



SUMMARY OF THE DISCUSSION

Toronto, June 4, 2019, 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 in April 2019. Overall market conditions were described as favourable, with no major issues in [liquidity](#) or market functioning across various fixed-income sectors.

Members discussed the apparent divergence between risk assets and longer-dated sovereign bond yields. Members believed the divergence was somewhat unusual, given the rise in global trade tensions and economic growth concerns. However, market expectations for an easing in central bank policies was thought to be supporting the general “risk on” tone in markets, with credit spreads and equity prices pointing to a more positive outlook. Members also highlighted the generally favourable conditions in both primary and secondary investment-grade markets, and the overall muted financial market volatility.

In general, while members described financial market conditions as supportive, members noted that conditions could change abruptly, driven by shifts in market views about global growth, central bank policies and geopolitical risks, including the evolution of Brexit, US elections and trade.

As follow-up to the [January 2019 CFIF meeting](#), the Bank of Canada presented [various liquidity metrics for the Canadian corporate bond market](#). The analysis illustrated that Canadian corporate bond trading activity typically exhibited strong year-end seasonality, but that aggregate liquidity metrics deteriorated sharply during the 2018 year-end period of market stress, particularly for lower-rated, non-bank issued corporate bonds. Members noted that structural changes, such as new regulations that are impacting the amount and types of corporate bonds that dealers are willing to hold in inventory, could be exacerbating liquidity during periods of market stress. Members also briefly discussed avenues to potentially improve market liquidity, such as products to hedge generic credit risk and use of electronic all-to-all trading platforms, but agreed that additional analysis would be needed.

2. Update on International Developments and Work

The Bank of Canada provided an 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) had launched its second

[fallback language consultation](#), this time covering USD LIBOR, CDOR, HIBOR and SOR¹. ISDA also concurrently launched a [consultation](#) 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.

The Bank provided a short summary of the Global Forum on Public Debt Management at the Organization for Economic Cooperation and Development, which highlighted the many issues facing public debt managers, including developments in green and sustainable finance.

The Bank also noted that the Global Foreign Exchange Committee would begin its review of the foreign exchange global code next year.

3. CARR Update

The co-chairs of the [Canadian Alternative Reference Rate Working Group \(CARR\)](#) provided an update on the group's progress since the last meeting. It was noted that the public consultation on proposed enhancements to the Canadian Overnight Repo Rate Average (CORRA) had closed on April 30th, 2019, and that no major concerns were raised. Respondents were very supportive of the proposed methodology for enhancing CORRA. As a result, [as recommended by CARR](#), CFIF members unanimously approved the CORRA methodology as proposed in the consultation paper. Members also agreed that there should be a governance framework to periodically review the enhanced CORRA methodology to ensure the rate continues to be reflective of the market.

The co-chairs updated members on progress of: i) the transition subgroup which is focused on facilitating the use of CORRA in the financial system; ii) the term risk-free rate subgroup which is currently developing a survey to determine the potential need for a Canadian risk-free term rate; and iii) the fallback subgroup which is currently on hold awaiting the results of the ISDA consultation to finalize their [proposed fallback language](#) for cash products before releasing a public consultation.

The co-chairs also provided a short summary of a recent FSB roundtable on "[Progress on the Transition to Risk-Free Rates](#)", as well as feedback from the recent CORRA FRN test trade..

4. Initiatives to Enhance GoC Market Functioning

The Bank of Canada presented members with an [overview](#) of the May 28 [Government of Canada \(GoC\) market functioning workshop](#). Comprised of approximately 40 market participants, the workshop was designed to initiate dialogue on the considerations around potentially adopting a minimum cost of failing in Canadian securities financing transactions for Government of Canada securities. Participants expressed support for the development of a framework to ensure market well-functioning in a low rate environment. However, they noted that any implementation of a minimum cost of failing in Canada would need to consider the small size and high degree of concentration of the Canadian market, as well as the strong relationships between market participants. Participants also mentioned that currently most settlement fails appeared to be the

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

result of operational frictions, as opposed to economic motives, and that the framework should work towards mitigating this issue as well.

Members supported a proposal to conduct further outreach to gain a more comprehensive picture of operational inefficiencies in Canada and the linkages and settlement frictions in cash, repo and securities lending markets.

5. RMBS Market Update

An [overview](#) of the recent [RMBS investors focus group](#) convened in early May to discuss collateral transparency in the private-label RMBS market was presented. Focus group participants, which included 11 participants from both the buy- and sell-side, examined the scope and level of public disclosure that RMBS investors would require from a national mortgage database to support analysis of RMBS investments. They expressed broad support for [MCAP's data template](#) as a sound basis for a national database for insured and uninsured mortgages. Under this model, individual mortgage data, including mortgage performance data, would be aggregated across financial institutions, allowing users to analyze the data along a number of dimensions, in order to provide a performance benchmark for the Canadian mortgage market.

CFIF members expressed support for continuing this initiative with a follow-up focus group with banks' retail arms and other smaller mortgage originators, to develop a concrete list of data variable for the database. However, members suggested that additional workstreams could be established to address other potential structural impediments to a RMBS market ². Next steps will be refined based on member feedback.

6. Other Items

The meeting ended with members thanking Lynn Patterson for her invaluable contribution to the committee, having launched and co-chaired the forum since 2015.

The next CFIF meeting will be held in Calgary on October 16, 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

² See [Overview of the Canadian RMBS Workshop](#)

Murray Shackleton, Manufacturers Life Insurance 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
Harri Vikstedt
Tamara Gomes
Samantha Sohal