



## **SUMMARY OF THE DISCUSSION**

Montréal, October 2, 2018, 4 p.m. to 6 p.m.

The meeting began with the co-chairs welcoming new member Brian D'Costa of Algonquin Capital to the committee.

### **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. However, members viewed central bank policy normalization as a potential risk to bond market liquidity going forward.

The rise in Canadian government bond yields was discussed, with members citing higher real rates as the key driver, given that inflation expectations had remained stable. Members discussed what they perceived as surprisingly low volatility across most developed financial markets, despite global trade uncertainty and recent volatility in some emerging markets, with little spillover into Canadian fixed-income markets. Members highlighted the generally favourable conditions in both Canadian primary and secondary corporate bond markets, noting robust demand for longer-dated bonds. However, they noted that increasing global geopolitical risks could change financial conditions abruptly.

Members discussed the newly implemented Canadian bail-in regime. It was noted that, over time, the majority of bank-issued debt would become bail-in-able, particularly as banks replaced maturing legacy senior unsecured bonds with bail-in debt. Given the structure of these securities, some members questioned whether, under very stressed banking conditions, liquidity in these instruments could diminish by more than would be observed for current legacy deposit notes, all else being equal.

### **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) had released a [consultation document](#) on ISDA fallback language for select interbank offered rates earlier this summer, and members were encouraged to provide feedback. Members' attention was also drawn to the [statement from](#)

[the Financial Stability Board \(FSB\) Official Sector Steering Group](#) on term benchmark rates, which were released at the same time as the ISDA consultation.

The Bank also provided a short summary of two recent committee publications from the Bank for International Settlements: a report by the Committee on the Global Financial System (CGFS) on the [financial stability implications of a prolonged period of low interest rates](#), and a report from the Markets Committee on [the monitoring of fast-paced electronic markets](#).

### **3. CARR Update**

The co-chairs of the [Canadian Alternative Reference Rate Working Group \(CARR\)](#) provided a status update on its current three subgroups, summarizing progress since June. It was reported that the Scope of Work subgroup recently published the results of their analysis on the [size and scope of financial products that currently reference the Canadian Dollar Offered Rate \(CDOR\) and the Canadian Overnight Repo Rate Average \(CORRA\)](#). The Alternative Rates subgroup (which is focused on identifying and evaluating a preferred Canadian risk-free rate) was noted to have recently presented preliminary analysis on possible methodologies for expanding and calculating an “enhanced CORRA.” This rate is similar to the existing CORRA, but based on a broader set of transactions with potentially expanded counterparties. It was noted that additional analysis is still needed. The co-chairs expect to have a final recommendation before the end of the year, with a consultation document to be published in early 2019. The Fallback Language subgroup was reported to be progressing in its development of principles for new fallback language for use in Canadian non-derivative (“cash”) fixed-income products and contracts.

### **4. Overview of the Canadian Residential Mortgage-Backed Securities (RMBS) Workshop**

The co-chairs of the [RMBS workshop](#) presented members with an [overview of their recent workshop](#) at which the various issues related to developing a well-functioning private RMBS market in Canada, for prime or near-prime mortgages were discussed. They noted that the workshop, which included 42 participants, largely outside of CFIF membership, concluded with three key themes: (i) improved transparency of underlying mortgage collateral would be highly desirable to attract broad investor participation in an RMBS market, and is a necessary first step in developing the market; (ii) enhanced liquidity is a prerequisite for growing the market further; and (iii) current RMBS deal structures are not seen as an impediment to the market. However, certain structural changes may further aid its development following improvements to transparency. Some workshop participants also believed that adjustments to existing regulatory levers (such as repo collateral eligibility and HQLA qualification) could help support development of the market.

Some CFIF members believed that the economic incentives to further develop this market were currently not in place. These members thought that the yield or spread at which RMBS could be issued today was too high relative to those of the other funding options available for the large Canadian banks, currently making RMBS a less attractive funding option for these institutions. However, it was noted that RMBS could be a viable funding source for lenders with more limited funding options, particularly for near-prime mortgages.

Members agreed that next steps should focus on mechanisms that could increase collateral transparency. However, next steps would be further refined based on feedback.

## **5. Other**

The next CFIF meeting will be held in Toronto on January 28, 2019.

## **6. List of Attendees**

### **Market Representatives**

Sandra Lau, Alberta Investment Management Corporation

Brian D'Costa, Algonquin Capital

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

Andrew Branion, Scotiabank

Bradley Pederson, TD Securities

### **Bank of Canada**

Lynn Patterson (Co-chair)

Toni Gravelle (Co-chair)

Paul Chilcott

Harri Vikstedt

Samantha Sohal

Annick Demers