



SUMMARY OF THE DISCUSSION

Toronto, January 29, 2020, 3.30 p.m. to 6 p.m.

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

David Krein from [MarketAxess](#) presented an overview of developments in electronic trading in US and global fixed income markets. It was noted that, while still in early stages, e-trading in corporate bonds was rapidly growing. Part of this was due to a significant increase in fixed income issuance since 2014, in the wake of the low interest rate environment. This has substantially increased the number of individual bonds that needed to be priced. Some indicators show that trading platforms offer opportunities to improve pricing in markets, particularly in stress environments. Part of this is due to a wider set of market participants both sourcing and providing liquidity, with some participants playing both roles. Some members questioned whether the more concentrated nature of the participants in the Canadian financial market would result in the same benefits that electronic platforms have provided in the US. However, it was agreed that the US changes warrant further discussion.

CFIF members then discussed the liquidity dynamics around year-end 2019 both in the US and Canada. Concerns about significant dislocations in repo and funding markets were allayed, primarily due to liquidity support from the Federal Reserve and participants prefunding themselves well ahead of time. There was a discussion about the impact of sustained central bank support on market liquidity, including the potential for disintermediation of traditional suppliers of liquidity. Looking forward to 2020, members discussed changes in asset allocations in a low yield environment, including expectations of a continued trend of allocation to “alternative” investments at the expense of traditional core fixed-income mandates. While this may include investments in new fixed income assets, such as green bonds, there is also evidence of a move to private debt, and an increase in the use of derivatives to enhance returns.

2. Update on international developments/work

The Bank of Canada presented an update on recent international work. This included developments at the [Global Foreign Exchange Committee](#), which, among other issues, discussed the breadth of adoption of the FX Global Code, noting that further work is needed to increase adoption by buy-side participants. The Bank of Canada will be working with the Canadian Foreign Exchange Committee members to promote the adoption of the Code in Canada.

3. CARR update

CARR continues its focus on ensuring a smooth transition to the increased use of the Canadian Overnight Repo Rate Average (CORRA) in the Canadian market. The Bank of Canada updated members on progress towards implementation of its role as the administrator of CORRA.

4. Initiatives to enhance GoC market functioning update

Following [CFIF approval](#) to create a Steering Group, the proposed co-chairs presented a draft terms of reference for comment and approval. Discussion focused on the scope of the mandate, including ensuring it was clear that the work is focused on market functioning in a low interest rate environment (rather than in all periods). It was noted that the design and calibration of the fail fee was only one component and would include an examination of the suitability of settlement infrastructure as well as a suite of policies that would mitigate any unintended consequences. Membership of the Steering Group was being finalized and the work was expected to begin shortly. An update on the workplan will be provided at the next CFIF meeting.

5. 2020 work plan

CFIF members reviewed a draft 2020 workplan, agreeing that there was an appropriate balance of discussions on topical developments in fixed income markets and updates on projects. There was a debate on specific market trends that CFIF could focus on learning about over the year, including green finance, recognizing that some of these can follow from past work by the Committee. Members agreed to do a trial run of 1-2 virtual networks, whereby CFIF members or colleagues from their institutions conduct deep dives into specific market-related topics. CFIF members agreed to renew the CFIF survey on fixed income market liquidity this coming year.

Other items

The next CFIF meeting will take place April 21st, 2020 in Toronto. The Chair thanked departing members Jason Chang from the Ontario Teachers' Pension Plan and Murray Shackleton from Manufacturers Life Insurance Company for their valued participation on the Committee. New CFIF members will be announced over the near-term. The Chair also noted that a co-chair is being sought from the Canadian fixed income community.

Meeting participants:

CFIF members:

Brian D'Costa, Algonquin Capital
John McArthur, Bank of America Securities
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
Daniel Bergen, Great West Life Assurance Company
Murray Shackleton, Manufacturers Life Insurance Company
Graeme Robertson, Philips, Hager and North
Jim Byrd, RBC Capital Markets
Greg Moore, TD Bank
David Krein, Market Axess (agenda item 1 only)

Bank of Canada:

Toni Gravelle, Chair
Tamara Gomes, Secretariat
Paul Chilcott
Mark Hardisty
Sharon Kozicki
Grahame Johnson
Harri Vikstedt
Maksym Padalko