



## **SUMMARY OF THE DISCUSSION**

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

### **1. Introduction**

The co-chairs welcomed Jason Lewis, Director of Capital Markets in the Debt Management Branch of the Provincial Treasury of BC as its newest member. The co-chairs informed members that Roger Casgrain from Casgrain & Company Limited and Martin Bellefeuille from Desjardins Securities, both of whom were inaugural members of CFIF, will be leaving the Forum. The co-chairs expressed their gratitude to Messrs. Casgrain and Bellefeuille for their contributions to the Forum.

### **2. Introduction to FICC Markets Standards Board (FMSB)**

Myles McGuinness (CEO) and Christopher Rich (General Counsel) from the FMSB provided members with a broad overview of the organization, including its objectives and recent projects. The FMSB was formed in the UK in 2015 with the goal to enhance trust in wholesale fixed income, currency, and commodity (FICC) markets by raising worldwide standards of conduct for all participants. The organization sets and promotes adherence to standards of conduct in FICC markets. FMSB member firms incorporate FMSB standards and underlying principles into their training programs and internal policies and procedures. Members also sign a Statement of Commitment annually, attesting to the adherence to the FMSB Standards. Messrs. McGuinness and Rich highlighted that the FMSB Standards have positively impacted the functioning of the market and standards of conduct. Currently, the organization has 49 members across asset managers, banks, corporations, brokers, and trading platforms. Members account for 80% of sell-side activity in UK wholesale markets and have over US\$10 trillion in AUM. Finally, they outlined some of the current projects the FMSB is working on through their Emerging Vulnerabilities Sub Committee such as ESG with a focus on ratings and governance, developing carbon markets and crypto/digital assets.

### **3. Recent bond market developments**

A member provided an overview of recent liquidity trends in US bond markets. He noted that US treasury liquidity had declined over the summer but was starting to pick up. Market depth had fallen in July and August, especially for the 10-year treasury bond. Trading volumes had also fallen in July and August relative to June. However, bid-offer spreads in most asset classes remained relatively tight. Investment grade corporate bond issuance, which traditionally declines in the summer, had spiked in the first week of September [with expectations that September issuance would potentially reach record levels. Finally, he noted that SOFR swap volumes had increased [substantially] following the SOFR first initiative for interdealer trades.

Another member presented an analysis of liquidity conditions in the Government of Canada bond market. Average turnover in July had decreased compared to June and remained below 2017-2021 averages. Despite increased issuance by the Government, the amount of bonds outstanding after accounting for the

Bank of Canada's holdings have remained fairly constant since January 2017. Interest rate volatility also declined as trading volumes fell. In his view, the reduction in bond purchases by the Bank of Canada has had limited impact on yields or bond market volatility, as the reduction was clearly communicated to markets. He noted that the Bank's securities repo operations have further supported market functioning and liquidity. Finally, he highlighted that average daily trading volumes in provincial bonds have had a proportionally larger increase than Government of Canada bonds since 2017.

Members discussed the transparency and disclosures of some domestic trading platforms. It was noted that one bond trading platform routes trades away from its Canadian regulated entity to its offshore platforms, which would make those trades also subject to foreign regulatory oversight and reporting. While members did not express any immediate concerns, they suggested further discussions on this topic may be warranted in the future.

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

GoC Market Functioning Steering Group (GMF) co-chairs updated CFIF members on the status of the project. They provided a summary of CFIF member feedback and bilateral engagement with market participants with respect to a fail fee. The feedback indicated that while the fail fee calibration is broadly appropriate, a potential initial trigger could also be considered. The governance structure was also considered to be appropriate. Market participants suggested that work on complementary policies should focus on ways to reduce settlement frictions.

The Complementary Policies Working Group outlined preliminary areas of focus on Best Practices. These include settlement frictions related to (i) structural issues such as credit availability, and netting and partial settlement; (ii) settlement process bottlenecks and (iii) governance. The working group will engage with market participants further to validate these potential topics and propose best practices to GMF for review.

The Calibration Working Group (CWG) updated members on the various options it is considering for a gradual activation of the fail fee in light of the comments received. The group also presented an analysis of the magnitude of the fail fee payments that CDS members would have received or paid based on a 3-month sample period in 2020. Based on the data, most payments would have been well under \$50,000 for the 3-month period, with the vast majority below \$10,000. Further analysis will be conducted using a longer time frame.

GMF plans to present an update on the blueprint to CFIF members in October, along with a recommendation for the fail fee calibration. The final blueprint is expected to be presented in November for final approval, with a decision on whether to proceed expected in early 2022.

#### **5. CARR update**

CARR's co-chairs provided an update on the progress made, both on global and domestic reform efforts, since the last CFIF meeting. The co-chairs informed members of the success of the SOFR first initiative, and that the ARRC had officially endorsed CME's SOFR term rate shortly following the initiative, which should promote its usage as potentially a key rate for the loan market in the US. They noted that cross-

currency basis swaps denominated in US dollars, Pound Sterling, Japanese Yen, and the Swiss Franc would be priced in the interdealer market off their respective risk-free rates as of September 21<sup>st</sup>. Finally, the co-chairs noted that the Ontario Securities Commission announced on September 15<sup>th</sup> that CDOR has been designated as a “critical benchmark” and a “interest rate benchmark” for the purposes of MI 25-102 and OSC Rule 25-501, and Refinitiv Benchmark Services Limited (RBSL) was designated as the “benchmark administrator” of CDOR.

The CARR co-chairs updated members on the progress of the various CARR working groups. Members were informed that the final recommended CORRA Floating Rate Notes (FRN) conventions and fallback language, as well as the CORRA loan conventions are expected to be published in October. The co-chairs provided some initial analysis from the CDOR review, including results from the size and scope CDOR/BA survey, the feedback received from three workshops with bank treasuries, borrowers, and investors to discuss the use of CDOR/BAs. Finally, they provided an overview of preliminary findings on CDOR submission frameworks and practices, and how these differ from other global interbank offered rate benchmarks.

## **6. Other business**

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

**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  
Graeme Robertson, Phillips, Hager & North Investment Management  
Jason Lewis, Provincial Treasury of BC  
Paul Scurfield, Scotiabank  
Greg Moore, TD Bank

**External participants: (agenda item 1 only)**

Miles McGuinness, FMSB  
Christopher Rich, FMSB

**Bank of Canada:**

Toni Gravelle, Co-Chair  
Wendy Chan, Secretariat  
Zahir Antia  
Mark De Guzman  
Annick Demers  
Mark Hardisty  
Grahame Johnson  
Stéphane Lavoie  
Thomas Thorn  
Harri Vikstedt