



SUMMARY OF THE DISCUSSION

Toronto, June 26, 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.

Members discussed the recent volatility in global financial markets, particularly regarding developments in Italy and some emerging-market countries. They noted that despite the volatility, the Canadian fixed-income market functioned reasonably well. The recent increase in US-Canada government yield spreads was also discussed, which some members believed could potentially reflect concerns about rising trade protectionism. However, it was unclear whether financial markets more broadly were materially pricing in this risk.

The flattening of the yield curve was noted, with members continuing to cite technical drivers for the flattening, particularly ongoing investor demand for longer-dated Canadian bonds. It was noted that both insurance and pension funds with a need to hedge long-duration liabilities accounted for an increasing share of the strong demand.

Members also highlighted the generally favourable conditions in both primary and secondary provincial and corporate bond markets.

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. It was noted that the International Swaps and Derivatives Association (ISDA) is expected to release a [consultation document](#) on ISDA fallback language for select interbank offered rates later in the summer.

The Bank also provided a short summary of the recent market liquidity workshop in London held by the Bank for International Settlements' Committee on the Global Financial System (CGFS). Members discussed the various metrics available that could be used to measure market liquidity.

3. CARR Update

The co-chairs of the [Canadian Alternative Reference Rate Working Group \(CARR\)](#) provided a status update on the working group, summarizing progress since April. It was noted that the Alternative Rates subgroup, which was focused on identifying and evaluating a preferred risk-free rate, recently recommended to CARR members that the group focus its efforts on “enhanced CORRA”—a rate similar to CORRA (Canadian Overnight Repo Rate Average), but based on a broader set of transactions with potentially expanded counterparties and/or collateral. However, it was noted that additional analysis would be needed.

It was reported that a third subgroup had been created, co-chaired by two CARR members, that would develop appropriate fallback language for use in Canadian non-derivative products or contracts.

4. Update from FTSE

In response to the feedback received at the October CFIF meeting, FTSE Russell (FTSE) provided an [overview](#) of the various development initiatives they undertook to improve transparency and engagement in the Canadian market. FTSE noted an expansion to their governance framework and communication plans with the creation of a Canada Dealer Advisory Forum and soon-to-launch FTSE Canada web portal, respectively. Several enhancements to the price-challenge process were also mentioned, with the purpose of increasing transparency.

Overall, members supported efforts to improve the transparency and governance of Canadian bond indices, and advocated for continued enhancements to FTSE services.

5. Canadian Residential Mortgage Backed Securities Workshop Proposal

The co-chairs of the RMBS workshop presented members with an overview of the [structure and organization of the proposed workshop](#). It was noted that the workshop, which would include a broad range of stakeholders outside of CFIF membership, would focus on identifying roadblocks or areas of concern related to the development of a well-functioning private RMBS market in Canada. There was broad agreement among members that the workshop would help foster an active discussion and provide ample opportunity to discuss impediments along the entire RMBS development life cycle. The co-chairs agreed to further refine the workshop based on member feedback. The workshop is tentatively scheduled for late September.

6. Discussion on Government Bond Transparency

The Ontario Securities Commission provided a brief overview of the [government and corporate debt post-trade transparency proposals](#) put forth by the Canadian Securities Administrators (CSA). While members appreciated the simplicity of the transparency regime, some voiced concerns that the proposed disclosure thresholds did not fully take into account the liquidity characteristics of certain fixed-income asset classes. For example, it was suggested that some less-liquid provincial, municipal and other government securities may require smaller volume

caps or larger time delays. Members were encouraged to respond to the [public consultation](#) by the August 29 deadline for comment submission.

7. Other

The next CFIF meeting will be held in Montréal on October 2, 2018.

8. List of Attendees

FTSE Russell (present for agenda item four only)

Marina Mets

Ontario Securities Commission (present for agenda item six only)

Tracey Stern

Alina Bazavan

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

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

Andrew Branion, Scotiabank

Bradley Pederson, TD Securities

Bank of Canada

Lynn Patterson (Co-chair)

Toni Gravelle (Co-chair)

Harri Vikstedt

Maksym Padalko

Nigel Stephens

Zahir Antia

Samantha Sohal