



SUMMARY OF THE DISCUSSION

Toronto, January 28, 2019, 4 p.m. to 6:30 p.m.

The meeting began with the co-chairs thanking departing member Bradley Pederson for his valued participation on the committee, and welcoming new member Mike Fisher from BMO Capital Markets.

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 challenging, particularly in the second half of December, with members noting a decline in [liquidity](#) and market functioning across fixed-income asset classes.

Members described conditions in risk markets during the December period and noted that market pricing reflected stressed positioning and poor liquidity, with very little trading activity taking place. Some buy-side members reported having interest in purchasing specific investment grade corporate names, but were unable to do so. One member commented that the conditions were reminiscent of the January 2016 period. Members described a general 'risk-off' tone in global financial markets leading to increased volatility. Both global growth and international trade concerns were noted to be key drivers, along with large price declines in equity markets.

From a wholesale funding perspective, members noted that cross-currency basis markets had shown some funding pressures earlier this year than in previous years; but was reported to have normalized by December. In contrast, USD cash funding markets were noted to have exhibited some funding pressures into calendar year-end. Members also described a widening in CDOR-OIS, driven by higher competing rates being offered by banks in other funding products. However, it was noted that these spreads had since tightened.

Members also highlighted that while domestic conditions in Canadian primary and secondary credit markets had been unfavourable following the December period, foreign issuance by a range of Canadian issuers, across sectors, had been relatively strong in January.

The fixed-income market outlook for 2019 was described as uncertain, with members highlighting uncertainty in global growth, geopolitics, the evolution of Brexit, and central bank policies as some of the key risks going forward. As a result, market pricing across all asset classes was expected to be more volatile than in recent years.

2. Update on International Developments and Work

The Bank of Canada provided a brief update on global progress 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) recently concluded its first [consultation on fallback language](#)¹ and that a second consultation would be expected in early 2019 on USD LIBOR, as well as potentially other currency benchmarks, such as CDOR.

The Bank provided a short summary of the Committee on the Global Financial System's (CGFS) recently published report on [establishing viable capital markets](#).

The Bank also noted that the Global Foreign Exchange Committee was expected to begin its triennial assessment and review of the foreign exchange global code next year.

3. CARR Update

The co-chairs of the [Canadian Alternative Reference Rate Working Group \(CARR\)](#) presented members with their [recommended methodology for calculating an enhanced Canadian Overnight Repo Rate Average \(CORRA\)](#). The recommended calculation approach encompasses the daily median rate of Government of Canada bonds and bills repo transactions after excluding the lower 25th percentile of trades each day by rate to mitigate the impact of special transactions. The rate also excludes all inter-affiliate overnight repo transactions, as they may be unrepresentative of market funding given adjustments related to transfer pricing, which differ across institutions. Members unanimously endorsed this updated approach.²

The CARR co-chairs noted that a public consultation paper on the proposed calculation methodology for enhanced CORRA was expected to be published by late February.

The co-chairs also mentioned that two new CARR subgroups would be formed by the end of Q1- a transition and term risk-free rate subgroup.

4. Discussion on RMBS Focus Group

A brief overview of the recent [RMBS focus group](#) convened in early January to discuss the means of establishing enhanced transparency of Canadian mortgage data, including the feasibility of creating a public database and the form it could take, was presented.³ It was noted that the focus group participants, which included 12 participants largely from the sell-side, expressed broad support for the creation of a national mortgage database for both insured and uninsured mortgages from all lenders. While historical data was considered beneficial, there was an understanding that obtaining this kind of data would be difficult. Therefore, focus group participants suggested collecting data on a go-forward basis, and leveraging existing data collection efforts, such as those underway at Canada Mortgage and Housing Corporation

¹ Consultation was for GBP, CHF, JPY and AUD.

² On December 11, CFIF members were presented with [CARR's initial approach to enhanced CORRA](#).

³ Note the focus group was as a follow-up to the [RMBS workshop](#) from September 2018.

(CMHC) and Office of the Superintendent of Financial Institutions (OSFI), for the new data repository.

CFIF members questioned whether there were any legal or proprietary issues (i.e. privacy and ownership concerns) related to sharing this mortgage data, as well as whether all mortgage issuers would be included. Members supported the development of a national mortgage database, and agreed that further discussions would be needed. Next steps will be refined based on feedback.

5. Review of Long-Term Workplan

Members briefly reviewed potential topics for the forum's [long-term workplan](#), discussing the prioritization of 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 international developments, CARR, and the development of a RMBS market.

The longer-term workplan will be finalized based on member feedback. However, members highlighted some discussion topics as potential priorities for 2019. These were: (i) risks to the corporate bond market from 'fallen angels', (ii) the market impact from automated trading platforms, and (iii) the potential development of a corporate repo market in Canada.

6. Other Items

Following the meeting, members were welcomed to an annual dinner with senior Bank officials.

The next CFIF meeting will be held in Toronto on April 9, 2019.

7. List of Attendees

Market Representatives

Sandra Lau, Alberta Investment Management Corporation

Brian D'Costa, Algonquin Capital

John McArthur, Bank of America Merrill Lynch

Mike Fisher, BMO Capital Markets

Chris Beauchemin, British Columbia Investment Management Corporation

Roger Casgrain, Casgrain & Company Limited

Karl Wildi, CIBC World Markets

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

Andrew Branion, Scotiabank

Bank of Canada

Lynn Patterson (Co-chair)

Toni Gravelle (Co-chair)

Paul Chilcott

Carol Brigham

Harri Vikstedt

Samantha Sohal