



SUMMARY OF THE DISCUSSION

Toronto, 3 October 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. Overall market conditions were described as favourable, with reasonably good levels of liquidity across most asset classes.

Global central bank policies were cited as the primary drivers for the relatively low level of volatility currently evident in the fixed-income market, leading to an increase in bond-yield correlations globally. These policies were also noted to have contributed to the portfolio inflows into the Canadian market, as well as to the increase in bond issuance by Canadian firms, especially in foreign currencies. Conditions in the primary domestic bond markets for non-government borrowers were said to have improved, reflecting strong investor demand. Many members expected these trends to continue into the foreseeable future.

Members discussed the impact to date of the US money market reform, including the outflows from prime funds, which have contributed to the recent rise in Libor rates. According to one participant, Canadian banks had begun preparing for the reform last year and therefore should not be significantly affected once the reform takes effect on 14 October. However, looking ahead, some members project that financial institutions will increase the duration of their liabilities as a result of changes in regulation, which would slightly raise their marginal cost of funds.

A brief update was also provided on the recent decision by CanPX to [maintain its government bond transparency service](#) after 1 October 2016. Members felt the decision was positive for the well-functioning of the government bond market.

2. Update on International Developments and Work

The Bank of Canada provided a brief update on ongoing central bank work, coordinated through the [Foreign Exchange Working Group](#), to develop a global foreign exchange code. The code is due to be published in May 2017.

The Bank also summarized the recent progress of the Financial Markets Standards Board, which was established by UK authorities to address matters related to standards in wholesale fixed-income, currency and commodities markets. The board's first [standard](#), published in draft form,

covers reference price transactions in the fixed-income rates market. A final draft will be published following a review of public comments.

3. Overview of the Treasury Market Practices Group (TMPG)

The TMPG presented an [overview](#) of the group's functioning, including its structure, membership and past work, providing insight into both what has worked for them and what challenges they have faced since the group's inception. Members discussed the work of the TMPG and how they could adopt similar initiatives.

4. Discussion of CFIF Survey Results

The Bank of Canada provided a high-level overview of the [CFIF survey results](#) covering areas related to market liquidity, transparency and market access in Canadian fixed-income markets. The survey results will help identify changes in trading, execution and portfolio management practices by both buy- and sell-side firms and select active domestic issuers participating in the Canadian fixed-income market. The survey was completed by 295 individuals from approximately 200 firms worldwide.

Based on the aggregate survey results, market participants continue to rate benchmark government of Canada bonds as very liquid and note that liquidity in the Canadian-dollar investment-grade corporate bond market has deteriorated the most. Participants have adapted to changes in overall market liquidity by changing the way they manage their portfolios, largely by holding more on-the-run securities and holding less-liquid assets for longer time periods. Most survey respondents noted changes in their execution strategies, especially in the corporate bond market, by allowing more time to execute trades and transacting less. CFIF members were somewhat surprised that respondents had indicated only a slight decline in corporate bond inventories over the past two years. However, several members pointed out that inventories likely experienced their largest declines before the two-year comparison period began.

CFIF members agreed that in order to better identify trends or issues in the market, a more detailed analysis of the survey results would be helpful in providing further insights into market liquidity and guiding the work of CFIF going forward.

5. List of Attendees

External Presenters

Tom Wipf, Morgan Stanley

Nathaniel Wuerffel, Federal Reserve Bank of New York

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
Martin Bellefeuille, Desjardins Securities
Daniel Bergen, Great West Life Assurance Company
Daniel Duggan, National Bank Financial
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)
Grahame Johnson
Paul Chilcott
Harri Vikstedt
Maksym Padalko
Zahir Antia
Samantha Sohal