



SUMMARY OF THE DISCUSSION

Toronto, April 24, 2018, 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 since the last meeting. Overall market conditions were described as favourable, with no major issues in liquidity or market functioning across fixed-income asset classes.

The flattening of the yield curve was discussed, with members citing various fundamental and technical drivers, such as stable inflation expectations, tighter monetary policy influencing the short end of the yield curve and ongoing investor demand for long-duration bonds, in part motivated by ongoing quantitative easing policies in some major jurisdictions. The flatness of the yield curve was not viewed as a signal of a forthcoming recession, since other financial market indicators, such as credit spreads, continue to point to a positive economic outlook. Members highlighted the generally favourable conditions in both primary and secondary provincial and corporate bond markets, noting robust demand for longer-dated Canadian bonds from international investors. However, given the volatility in global financial markets earlier this year, members sounded a note of caution that, in some circumstances, financial conditions could change abruptly.

Members noted that market functioning around quarter- and year-end was relatively orderly, despite widening in some foreign currency funding spreads, such as US-dollar LIBOR-OIS. These wider US-dollar funding spreads were thought to be driven by technical factors, including high US Treasury bill issuance and increased repatriation of funds by US corporations.

2. Update on International Developments and Work

The Bank of Canada provided a brief update on global progress to implement the Financial Stability Board's recommendations to reform existing interbank interest rate benchmarks and identify new risk-free rate benchmarks in a number of currencies.

3. Update on CARR

The co-chairs of the [Canadian Alternative Reference Rate Working Group \(CARR\)](#) provided a status update on the working group, summarizing its work since the first meeting in March. It was noted that CARR had created two subgroups, each co-chaired by two CARR members. The first subgroup is identifying and evaluating viable options for a possible alternative risk-free or

nearly risk-free Canadian overnight reference rate, and the second is focusing on the size and scope of financial products that currently reference existing Canadian benchmark rates. The co-chairs introduced the possibility of forming a third subgroup to concentrate on developing standardized fallback language in contracts for a wide range of users of Canadian reference rates. CFIF members supported this initiative, suggesting that the work start sooner rather than later, given the importance of fallback language in a range of circumstances.

4. Developing a Canadian RMBS Market

The Bank of Canada provided an overview of the potential avenues to explore in the development of a [Canadian Residential Mortgage-Backed Securities \(RMBS\) market](#). Some members noted that the yield or spread at which RMBS could be issued today is too high compared with the other funding options available for the large Canadian banks, making RMBS an unattractive funding option for these institutions. However, it was noted there could be a viable RMBS market, particularly for near-prime mortgages originated by smaller mortgage lenders that have more limited funding options.

Members agreed to hold a workshop in the autumn to discuss the various issues related to developing a private RMBS market in Canada. Co-chaired by two CFIF members, Sandra Lau and Roger Casgrain, the workshop would include a broad range of stakeholders outside of CFIF membership. The co-chairs agreed to provide details on the proposed workshop structure and organization at the next CFIF meeting.

5. Review of 2018 Workplan

Members briefly discussed [potential topics for the remainder of 2018](#). Suggested topics included transparency in government bond markets, pricing conventions for corporate bond spreads and regulatory issues. Members suggested inviting external speakers to discuss these topics in more detail. Discussion topics and agenda items will be finalized based on member feedback.

The next CFIF meeting will be held in Toronto on June 26, 2018.

6. List of Attendees

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

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
Harri Vikstedt
Maksym Padalko
Nigel Stephens
Zahir Antia
Samantha Sohal