



SUMMARY OF THE DISCUSSION

Toronto, April 9, 2019, 4 p.m. to 6:30 p.m.

The meeting began with the co-chairs thanking departing member Andrew Branion for his valued participation on 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 various fixed-income sectors.

The flattening of the yield curve was discussed, with members citing both fundamental and technical drivers, including weaker global economic growth, particularly in Asia, and ongoing investor demand for long-duration bonds. A few members viewed the flatness of the yield curve as a signal for an increased risk of recession, despite other financial market indicators, such as credit spreads and equity prices, pointing to a more positive economic outlook. Other members highlighted the generally favourable conditions in both primary and secondary investment-grade corporate bond markets since the end of 2018, and decline in financial market volatility.

In general, members noted that financial market conditions could change very abruptly, similar to the change in sentiment that was seen during the November - December 2018 period, driven by shifts in market views about global growth and geopolitical risks, including the evolution of Brexit.

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) would soon launch its second fallback language consultation, this time covering USD LIBOR, CDOR, and HIBOR¹. ISDA is expected to concurrently consult on the inclusion of a potential third trigger that would take effect in the event that a regulator found a benchmark to be non-representative.

¹ USD LIBOR (London interbank offered rate), CDOR (Canadian dollar offered rate) and Hong Kong interbank offered Rate (HIBOR); the first [fallback language consultation](#) was for GBP, CHF, JPY and AUD.

The Bank also noted that Canadian Securities Administrators (CSA) recently published for comment [proposed rules](#) for the designation and regulation of benchmarks and those that administer them. Comments are due by June 12, 2019.

3. CARR Update

The co-chairs of the [Canadian Alternative Reference Rate Working Group \(CARR\)](#) presented members with an update on the consultation process for proposed enhancements to the Canadian Overnight Repo Rate Average (CORRA). Members were reminded that comments on the public [consultation paper](#) were due April 30th, and that industry roundtables to discuss the calculation methodology for enhanced CORRA, as well as raise awareness of global benchmark reform, had begun². Members discussed the importance of raising awareness of these domestic and global interest rate benchmark changes with the broader industry, including what else could be done to improve market outreach.

The co-chairs also mentioned that two new CARR subgroups had been formed: i) a transition subgroup focused on facilitating the use of CORRA in the financial system; and ii) a term risk-free rate subgroup whose first task is to determine the potential need for a Canadian risk-free term rate.

4. Initiatives to Enhance GoC Market Functioning

The Bank of Canada presented members with [a potential initiative to enhance Government of Canada \(GoC\) market functioning](#). It was noted that the Bank of Canada and Department of Finance regularly reviewed the issuance structure and policies around GoC securities to ensure a well-functioning market. During this process, it was observed that current market convention for settlement fails was not well-suited for a low interest rate environment, as the implicit cost of failing to deliver a security was low³. This was potentially restricting or capping the prices at which bonds can be borrowed in the securities financing market⁴. The Bank suggested that instituting a minimum cost of failing (“fail fee”) could enhance both cash and repo market functioning by allowing for a wider range of borrowing prices.

Some members questioned whether settlement fails were currently an issue in the GoC bond market; to which the Bank explained that it was proposing the solution as a preventative measure should conditions deteriorate in the future. A few members also questioned whether a fail fee would have had any impact on the amount of available securities in 2014 and 2015, when there was an observable increase in settlement fails for both GoC cash and repo markets. However, regardless of these concerns, all members agreed that reducing price inefficiency was imperative to the well-functioning of the GoC securities market, and that further discussion was needed. Members supported a proposal to hold a workshop in May to discuss in-depth the considerations for implementing and adopting a potential minimum cost of failing. CFIF members agreed that a broad range of stakeholders would be needed to discuss the issues.

² Roundtables will take place in Calgary, Montreal, Toronto, Vancouver and New York. Two webinars will also be held.

³ The opportunity cost of delaying (or failing) delivery is the foregone interest at the overnight rate.

⁴ Securities financing transactions include repurchase agreements and securities-lending agreements.

Workshop details will be finalized based on member feedback.

5. RMBS Market Update

A brief overview of the structure and organization of an upcoming RMBS focus group was presented⁵. It was noted that the focus group, which would include a small group of predominantly buy-side participants, would examine the scope and level of public disclosure that investors would require to support analysis of RMBS investments.

The focus group meeting is scheduled for early May.

6. Other Items

The next CFIF meeting will be held in Toronto on June 4, 2019.

Members were made aware that the October 8 CFIF meeting would need to be rescheduled to October 16, 2019.

7. List of Attendees

Department of Finance Canada (Present for agenda item four only)
James Wu

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
Chris Kalbfleisch, Connor, Clark & Lunn Investment Management
Martin Bellefeuille, Desjardins Securities
Philippe Ouellette, Fiera Capital
Daniel Bergen, The Great-West Life Assurance Company
Jason Chang, Ontario Teachers' Pension Plan
Jim Byrd, RBC Capital Markets

Bank of Canada

Lynn Patterson (Co-chair)
Toni Gravelle (Co-chair)
Paul Chilcott
Carol Brigham

⁵ Note this focus group is a follow-up to the [January 2019 RMBS focus group meeting](#), in which participants discussed the feasibility of creating a public database and the form it could take.

Harri Vikstedt
Samantha Sohal