



## **SUMMARY OF THE DISCUSSION**

Teleconference, September 15, 2020, 3:30 p.m. to 5:30 p.m.

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

CFIF members discussed bond market liquidity conditions since the last CFIF meeting. One member presented analysis on various liquidity indicators in the US treasury market. The member noted that US treasury trading volumes in the inter-dealer market had declined in August relative to levels at the time of the last CFIF meeting. This reflected a seasonal decline in trading activity but also a fall in bond volatility, especially in short-dated US treasuries. Bid-offer spreads have either been stable or have tightened modestly, and have generally returned to pre-COVID-19 crisis levels. Market depth has also improved since the crisis but remains modestly below pre-crisis levels. Members agreed that liquidity conditions in Canadian markets have also improved since the last CFIF meeting.

### **2. Update from the GoC Market Functioning Steering Group (GMF)**

GMF co-chairs updated members on the group's work since the COVID-19 crisis. The group has engaged with authorities, market participants and various financial market associations in other major jurisdictions to understand what steps had been taken with respect to financial incentives to improve market functioning. It was noted that while other jurisdictions have adopted different approaches to address settlement fails, their frameworks broadly included three pillars: a financial incentive mechanism, complementary policies around best practices, and operational enhancements to reduce fails. The co-chairs also provided an analysis of the rate of failed trades in the GoC cash bond and repo markets. While elevated and persistent GoC fails have not been a problem in Canada to the same extent as in some other jurisdictions, they have spiked up to 10% occasionally and therefore it is important to develop a Canadian framework for GoC market functioning in a low-rate environment. The co-chairs asked for CFIF's endorsement to proceed with developing the blueprint for such a framework, which would include a "fail fee" as the sole financial incentive mechanism. The vast majority of CFIF members supported this proposal and agreed that the work should also consider how the framework should be phased in. The co-chairs also stressed that this phase of the work was only to design such a framework and not to implement one.

### **3. CARR update**

CARR co-chairs recommended that CARR's mandate and Terms of Reference (ToR) be amended to focus on two primary objectives; (i) supporting the adoption of, and transition to, CORRA as a key financial benchmark for Canadian derivatives and securities and (ii) analyzing the secondary market in Banker's Acceptances, and the current status of CDOR and its efficacy as a benchmark. The co-chairs pointed out that the recent reforms to CDOR have focused on the submission process rather than the underlying structure, including the Bankers Acceptance (BA) market, and that a fulsome analysis on the architectural

underpinnings of CDOR, including funding through BAs, has yet to be undertaken. This despite the fact that post-crisis reforms to banking regulation has adversely impacted the effectiveness of BAs as a short-term funding instrument for banks. CARR would make recommendations in Q2-2021 based on this analysis to ensure Canada's benchmark regime is robust, relevant and effective in the years ahead.

To support these changes, two key subgroups would be created - a "Transition Subgroup" and a "Credit Benchmark Subgroup". The co-chairs also recommended changing CARR's membership to include a broader set of market participants and stakeholders to reflect the enhanced mandate. CFIF members supported the recommended changes to the CARR mandate, ToR and membership composition.

#### **4. Bond market transparency**

The Ontario Securities Commission updated CFIF members on the recent amendments to the existing CSA rules on mandatory transparency of government debt trades and the expansion of existing transparency requirements relating to corporate debt trades to include banks. The OSC also informed members on the expanded mandate of IIROC as the information processor to include the dissemination of government debt. The OSC provided details on various aspects of the transparency framework, such as securities covered by the new rules, volume caps and reporting time delays. IIROC noted that as of 31 August 2020, it has started disseminating, on a T+1 (at 5:00 pm ET) basis, the existing post trade information for government and corporate debt securities that are reported into IIROC's Market Trade Reporting System (MTRS). As of 31 May 2021, IIROC will also disseminate post trade information for trades in corporate and government debt securities that are not currently reported to MTRS on a similar basis. IIROC will publish a market notice laying out the process, contact information, and a timeline. Members also discussed whether IIROC's existing exemption for reporting GoC bond trades with the Bank of Canada should be removed, reflecting the increased activity by the Bank in the secondary market.

#### **5. Other business**

The next CFIF meeting will take place in January 2021. The CFIF secretary will coordinate with the co-chairs and members to determine a suitable date.

The co-chairs informed members that Mike Fisher from BMO will be leaving CFIF. The co-chairs thanked Mr. Fisher for his contribution to CFIF. CFIF will be looking to replace Mr. Fisher with a new member from one of the Primary Dealers.

**Meeting participants:****CFIF members:**

Jim Byrd, RBC Capital Markets, Co-Chair  
Barbara Lambert, Addenda Capital  
Sandra Lau, Alberta Investment Management Corporation  
Brian D'Costa, Algonquin Capital  
John McArthur, Bank of America Securities  
Mike Fisher, BMO Capital Markets  
Chris Beauchemin, BCIMC  
Daniel Bergen, Canada Life Assurance Company  
Roger Casgrain, Casgrain & Co  
Karl Wildi, CIBC World Markets  
Martin Bellefeuille, Desjardins Securities  
Philippe Ouellette, Fiera Capital  
Graeme Robertson, Philips, Hager and North  
Greg Moore, TD Bank

**External speakers:**

Grant Vingoe, Acting Chair and CEO, OSC  
Alina Bazavan, Market Regulation Branch, OSC  
Victoria Pinnington, Senior Vice-President, Market Regulation, IIROC  
Ian Campbell, Chief Information Officer, IIROC

**Bank of Canada:**

Toni Gravelle, co-Chair  
Tamara Gomes  
Paul Chilcott  
Mark Hardisty  
Grahame Johnson  
Harri Vikstedt  
Mark de Guzman  
Thomas Thorn  
Zahir Antia