



Overview of the Canadian RMBS Workshop

October 2, 2018

Workshop overview

Purpose: to discuss the various issues related to developing a well-functioning private RMBS market in Canada

Participation: 42 individuals participated in the workshop, providing a wide range of perspectives and expertise

- Canadian Bank (7)
- Broker-Dealer (3)
- Credit Unions & Other FIs (4)
- Non-Bank Mortgage Originator (4)
- Government & Regulatory Institution (8)
- Pension Fund (3)
- Insurance Company (3)
- Other Asset Manager (8)
- Rating Agency (2)

Discussion Topics:

- 1) Mortgage origination, collateral and disclosure requirements
- 2) RMBS deal structure
- 3) Liquidity, trading, analytics and valuation

Discussion highlights - summary

- ❖ The following three themes emerged from the workshop discussion:
 - 1) Improved transparency of the underlying collateral would be highly desirable to garner broad participation in a RMBS market
 - 2) Enhanced liquidity is a prerequisite for growing the market further
 - 3) Current RMBS deal structures were not identified as an impediment to the market

- ❖ Participants also believed that many of the obstacles to the development of a well-functioning RMBS market in Canada were similar to the obstacles facing the NHA MBS market.

- ❖ Adjustments to existing regulatory levers were seen as potentially supportive for the development of a RMBS market.

Discussion highlights – mortgage origination, collateral and disclosure requirements

- ❖ Overall, workshop participants felt that a lack of disclosure of both issuer and loan-level data, including mortgage performance over time, was hindering the development of a liquid RMBS market in Canada.
 - Participants felt that the ability to analyze RMBS collateral would enable them to reach more informed investment decisions, allowing for comparisons against the broader market and the ability to analyze historical performance.
 - Without access to this type of data, many large institutions expressed an unwillingness to participate in new RMBS issues.
- ❖ Similar to other jurisdictions, participants supported the creation of a central depository of data, available to the public.
 - It was believed that this would help facilitate foreign interest and investment.

Discussion highlights – RMBS deal structure

- ❖ Current RMBS deal structures were not identified as an impediment to the market.
- ❖ At present, some participants were comfortable managing balloon payment or renewal risk.
 - It was felt that the existence of this risk had the benefit of incentivizing issuers to provide above-quality collateral.
 - However, it was suggested that balloon payment risk could be addressed by issuing longer-term mortgages.
- ❖ Participants expressed concern with the many challenges in adopting a bullet structure.
- ❖ Some participants were comfortable with the idea of multi-seller vehicles (pooling multiple issuers' assets to issue under one single vehicle), under certain circumstances, such as enhanced disclosure.
- ❖ Ratings from two agencies were described as requirements for the successful launch of a RMBS market, as many investor policy statements mandated two ratings.

Discussion highlights – liquidity, trading, analytics, and valuation

- ❖ The lack of liquidity in the RMBS market was not a significant concern to a number of participants who saw RMBS as a ‘buy-and-hold’ instrument.
 - However, liquidity was seen as an important factor to further grow the market.
- ❖ Index inclusion and adjustments to regulatory levers (such as eligible collateral for repo, HQLA qualification, or use as replacement assets in the CMB program), were identified as factors able to support liquidity in the market.

For discussion – next steps

❖ Possible next steps

- Follow-up workshop on a particular discussion topic(s)
- Working group to investigate key issues further (comprised of CFIF members, workshop participants or industry)
 - For example: a working group to determine what data should be contained in a public database on mortgage performance, and what can be done to leverage existing data sources to populate the database
- Other



Appendix

Participants

Co-chairs

❖ Sandra Lau, AIMCo

❖ Roger Casgrain, Casgrain & Company

Participants

- ❖ Evan Hughes, 1832 Asset Management
- ❖ Mark Monaghan, Baker Gilmore & Associates
- ❖ Alex Nicholson, Bank of America Merrill Lynch
- ❖ Lovisa McCallum, BMO
- ❖ Emmanuel De Marco, Caisse Centrale
- ❖ Brian Spellman, Canadian Western Bank
- ❖ Blake Dumelie, Central 1
- ❖ Andrew Maciel, CIBC
- ❖ Tim O'Neil, DBRS
- ❖ Simon Gameau, Desjardin Global Asset Management
- ❖ Alex Prokoudine, Equitable Bank
- ❖ Jasper Beerepoot, Fiera Capital
- ❖ Jason Ellis, First National
- ❖ Imran Chaudhry, Foresters Asset Management
- ❖ Rob Barnes, Great-West Life

- ❖ Krishna Gadhraju, Home Trust
- ❖ Jean-Pierre D'Agnillo, Industrial Alliance
- ❖ David White, Investors Group
- ❖ Catherine Heath, Leith Wheeler Investment Counsel
- ❖ Navin Dookhie, Manulife
- ❖ Don Ross, MCAP
- ❖ Richard Hunt, Moody's
- ❖ Jamie Feehely, National Bank
- ❖ Ed Devlin, PIMCO
- ❖ Grant Dawson, Polar Asset Management
- ❖ Yves Desjardins, PSPIB
- ❖ Lawrence McKean, RBC
- ❖ Christy Bunker, Scotiabank
- ❖ Joel Starks, TD Bank

Observers

- ❖ Les Badzioc, CMHC
- ❖ Cynthia Leach, Department of Finance
- ❖ David Derlatcher, Casgrain & Company
- ❖ Ron Morrow, Bank of Canada
- ❖ Nigel Stephens, Bank of Canada

- ❖ Brian Rumas, OSFI
- ❖ George Nalliah, AIMCo
- ❖ Anthony Maselli, Casgrain & Company
- ❖ Samantha Sohal, Bank of Canada
- ❖ Adi Mordel, Bank of Canada