



# GoC market functioning workshop - Debrief

June 4, 2019

# Background

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- ❖ At the April 9 CFIF meeting, the Bank of Canada, in partnership with the Department of Finance, presented:
  - analytical work on the existence of a price cap in the markets for borrowing Government of Canada (GoC) securities, and a minimum cost of failing as a potential remedy.
- ❖ CFIF agreed that an in-depth workshop be held on May 28, with the dual purpose of:
  - presenting the Bank's analysis to a wide range of stakeholders;
  - initiating dialogue on the considerations for potential implementation and broad adoption of a minimum cost of failing.

# Workshop Overview

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- ❖ The workshop comprised participants from:
  - Canadian and foreign banks and dealers, the Canadian Depository for Securities (CDS), custodians, and a range of buy side institutions;
  - the Treasury Market Practices Group (TMPG), represented by DTCC and the Federal Reserve Bank of New York;
  - the Bank of Canada, Department of Finance, and IIROC.
  
- ❖ The workshop featured presentations on:
  - analytical work on a price cap in borrowing markets for GoC securities;
  - the US experience with the TMPG fails charge implementation;
  - Canada-specific considerations for a potential implementation.

# Main takeaways

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- ❖ Any implementation of a minimum cost of failing in Canada would also need to consider the smaller size of the Canadian market, its relatively higher degree of concentration, and the strong relationships between market participants:
  - Relationships may help mitigate some of the consequences of the price cap, but there is no guarantee these relationships alone will ensure market well-functioning in environments of very low or negative interest rates.
- ❖ There also appear to be operational frictions (such as settlement inefficiencies) that can impair market well-functioning and lead to fails.
- ❖ There was support for considering the development of a framework that ensures market well-functioning in a low rate environment:
  - This framework should also work towards mitigating the operational frictions.

# Possible next steps

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- ❖ We propose to conduct further outreach with the different groups of workshop participants to assemble a more comprehensive picture of:
  - operational inefficiencies in the Canadian market;
  - the linkages and settlement frictions in cash, repo and securities lending markets.
- ❖ The outreach will also provide an opportunity to level-set with participants and ensure that all relevant issues have been raised.
- ❖ The outcome of this outreach will be presented at the Oct. 16 CFIF meeting.