



## **SUMMARY OF THE DISCUSSION**

Toronto, June 27, 2017, 4 p.m. to 6 p.m.

### **1. Recent Bond Market Developments and Near-Term Outlook**

Members reviewed conditions in the Canadian fixed-income market, focusing primarily on changes in foreign inflows.

Non-resident holdings of Government of Canada (GoC) bonds were noted to have reached their highest level in 16 years, accounting for approximately 30 per cent of total holdings. Net foreign purchases of Canadian-issuer corporate bonds were also described as elevated, having consistently outpaced foreign inflows into other Canadian fixed-income asset classes over the past few years. An increase in foreign demand for foreign currency debt by Canadian corporate issuers was also noted.

The potential development of a Canadian Residential Mortgage-Backed securities (RMBS) market was also discussed. Several members noted that the yield or spread at which such securities could be currently issued was too high relative to the other funding options available for the large Canadian banks, making RMBS an unattractive funding option for these institutions. However, potential interest from smaller mortgage lenders was noted. Members also briefly reviewed possible options to develop this market, including standardizing legal structures, making data for the underlying mortgages more transparent and potentially promoting liquidity through inclusion of RMBS in fixed-income indices. Members noted that any detailed discussion on developing this market should include the Canada Mortgage and Housing Corporation.

### **2. Update on International Developments and Work**

The Bank of Canada provided a further update on the recently published [foreign exchange global code](#), coordinated through the Bank for International Settlements (BIS) Foreign Exchange Working Group. The Bank noted that principle 17 on last look is under [consultation](#) until September 21, 2017.

The Bank also summarized global progress on the implementation of the Financial Stability Boards (FSB) recommendation to identify new risk-free rate benchmarks in a number of currencies.

### **3. Discussion on Government Bond Transparency**

The Bank of Canada provided a brief overview of the current state of [government bond market transparency](#) and the work being done by the Canadian Securities Administrators (CSA), in consultation with the Bank of Canada and the Department of Finance, to examine new post-trade transparency requirements for government bonds.<sup>1</sup> Members discussed various forms of post-trade transparency that may improve market functioning, including the need for appropriate volume caps and time delays. Members expressed a preference for a simple transparency regime that depends on the liquidity characteristics of various fixed-income asset classes; for example, putting in place identical volume caps and time delays at the asset class or security type level, rather than at the individual securities level. Members also noted that investors' ability to obtain the pre-trade data was an important factor for regulators to consider when evaluating the choice of information processor for post-trade transparency.

A formal public consultation is expected to be conducted by the CSA, and CFIF members were encouraged to respond at that time.

### **4. Discussion on Fixed-Income Indices**

The Bank of Canada provided a brief [review](#) of how fixed-income indices are constructed and used by market participants. The Bank noted that a rules-based approach to index construction helped to ensure the transparency, replicability and reliability of benchmark indices, consistent with the Board of the International Organization of Securities Commissions (IOSCO) principles for financial benchmarks. Members noted that an important consideration for their use of indices is the transparency and accuracy of the bond prices used to construct them. For a more detailed discussion, members suggested inviting FTSE TMX and other Canadian fixed-income index providers to the next CFIF meeting in October.

### **5. Review of Discussion Topics for October Meeting**

Members briefly discussed potential topics for the upcoming CFIF meeting. In addition to a review of fixed-income indices, suggested discussion topics included an assessment of the fundamental review of the trading book's impact on market functioning and the increased use of electronic trading platforms. Discussion topics and agenda items will be finalized based on member feedback.

The next CFIF meeting will be held in Vancouver on October 3, 2017.

### **6. List of Attendees**

**Ontario Securities Commission** (present for and observed agenda item three only)

Tracey Stern

Alina Bazavan

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<sup>1</sup> Government bonds include those issued or guaranteed by the Government of Canada; any province, territory or municipality of Canada; a Crown corporation; or a public body.

**Market Representatives**

John McArthur, Bank of America Merrill Lynch  
Chris Beauchemin, British Columbia Investment Management Corporation  
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**

Toni Gravelle (Co-chair)  
Paul Chilcott  
Grahame Johnson  
Harri Vikstedt  
Maksym Padalko  
Samantha Sohal