



SUMMARY OF THE DISCUSSION

Calgary, October 16, 2019, 3 p.m. to 5 p.m.

The meeting began with the co-chair thanking departing member Chris Kalbfleisch from Connor, Clark & Lunn for his valued participation on the committee, and welcoming new members Greg Moore from TD Bank and Graeme Robertson from Phillips, Hager and North.

1. Recent bond market developments and near-term outlook or issues

Members noted that liquidity in fixed income markets since the [last CFIF meeting](#) has been lower than what can be explained by typical seasonality in late summer and that liquidity had not bounced back fully to normal levels since. One member noted that liquidity has declined noticeably in both the US Treasury and futures markets across various tenors, as measured by their market depth indicators. This observation also seemed to be corroborated by the Bank of Canada liquidity measures for the Canadian fixed income market. Members noted that geopolitical developments, trade tensions and Brexit developments were increasing volatility in markets, and that this unpredictable volatility was negatively affecting liquidity. It was also pointed out that algorithmic and quant strategies had fared very poorly in August due to the unpredictable price behaviour and that the resultant pull-back in activity from funds that use these strategies may be underlying some of the decline in liquidity.

Members also discussed developments in US repo markets in September when there was a sudden and large spike in the repo rate; swift actions by the Federal Reserve were noted to have alleviated pressures, but concerns remained for upcoming year-end and other period-end pressures. It was noted that there were limited spillovers to Canadian funding markets, although there was a very brief, one or two day drying-up in Northbound funding.

There was also a discussion about more evidence of a search for yield, particularly in markets with negative-yielding debt, including more investor interest in higher-yielding structured products, including those that were short volatility.

2. Update on international developments/work

The Bank of Canada presented an update on recent international meetings, including the publications of two Bank for International Settlements (BIS) reports on the use of [unconventional monetary policy tools](#) as well as [large central bank balance sheets and market functioning](#). The BIS also updated its [Compendium](#) of central bank operating frameworks. Highlights of the [BIS Triennial Central Bank Survey](#) of foreign exchange and OTC derivatives trading were also presented; globally, derivatives exposures have increased significantly, including in [Canada](#), although, in the latter case, some of this can be attributed to changes in locations where exposures are captured.

3. CARR update

The co-Chairs of the Canadian Alternative Reference Rate Committee (CARR) updated CFIF members on the [July 2019 publication](#) of the revised CORRA methodology as well as the announcement that the Bank of Canada would become the administrator for CORRA in Q2-2020. They also presented a [counterfactual study](#) of how the revised methodology would have performed on 12 June 2019 when CORRA set at an unusually low level below the Bank of Canada's target for the overnight rate. It was noted that the revised methodology would have been closer to the target rate, based on a greater volume of transactions captured and the fact that the methodology trims outlier trades. This results in a more stable and robust calculation that is less affected by outliers and that is more representative of the broader overnight repo funding conditions. The co-Chairs also debriefed on the recent outreach with a number of large Canadian corporate treasurers, noting that while most were aware of the upcoming transition away from LIBOR, they had so far taken only initial steps to enhance their preparedness.

Members were updated on global developments in the reform of interest rate benchmarks, including revisions to the derivative fallback language for IBOR rates which is expected to be finalized by ISDA by early 2020. It was noted that market participants have begun to develop global in-arrears loan market conventions. Members also discussed the impact of the global benchmark transition on multi-rate jurisdictions like Canada. The global move towards referencing risk-free rates (RFRs) could potentially put pressure on multi-rate jurisdictions to move increasingly to using their RFRs, including CORRA, for transactions. It is expected that products such as cross-currency basis swaps and multi-currency lending facilities will help to drive this transition.

With the revisions to the CORRA methodology completed, CARR has increased its attention to ensuring a smooth transition to the increased use of CORRA in the Canadian market. Most CARR members expect CORRA to become the primary Canadian interest-rate benchmark, replacing CDOR. It was pointed out that, while Canada is a multi-rate jurisdiction and the underlying BA volumes that CDOR is based on continue to be robust, the vast majority of these transactions are in the 1-month tenor which makes it a very expensive form of bank funding due to the changes in the bank regulatory environment since the great financial crisis.

4. Initiatives to enhance GoC market functioning update

The CFIF Chair presented a summary of the outreach that had been done with market participants since the last meeting on Government of Canada bond market functioning. Feedback from market participants centered around three main themes: i) benefits of a framework that support a well-functioning market in a low interest rate environment; ii) a fail fee could also promote market discipline in normal markets and; iii) design and calibration of such a framework needs to be appropriate to the Canadian context and marketplace. CFIF members agreed with these findings and supported the creation of a new CFIF working group to develop with broad cross-section of industry stakeholders a detailed framework. Terms of reference and potential membership will be tabled at the next CFIF meeting. Market participants interested in joining this working group are asked to send their contact details to CFIF@bankofcanada.ca

5. Mortgage transparency update

The CFIF Chair presented a summary of industry feedback on the merits and means of creating a public database of Canadian mortgage data. This database would provide greater transparency and serve to educate market participants about the structure and quality of the Canadian mortgage market by making aggregate data available to the general public. This could also potentially help foster the development of a private RMBS market by providing readily accessible mortgage performance data for analysis. CFIF members agreed that a new working group, co-chaired by the Bank of Canada, should be formed to further flesh out the details for a national public mortgage database

6. Administrative items

The next CFIF meeting will take place January 29th, 2020 in Toronto.

Meeting participants:

Brian D'Costa, Algonquin Capital
John McArthur, Bank of America Merrill Lynch
Mike Fisher, BMO Capital Markets
Chris Beauchemin, BCIMC
Roger Casgrain, Casgrain & Co
Karl Wildi, CIBC World Markets
Martin Bellefeuille, Desjardins Securities
Philippe Ouellette, Fiera Capital
Graeme Robertson, Philips, Hager and North
Jim Byrd, RBC Capital Markets
Greg Moore, TD Bank

Bank of Canada:

Toni Gravelle, Chair
Stéphane Lavoie
Harri Vikstedt
Tamara Gomes
Maksym Padalko
Kaetlynd McRae