. OSC staff said that regulators now have access to fixed income data that is reported by dealers, as required by IIROC's [Rule 2800C, through](#) the new MTRS 2.0 reporting system. This enables IIROC to market surveillance of all fixed income securities.

The data reported to IIROC will also become a source of mandated corporate bond post-trade information for the public which would help enhance transparency in the corporate debt market. IIROC indicated that the [transparency initiative for the corporate bond market](#) would become operational on July 4th with the data becoming available to the public on July 6th.

Members also discussed CanPX's recent decision to [cease operation of its corporate and government bond transparency systems](#) on 1 October. Some buy-side members expressed concern that the termination of CanPX would reduce the current level of trade transparency for the government markets as CanPX will no longer disseminate the pre- and post-trade government debt data that it received from the inter-dealer bond brokers.

OSC staff acknowledged the concerns raised, but noted that CanPX was an information processor for corporate debt securities only, because currently there are no transparency requirements for government debt securities in place (an exemption is in force until January 1, 2018). The government debt data that CanPX received and disseminated was provided to them on a voluntary basis by the inter-dealer bond brokers. CanPX's decision to end its operations, including the government debt reporting, was outside regulatory purview. OSC staff indicated, however, that the buy-side participants' feedback was timely given that the process to determine what regulatory requirements are needed for government debt transparency will commence in the near future.

IIROC also indicated that it recognized that a number of members of both the buy-side and issuer communities felt that CanPX's services had provided value to the system and was prepared to consider expanding the scope of its existing transparency efforts to meet those needs, if requested by the applicable authorities.

5. Review of Agenda Items for October Meeting

Discussion topics and agenda items for the October meeting will be finalized based on member feedback. The next CFIF meeting will be held in Toronto on 3 October 2016.

6. List of Attendees

External Presenters

Andrew Kriegler, Investment Industry Regulatory Organization of Canada
Victoria Pinnington, Investment Industry Regulatory Organization of Canada
Monica Kowal, Ontario Securities Commission
Ruxandra Smith, Ontario Securities Commission

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
Roger Casgrain, Casgrain & Company
Chris Kalbfleisch, Connor, Clark & Lunn Investment Management
Martin Bellefeuille, Desjardins Securities
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
Bradley Pederson, TD Securities

Bank of Canada

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