



SUMMARY OF THE DISCUSSION

Toronto, 25 April 2017, 4 p.m. to 6 p.m.

1. Recent Bond Market Developments and Near-Term Outlook

Members reviewed conditions in fixed-income market since the last meeting. Overall market conditions were characterized as favourable, with no real issues in liquidity across most fixed-income asset classes. However, key risks to the financial market outlook cited at the February CFIF meeting remained, including uncertainty around US policy, elections in some European countries and the evolution of Brexit.

Members briefly discussed the potential impact of the US Federal Reserves' balance sheet reduction on fixed-income market functioning. Some members thought that once the central bank started reducing its balance sheet, it would likely raise interest rates at a slower pace. Some also mentioned that a broad range of markets, including money markets, foreign exchange, funding and collateral markets could be affected by balance sheet normalization.

Secondary trading and liquidity in the *National Housing Act*-Mortgage Backed Securities (NHA-MBS) market was also discussed. NHA-MBS liquidity was noted to be improving slightly, with a greater number of dealers providing liquidity than before. Members also described investor participation in the market as gradually increasing, although with limited participation from foreign investors. Developing a more active repo market was cited by some members as a means to potentially further enhance liquidity in this asset class. The Bank noted that these securities are eligible as collateral under the Bank's Standing Liquidity Facility and that the Bank is also working on making them eligible for the Bank's term repo operations in the future.

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 (BIS) [Foreign Exchange Working Group](#). The complete code will be published later in May.

The Bank also summarized the Committee on the Global Financial System's (CGFS) recent [report on repo market functioning](#). The report found that repo markets are in a state of transition driven by accommodative and unconventional monetary policies, regulatory reforms and

evolving internal risk management practices. There are also substantial differences in the structure and functioning of repo markets across jurisdictions.

The results of the [Canadian repo market survey](#) that was conducted for the CGFS report were also discussed. The survey found that perceptions of repo market activity remained relatively unchanged in the last two years, liquidity is perceived as marginally lower and term repo spreads relative to reference money market rates have widened.

3. Discussion on Government Bond Transparency

The Bank of Canada provided an overview of the current state of [government bond post-trade transparency](#), both domestically and internationally. The Bank noted that the exemption to mandatory post-trade transparency for Canadian government bonds was due to expire in January 2018 and that the Canadian Securities Administrators and Department of Finance were set to examine possible post-trade transparency requirements for government bonds. Members were asked to consider various forms of post-trade transparency that may improve market functioning for the next meeting.

4. Working Group Updates

The CFIF working group co-chairs presented members with an overview of the [corporate bond market focus group](#) that was conducted in March 2017. The purpose of the focus group was to discuss last summer's CFIF survey results, better identify trends and issues in the Canadian investment grade corporate bond market and look for ways to potentially improve market functioning. Participants included buy- and sell-side firms that are active in the Canadian corporate market.¹

Overall, focus group participants had a slightly more positive outlook on corporate bond market functioning than the survey results suggested. There was also agreement among participants that dealers' corporate bond inventories had, on aggregate, only declined slightly over the past two years. However, it was noted that some sell-side firms had adopted a more agency-based trading model and their inventories may have declined substantially more. Significant growth in the use of electronic trading platforms to trade corporate bonds since the CFIF survey was conducted was also briefly discussed. Areas for improvement cited by the focus group included the construction and quality of pricing in Canadian corporate bond indices and the need for issuers to have an increased focus on secondary market functioning and liquidity. CFIF members provided feedback on this work and suggested that the working group focus its next steps on evaluating ways to improve corporate bond indices.

5. Review of Discussion Topics for June Meeting

¹ Focus group participants included Jacqueline Szeto-Meiers, Canso Investment Counsel; Jason Cope, TD Securities; Jay Menning, PH&N Investment Services; John Shaw, CI Investments; Marc Hurley, Sun Life Investment Management; Pascal Garneau, Industrial Alliance; Peter Zaltz, Gluskin Sheff; and Rob Kelsall, BMO Capital Markets.

Members briefly discussed potential topics for the upcoming CFIF meeting. Suggested discussion topics included government bond transparency, electronic trading platforms, FTSE TMX index pricing and the fundamental review of the trading book. Discussion topics and agenda items will be finalized based on feedback.

The next CFIF meeting will be held in Toronto on 27 June 2017.

6. List of Attendees

Ontario Securities Commission

Tracey Stern (present for and observed agenda item 3 only)

Market Representatives

John McArthur, Bank of America Merrill Lynch

Chris Beauchemin, British Columbia Investment Management Corporation

Roger Casgrain, Casgrain & Company Limited

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

Maksym Padalko

Zahir Antia

Samantha Sohal