



SUMMARY OF THE DISCUSSION

Toronto, 2 February 2017, 4 p.m. to 6 p.m.

1. Recent Bond Market Developments and Near-Term Outlook

Members reviewed recent conditions in fixed-income markets and the outlook for 2017. Overall market conditions were described as favourable, with good levels of liquidity across most fixed income asset classes. The fixed-income or financial market outlook for 2017 was described as somewhat uncertain, with uncertainty around US policy, elections in some European countries and the evolution of Brexit cited as some of the key risks.

Members discussed market functioning during the sell-off in fixed-income markets following the US presidential election. They noted that the fixed-income market handled the sell-off of bonds reasonably well, with an increase in trading activity supporting liquidity. Several members reported Government of Canada (GoC) bond flows as large at times, commenting on the reappearance of block trades in the Ten-Year GoC Bond Futures (CGB) market, after a long absence. Non-GoC bond markets were described as having performed well during the same time period, supported by risk-on investor sentiment. Credit spreads remained relatively range-bound, and new bond issuance was robust and well received by investors.

From a wholesale funding perspective, members noted that market functioning around calendar quarter- and year-end was relatively orderly. Domestic funding markets functioned better than in previous years since much of the funding activity around the calendar year-end was anticipated and therefore appropriately managed by market participants. Some widening was, however, noted in some funding spreads, such as CDOR-OIS.

2. Update on International Developments and Work

The Bank of Canada provided a further update on the ongoing work to develop a code of conduct for the global foreign exchange market, coordinated through the Bank for International Settlements [Foreign Exchange Working Group](#). The complete code will be published in May 2017.

The Bank also summarized global progress in response to the Financial Stability Board's (FSB) 2014 report on interest rate benchmarks, focusing particularly on the work done to identify new risk-free rate benchmarks in a number of currencies. Regular progress reports to the FSB will continue.

3. Discussion on Canadian Futures Market

The Bank of Canada provided an overview of its recent analysis of [high-frequency trading \(HFT\) in the CGB bond futures market](#), based on data provided by the Montréal Exchange. Designed as a follow-up to the work presented at the April CFIF meeting, the Bank noted that the analysis was undertaken to better understand the effect of HFT on the futures market.

The Bank's event study, comparing liquidity before and after HFT entries, determined that, based on the metrics analyzed, the average impact of HFTs was slightly positive. On average, both effective and bid-ask spreads, as well as price volatility, declined, while the average depth of the market increased. The analysis also indicated that HFTs had a small positive impact on the all-in cost of execution of smaller trades.¹ However, no effect was found on the cost of execution for larger trades (greater than \$10 million).

4. Working Group Updates

The CFIF working group co-chairs presented members with possible next steps to further evaluate issues raised in the CFIF survey. Members agreed that conducting a focus group consisting of corporate bond market experts would help to better identify trends and issues in the corporate market, and provide additional insight into how market participants have adapted their trading practices. Members also supported the idea of potentially inviting representatives of some international all-to-all trading platforms to a future meeting to gain a better understanding of how these types of platforms could contribute to improved market functioning.

5. Additional Analysis of CFIF Survey Results

Because of time constraints, the Bank of Canada was unable to review the analysis completed on the CFIF [survey results](#).

6. Review of 2017 Discussion Topic

Members briefly discussed potential topics for future meetings to prioritize work for 2017. Discussion topics and agenda items will be finalized based on member feedback.

7. Other Items

Following the meeting, members were welcomed to an annual dinner with senior Bank officials.

The next CFIF meeting will be held in Toronto on 25 April 2017.

¹ The "all-in" cost of execution was measured using implementation shortfall, the volume-weighted average price of a series of trades less the prevailing mid-quote at the time of the trade.

8. List of Attendees

Montréal Exchange

Joanne Elkaim

Market Representatives

Jean-François Pépin, Addenda Capital

John McArthur, Bank of America Merrill Lynch

Chris Beauchemin, British Columbia Investment Management Corporation

Marc Cormier, Caisse de dépôt et placement du Québec

Roger Casgrain, Casgrain & Company Limited

Chris Kalbfleisch, Connor, Clark & Lunn Investment Management

Martin Bellefeuille, Desjardins Securities

Daniel Bergen, The Great West Life Assurance Company

Michael Taylor, GWN Capital Management

Murray Shackleton, The Manufacturers Life Insurance 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)

Paul Chilcott

Grahame Johnson

Harri Vikstedt

Maksym Padalko

Zahir Antia

Samantha Sohal