



SUMMARY OF THE DISCUSSION

Teleconference, January 26, 2021, 3:30 p.m. to 6:00 p.m.

1. Introduction

Bank of Canada Governor Macklem opened the meeting with introductory remarks. He welcomed members and thanked them for their contributions. He highlighted some of the key achievements of the group, including its work on interest rate benchmark reform in Canada.

2. 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 liquidity of Government of Canada, provincial and Canadian credit markets. The member noted that Bank of Canada's Government Bond Purchasing Program has had a positive impact on market liquidity, especially in the aftermath of the crisis last year. More recently, however, there has been some widening of bid-offer spreads in off-the-run bonds, particularly in short-dated Government of Canada securities. He also noted that overall liquidity in provincial and corporate bonds had returned to pre-COVID-19 levels. Corporate spreads on average, have also returned to pre-crisis levels, albeit with some divergence based on the sector. The primary market for corporate bond has also been functioning well since the summer with robust issuance and very low new issuance concessions.

Another member presented analysis on the impact of the significant rise in settlement balances on Canadian money market yields. He noted that the large balances have put downward pressure on yields on short-dated instruments, which has led some investors to increase their risk appetite to get higher returns. He also noted that, despite the low yields, short-dated assets continue to look attractive to foreign investors on an FX swapped basis. Finally, he highlighted that settlement balances are expected to decline in the upcoming months, reflecting maturing term repos on the Bank of Canada's balance sheet.

3. Liquidity in futures market

The Bank of Canada presented its joint work with MX on liquidity in Canadian fixed-income futures markets during the COVID-19 crisis. The presenters investigated the behaviour of different types of liquidity providers during the onset of the crisis, including proprietary trading firms (PTF). They found that PTFs continued to provide tight spreads and depth near the mid-quote during the period and that their share of trading volume remained relatively constant. In addition, the presenters suggested that diversification of participants with different business models could be beneficial for market liquidity.

TMX provided an update on the development of the CORRA futures market. The 3-month CORRA futures (CRA) was launched on June 12, 2020, at the same time as the Bank of Canada became the CORRA administrator, and the contract has successfully completed two expiry cycles. TMX noted that

the trading activity has been dominated by commercial bank swap desks, although other participants have recently increased their participation in the market. Members expect volumes to increase when CORRA linked floating rate note issuance begins to develop. Members briefly discussed market's ability to support liquidity in both CORRA and BAX futures. In response, the TMX indicated that as market participants increasingly trade the spread between CORRA and BAX futures, liquidity in both products should increase.

4. International developments

The Bank of Canada provided an update on global progress to reform existing interbank interest rate benchmarks. It was noted that the ICE Benchmark Administration (IBA) has closed its [consultation](#) on its intention to cease the publication of the various LIBOR settings.¹ IBA is expected to quickly release the results confirming the dates. It was also noted that the ISDA 2020 IBOR Fallbacks and Protocol became effective on January 25, 2021, with most major Canadian market participants having signed the protocol, including nearly all CFIF members.

Members were informed that the FICC Market Standards Board (FMSB) has put out a [consultation paper](#) on standards for execution of large trades in FICC markets. Members were encouraged to review the guidance and provide feedback to the consultation.

The Bank also provided an update on status of the 3-year review of the FX Global Code being conducted by the Global Foreign Exchange Committee (GFXC), which has been delayed by 6-months due to Covid-19.

5. CARR update

CARR's co-chairs provided an update on the progress made since the last CFIF meeting. They noted that pursuant to CARR's new mandate the membership has been expanded to include a broader set of more senior market participants and stakeholders. To deliver on its two key objectives, a new Credit Sensitive Subgroup was established in addition to the existing Transition Subgroup. The co-chairs also provided the highlights from the recent consultation on proposed methodology for calculating CORRA-in-arrears, as well as the proposed draft fallback language for floating rate notes (FRNs) that reference CDOR. The co-chairs also noted that CARR is reviewing the size of LIBOR exposures in Canada that are governed by Canadian law.

6. Initiatives to enhance GoC Market Functioning

GoC Market Functioning Steering Group (GMF) co-chairs updated members on the group's work. Three working groups: (i) Calibration, (ii) Complementary Policy / Operational Enhancement, and (iii)

¹ IBA consulted on its intention to cease publication of all GBP, EUR, CHF and JPY LIBOR settings, as well as the 1-week and 2-month USD LIBOR settings, at end-2021, and to cease publication of the remaining USD LIBOR settings at end-June 2023.

Infrastructure, have been established. A survey seeking feedback on drivers on settlement fails and suggestions on potential changes, including a “fail fee” will be circulated by the end of Q1 to market participants. Members suggested that consulting with international players could be helpful given potential additional settlement issues faced by these investors in different time zones. The co-chairs reiterated this phase of the work was only to design a framework or blueprint for GoC market functioning in a low rate environment that would be presented to CFIF for discussion and not to implement one.

7. Workplan discussion

CFIF members reviewed the draft 2021 workplan, agreeing with the proposed theme while providing a few suggestions on additional topics, including the potential creation of a tradeable Canadian corporate credit basket, as well as better understanding the issues around collateral management. Members agreed that creating virtual networks that draw on industry expertise would enrich and help guide the discussions on some of these issues. There was also a debate on how best to advance ESG discussions at CFIF, with members agreeing the creation of a virtual network and having dedicated sessions on the topic would be beneficial. CFIF Secretariat will follow up with concrete proposals for several virtual networks, including requests for membership.

Meeting participants:

CFIF members:

Jim Byrd, RBC Capital Markets, Co-Chair
Sandra Lau, Alberta Investment Management Corporation
Brian D'Costa, Algonquin Capital
John McArthur, Bank of America Securities
Chris Beauchemin, BCIMC
Daniel Bergen, Canada Life Assurance Company
Roger Casgrain, Casgrain & Co
Karl Wildi, CIBC World Markets
Marlene Puffer, CN Investment Division
Martin Bellefeuille, Desjardins Securities
Philippe Ouellette, Fiera Capital
Rob Goobie, Healthcare of Ontario Pension Plan (HOOPP)
Graeme Robertson, Philips, Hager and North
Paul Scurfield, Scotiabank
Greg Moore, TD Bank

External participants: (agenda item 3 only)

Robert Catani, Head of Institutional Sales, Interest Rate Derivatives, TMX
Jacques Caussignac, Vice President, Growth and Innovation, Products and Services Markets, TMX
Corey Garriott, Head, Product Research, TMX

Bank of Canada:

Toni Gravelle, Co-Chair
Wendy Chan, Secretariat
Zahir Antia
Paul Chilcott
Mark De Guzman
Annick Demers
Jean-Philippe Dion (agenda item 3 only)
Tamara Gomes
Mark Hardisty
Grahame Johnson
Stéphane Lavoie
Jessica Lee (agenda item 3 only)
Thomas Thorn
Harri Vikstedt