



Corporate Bond Market Focus Group

25 April 2017

Discussion Overview

Purpose: 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.

Discussion Areas

- ❖ Survey constraints
- ❖ Corporate bond market liquidity
- ❖ Corporate bond trading practices
- ❖ Dealer inventories
- ❖ Corporate bond issuance
- ❖ Benchmark bond indices
- ❖ Electronic trading in corporate bonds
- ❖ Corporate bond transparency
- ❖ Suggestions to improve market liquidity/functioning

Discussion Highlights - Summary

- ❖ Overall, focus group participants had a more positive outlook on corporate bond market functioning than the overall survey responses would suggest
 - A recency bias was believed to have strongly influenced the survey results, given the challenging market environment in early 2016
 - Ambiguity and subjectivity of term definitions may have also influenced survey responses; for example, perceptions of liquidity differ between respondents
 - Participants noted that their views may not reflect those of smaller/less active investors in the market who have more limited sell-side coverage
- ❖ Larger and/or more active market participants were perceived to have adapted to changes in liquidity, more so than smaller or less-active investors
- ❖ Participants felt that many sectors of the Canadian investment grade corporate bond market were relatively deeper and more liquid than other international markets (EU/US), particularly for bank paper

Discussion Highlights – Summary Cont'd

- ❖ While there was agreement with the overall perception that corporate bond inventories had declined only slightly over the last two years, it was noted that some sell-side firms had adopted a more agency based trading model and that their inventories may have declined substantially more
 - It was also sometimes difficult to assess whether a trade was completed on a principal or agency basis
- ❖ The participants noted that the use of electronic trading platforms to trade corporate bonds had grown significantly since the survey
- ❖ Participants believed that recent corporate bond post-trade transparency initiatives were irrelevant for their business; however, one improvement that was discussed to potentially help medium to small investors was to include spreads

Discussion Highlights – Areas for Improvement

- ❖ While the last two years were believed to have been very good from a primary corporate issuer perspective, participants felt that issuers could be more focussed on secondary market functioning and liquidity
- ❖ The construction and quality of pricing in Canadian corporate bond indices could be improved, especially given the changes that have taken place in the market
- ❖ Given the concentration of participants in the Canadian financial market, a buy-side to buy-side trading model would be potentially harder to achieve than in other jurisdictions, without some form of a broader revenue sharing arrangement