



SUMMARY OF THE DISCUSSION

Toronto, January 23, 2018, 4 p.m. to 6:15 p.m.

1. Recent Bond Market Developments and Near-Term Outlook

Members reviewed conditions in the Canadian fixed-income market since the last meeting and the outlook for 2018.

The recent trend toward the global flattening of yield curves was discussed, with members citing numerous possible causes, including persistently low inflation, lower potential growth (particularly due to demographics), central bank quantitative easing (QE) and pension fund flows out of equities into long-duration bonds. Members also discussed the strong performance of domestic provincial and corporate credit markets. It was noted that there had been a general “risk on” tone in markets globally, which resulted in most credit spreads compressing to their tightest levels since the 2008-2009 financial crisis. One member also highlighted the upward trend in foreign purchases of Canadian bonds as a factor supporting the narrowing of spreads.

Members briefly discussed the impact of the ongoing negotiations around the North American Free Trade Agreement (NAFTA) and their implications for asset prices. It was broadly thought that the potential short-term market reaction to a termination of NAFTA would be negative. However, particularly in recent weeks, financial markets had not materially priced in this risk, possibly because of the high degree of uncertainty around decisions relating to the future of NAFTA and the expensive cost to hedge this risk.

2. Update on International Developments and Work

The Bank of Canada provided an update on the foreign exchange global code. It was noted that, following market consultations, slight revisions had been made to Principle 17 on last look.

As proposed at the October meeting, members discussed the formation of a new CFIF-sponsored “term risk-free rate working group.” Members reviewed the working group’s proposed objectives and structure and agreed that it should seek to identify a robust and reliable Canadian term risk-free rate benchmark. It was noted that similar work is under way in other major jurisdictions. A new term risk-free rate would act as an additional reference rate for the Canadian market, alongside the existing Canadian Dollar Offered Rate (CDOR). At the market’s discretion, the new term risk-free rate could be used as an input in some types of financial contracts. There was broad agreement among members that the working group would also

provide an excellent opportunity to examine potential enhancements to the Canadian Overnight Repo Rate Average (CORRA), which is the Canadian overnight risk-free rate benchmark.

Members emphasized that it was important for the working group to seek feedback from a wide range of stakeholders to ensure industry consensus on future proposals. Therefore, it was agreed that membership would include a broad array of senior members of the Canadian financial industry with a strong understanding of the various ways that benchmark interest rates are used. Further details on the working group will be published on the CFIF website in the near future.

3. Review of Long-Term Workplan

Members briefly reviewed potential topics for the forum's [long-term workplan](#), discussing the prioritization of the topics and the best format to bring each topic forward. It was agreed that ongoing topics on the committee's agenda would continue to include a review of fixed-income market developments and regulatory changes, and updates on both international developments and the new term risk-free rate working group.

The long-term workplan, including discussion topics and agenda items, will be finalized based on member feedback.

4. Discussion on the Net Stable Funding Ratio (NSFR)

The Office of the Superintendent of Financial Institutions (OSFI) provided an [overview of the NSFR](#), including the structure, implementation process and timelines. OSFI noted that the NSFR was designed to reduce funding risk over a one-year time horizon by requiring institutions to fund their assets and off-balance-sheet activities with sufficiently stable sources of funding, thereby mitigating the risk of future funding stress. A few members raised concerns about possible unintended consequences from the regulation, including cost and liquidity effects on corporate and provincial bonds, repos and bankers' acceptances (BAs).

5. Other Items

The meeting ended with the co-chairs thanking departing member Michael Taylor for his valued participation on the committee. Following this, members were welcomed to an annual dinner with senior Bank officials.

The next CFIF meeting will be held in Toronto on April 24, 2018.

6. List of Attendees

OSFI (present for and observed agenda item four only)

Brian Rumas

Robert Bélanger

Market Representatives

Sandra Lau, Alberta Investment Management Corporation

John McArthur, Bank of America Merrill Lynch
Chris Beauchemin, British Columbia Investment Management Corporation
Roger Casgrain, Casgrain & Company Limited
Karl Wildi, CIBC World Markets
Chris Kalbfleisch, Connor, Clark & Lunn Investment Management
Martin Bellefeuille, Desjardins Securities
Philippe Ouellette, Fiera Capital
Daniel Bergen, The Great-West Life Assurance Company
Murray Shackleton, The Manufacturers Life Insurance Company
Jason Chang, Ontario Teachers' Pension Plan
Jim Byrd, RBC Capital Markets
Bradley Pederson, TD Securities

Bank of Canada

Lynn Patterson (Co-chair)
Toni Gravelle (Co-chair)
Paul Chilcott
Grahame Johnson
Harri Vikstedt
Zahir Antia
Samantha Sohal