



SUMMARY OF THE DISCUSSION

Virtual Meeting, June 15, 2021, 4:00 p.m. to 6:00 p.m.

1. Recent bond market developments

A member provided an overview of bond market conditions from a pension plan's perspective. The current low interest rate environment has caused pension plans to re-evaluate the role of fixed income assets in their portfolios, including in the context of liability hedging. Earning a sufficient return to meet pension obligations has become increasingly challenging as lower interest rates and tight credit spreads have resulted in lower return expectations for both fixed income and other return seeking assets. Consequently, more pension funds are exploring different ways to increase returns through active management, absolute return strategies and increased leverage to enhance expected returns. The member also pointed out that any regulatory changes to solvency rules could impact the demand for long-term bonds, and any improvements in funded status resulting from a general rise in interest rates may lead to increased activity in the annuity market.

Another member echoed the observation of increased desire from pension fund managers to seek higher returns to meet their pension obligations. The member noted that some smaller funds may find it difficult to devote the appropriate level of resources to monitor these return seeking strategies given their limited governance budgets.

2. Initiatives to enhance GoC Market Functioning

GoC Market Functioning Steering Group (GMF) co-chairs updated CFIF members on the status of the work, beginning with the preliminary results of the recent industry survey on potential sources of settlement frictions in the GoC market. GMF received 55 responses from across the various stakeholders in the GoC market. Several preliminary themes have emerged from the survey, which GMF will further investigate. The co-chairs noted that cascading failure to deliver is viewed as the largest challenge by respondents, with manual processes increasing the risk of fails. The existence of both bilateral and cleared transactions also creates fragmentation and reduces netting within the system. Product-specific issues, maximum settlement sizes, and non-standard settlement are also identified as topics that warrant further review.

The co-chairs also updated CFIF members on the group's work on the calibration of the fail fee component and governance considerations of the eventual framework. CFIF members were asked to provide feedback on the proposed hybrid model approach and its parameterization, the activation trigger, the usefulness of the warning level, and the effectiveness of the proposed approach on ensuring a level playing field across products. Members were also asked for views on the governance structure. GMF is expected to deliver the high-level blueprint of the framework to CFIF in October for discussion.

3. Update from CFIF Sustainable Finance Virtual Network

The co-chair of the CFIF Sustainable Finance Virtual Network (Network) updated CFIF members on the progress made since the establishment of the Network in April and presented the themes that the various discussion groups will pursue along with their associated work timelines. The Network is also seeking CFIF approval on its Terms of Reference.

CFIF members suggested that adding international participants and connecting with corporations could bring valuable insights to the work of the Network.

4. CARR update

CARR's co-chairs provided an update on the progress made since the last CFIF meeting.

CARR has continued to make progress in facilitating the transitioning of the Canadian financial system to CORRA. The final CDOR FRN fallback language, which mirrors the ISDA derivative fallback language, will soon be published on the [CARR website](#). The publication of CORRA fallback language is also expected before the next CFIF meeting. CARR's Accounting, Taxation and Regulatory workstream is currently being refreshed, with a broader membership.

CARR has also made progress in its work on reviewing CDOR. Banks that submit to CDOR were surveyed on their submission process, and CARR is currently surveying a broad set of market participants to get a better understanding of the size and scope of CDOR and BA usage in the Canadian financial system.

CARR has also recently met with provincial securities regulators to gain a better understanding of the recently introduced new Canadian benchmark [regulation](#), which is closely aligned with the EU benchmark regulation. The Canadian Securities Regulators intend to designate CDOR and its administrator, Refinitiv Benchmark Services Limited, as a critical domestic interest rate benchmark.

CARR members also recently met with OSFI to gain a better understanding of how OSFI's prudential regulatory framework impacts Bankers Acceptances.

5. Takeaways from CFIF Tradable Credit Beta Product Workshop

The lead of the CFIF Tradable Credit Beta Product Workshop presented the key takeaways from the workshop and the follow-up discussions with market participants. Despite a variety of perspectives, there was sufficient interest amongst workshop participants to further develop the idea. Two broad areas have been identified for further examination: (i) alternative product design options and (ii) how to potentially generate increased trading activity in such a product.

CFIF members supported continuing the development work and the conversations with market participants. The lead was asked to update CFIF on the next steps at the next meeting.

6. Takeaways from CFIF Workshop on Collateral and Security Financing

The co-lead of CFIF Workshop on Collateral and Security Financing informed CFIF members of the key takeaways from the May 26th workshop. Over 40 participants representing various functional areas at banks, asset managers, custodians, agent lenders, infrastructure providers, and the Bank of Canada, attended the session.

Workshop participants indicated that although the Canadian market has sophisticated institutions and is generally well-developed, Canada's collateral and securities financing infrastructure is behind other countries in several areas and has some material gaps. It was agreed that strong industry cooperation is needed to close the gaps. Participants suggested that improving interconnectedness, standardization, and automation of securities flows could facilitate easier collateral movement. Other potential areas of improvement raised at the workshop included the creation of general collateral baskets, setting up better infrastructure for reuse and rehypothecation of collateral, encouraging adoption of NHA-MBS and other non-Government of Canada securities as eligible collateral, including in foreign markets.

CFIF members support further work on these topics and asked the co-leads to update CFIF on a potential way forward at the next CFIF meeting.

7. Other business

There are three more CFIF meetings scheduled for 2021 and the next CFIF meeting will take place in September. Starting in 2022, CFIF will have eight meetings per year. Given the increased meeting frequency, CFIF Secretariat is exploring ways to allow for more flexibility for members to join virtually.

The co-chairs informed members that Chris Beauchemin from the British Columbia Investment Management Corporation will be leaving CFIF. They thanked Mr. Beauchemin for his contribution, since its initial formation, to the forum. Jason Lewis from the Province of British Columbia will be joining CFIF at the meeting in September.

Members were reminded that the National Day for Truth and Reconciliation, a new statutory holiday, will be observed on September 30.

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, British Columbia Investment Management Corporation
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
Graeme Robertson, Phillips, Hager and North Investment Management
Paul Scurfield, Scotiabank
Greg Moore, TD Bank

External participants: (agenda item 3 only)

Dominique Barker, Managing Director and Head, Sustainability Advisory, Global Investment Banking, CIBC Capital Markets

Bank of Canada:

Toni Gravelle, Co-Chair
Wendy Chan, Secretariat
Zahir Antia
Mark De Guzman
Annick Demers
Mark Hardisty
Grahame Johnson
Sheryl King (agenda item 3 only)
Stéphane Lavoie
Maksym Padalko
Thomas Thorn
Harri Vikstedt