



## **SUMMARY OF THE DISCUSSION**

Teleconference, April 6, 2021, 4:00 p.m. to 6:30 p.m.

### **1. Recent bond market developments**

A member provided an overview of bond market conditions since the last CFIF meeting. Despite recent rate movements and increased bond market volatility, market liquidity remained robust and bid-ask spread has reverted to normalized levels. Spreads to GoC in the provincial bond market are at or near the tightest level in over a decade. New issuance continues to be well-absorbed by the market.

There was general agreement among members that markets are functioning well, and they did not see liquidity concerns or major issues in the market. One member noted that conditions remained solid with strong demand in the corporate bond market. Another member mentioned that he observes good international interest in investing in Canadian dollar repos with provincial and mortgage bonds as collateral, especially due to the low money market yields offered in the US.

The Bank of Canada presented follow up analysis on Canadian bond futures volumes. There is a long-term upward trend in futures trading volume relative to GoC cash bond trading volume, both in Canada and the US. In spring of 2020, during the on-set of the COVID-19 crisis, Canadian bond futures trading volume rose on a relative basis as volatility increased and declined as volatility normalized. The presenter noted that this analysis, although not conclusive, seems to suggest that bond futures were being used as a source of price discovery in bond markets during the peak of the crisis due to the price transparency they offered, which was discussed at the January CFIF meeting.

### **2. Update on RMBS Initiatives**

CHMC presented the Housing Data Exchange project. The first Housing Data Exchange application, the Mortgage Industry Data Analytics Application (MIDAA) was launched to approved lenders in 2020. The current report benchmarks CMHC insured residential loans against their peer groups and other lenders on performance and quality metrics. Ongoing and future work include incorporating OSFI and Survey of Non-Bank Mortgage Lender data and Canadian uninsured mortgages data.

Members briefly discussed factors that will contribute to the development of the residential mortgage backed securities (RMBS) market in Canada. The lack of availability of mortgage performance data from a broad range of mortgage providers was identified by a few members as a key challenge. The Bank of Canada reiterated its interest in developing the RMBS market from a financial stability perspective and noted its decision to allow term RMBS as collateral in its Standing Liquidity Facility (SLF).

### **3. Central bank digital currency (CBDC)/ global stablecoins, and cross-border payments**

The Bank of Canada provided an overview on digital currency, CBDC and stablecoins, explaining the differences amongst various cryptocurrencies and highlighting their potential implications. The presenter discussed potential benefits, costs and risks of creating a retail CBDC. The Bank of Canada's current perspective is that there is not a compelling case to issue a retail CBDC at this time and Canadians will continue to be well-served by the existing payment ecosystem, provided it is modernized and remains fit for purpose. There was a brief discussion on the potential merits of creating a wholesale tokenized CBDC to improve settlement efficiency of financial asset transactions.

The Bank of Canada also provided an update of the global work on cross-border payments. In its [Stage 3 roadmap](#) to enhance cross-boarder payments, the Financial Stability Board (FSB) identified nineteen building blocks. Next steps for this work include public consultations for proposals and seeking G20 endorsement of quantitative targets in the fall. On the domestic front, the Bank of Canada will review these building blocks with key stakeholder in a Canadian context.

### **4. International developments**

Members were informed that the Global Foreign Exchange Committee (GFXC) is seeking industry [feedback](#) (by May 7) on proposals arising from its 3-year review of the FX Global Code. The request for feedback covers proposals for updating the Code's guidance in anonymous trading, algorithmic trading and transaction cost analysis, and disclosures and settlement risk.

The Bank of Canada also provided an update on Ice Benchmark Administration's (IBA) [announcement](#) that, after its consultation, it will cease the publication of all LIBOR settings, at the original dates mentioned in the consultation. In its response to this announcement, the UK Financial Conduct Authority (FCA) [announced](#) it will consult on requiring the IBA to publish a "synthetic" LIBOR under a new methodology for a further period after end-2021 for sterling and yen LIBOR. The FCA noted it would also consider the case for creating a similar synthetic rate for US dollar LIBOR, taking into account views from US authorities and other stakeholders.

### **5. CARR update**

CARR's co-chairs provided an update on the progress made since the last CFIF meeting. CARR is in the final stages of redrafting the CDOR floating-rate note fallbacks it recently consulted upon, with the revised language to be tightly aligned with ISDA's recently published CDOR fallbacks. The Bank of Canada has begun publishing a [CORRA Compounded Index](#). They also noted that CARR has now set up three workstreams under the credit sensitive subgroup to coordinate the work on reviewing CDOR. These will focus on: (i) the current landscape for BAs and CDOR; (ii) the CDOR submission process; and (iii) the viability and effectiveness of BAs as a funding tool. The analysis is expected to be concluded in June, followed by recommendations which are expected to be discussed with CFIF in September. The co-chairs re-iterated that any major changes would require a public consultation. It was also mentioned that due to the relatively small LIBOR exposures written under Canadian law, especially with the 18-

month extension of key 1-, 3-, and 6-month USD LIBORs to June 2023, CARR will not be pursuing legislative solutions in Canada.

Members were also updated on the [CORRA Advisory Group's February meeting](#), where they discussed the recent variation between CORRA and the Bank of Canada target rate, as well as between CORRA and inter-dealer broker trades. It was noted that CAG members agreed that CORRA continued to accurately reflect the overnight cost of GoC general collateral.

## **6. Initiatives to enhance GoC Market Functioning**

GoC Market Functioning Steering Group (GMF) co-chairs updated members on the group's work. They reiterated the mandate of GMF encompasses the development of framework (blueprint) for supporting GoC market functioning in a low-rate environment, with two equally important components: (i) a framework, including a financial incentive mechanism for timing settlement applicable to all market participants, and (ii) the complementary policies or market practice changes that seek to improve market functioning and mitigate any potential unintended consequences. The co-chairs mentioned that they will provide a substantive update at the June CFIF meeting, and expect to table the blueprint for discussion and potentially for broader industry consultation in the fall.

The co-chairs informed members that the Complementary Policies Working Group (CPWG) has launched an industry survey to better understand settlement frictions in the GoC market and encouraged members to complete the survey. The Calibration Working Group (CWG) is making good progress on calibration issues and is nearing consensus on calibrating the financial incentive mechanism. The group is also making progress on the defining fails and scope of transactions. The GMF will also be considering the governance around any proposed framework.

## **7. Update on virtual network and upcoming workshops**

Members were informed of the progress for three initiatives stemming from the workplan discussion at the last CFIF meeting. The co-chair of the newly formed Sustainable Finance Virtual Network (SFVN) informed members that the first meeting for the network has been scheduled for April 15, 2021. The leads for the industry collateral workshop and the credit basket workshop also provided updates to CFIF members.

**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  
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  
Paul Scurfield, Scotiabank  
Greg Moore, TD Bank

**External participants: (agenda item 2 only)**

Emily Cox, Senior Manager, Data Exchange, CMHC  
Benjamin Williams, Director, Data Governance & Exchange, CMHC

**Bank of Canada:**

Toni Gravelle, Co-Chair  
Wendy Chan, Secretariat  
Melanie Achtemichuk (agenda item 2 and 3)  
Zahir Antia  
Paul Chilcott  
Mark De Guzman  
Annick Demers  
Mark Hardisty  
Scott Hendry (agenda item 3 only)  
Grahame Johnson  
Stéphane Lavoie  
Jessica Lee (agenda item 1 only)  
Maksym Padalko  
Thomas Thorn  
Harri Vikstedt  
Adrian Walton (agenda item 1 only)