



SUMMARY OF THE DISCUSSION

Virtual Meeting, November 30, 2021, 4:00 p.m. to 6:00 p.m.

1. Recent bond market developments

The discussion began with two members recapping fixed income markets developments since the last CFIF meeting. Both members commented that recent volatility in the Government of Canada bond market was driven by global developments rather than Canadian specific events. Sizable one-way directional positioning combined with recent smaller issuance sizes contributed to increased market volatility as participants unwound and adjusted their positions with updated global central bank communication. Pandemic related news also added to the uncertainty.

A member pointed out that despite a slight deterioration compare to a few months ago, liquidity conditions overall remained robust from a historical perspective. Other members remarked that liquidity conditions may remain challenging given year-end dynamics. Another member noted that despite operating in a higher volatility environment, it was encouraging to see that there was no uptick in settlement fails in the Canadian fixed income markets.

2. Initiatives to enhance GoC Market Functioning

GoC Market Functioning Steering Group (GMF) co-chairs updated CFIF members on the status of developing a Blueprint to enhance GoC market functioning.

Members of the Calibration Working Group (CWG) presented the near-final recommendations of the fail-fee component of the Blueprint for review. The fail-fee component recommendations comprise the fail fee calibration, the fee structure and in-scope transactions, a proposal for a trial period, and the framework's governance structure.

Several components of the Blueprint have been updated since the last CFIF meeting. The computation of fail rates and trigger thresholds for the dynamic components have been streamlined to using a single fail rate based on CDS data. Reflecting CFIF's feedback, the recommendation now includes a formal review after the trial phase to determine whether the fail-fee component would be turned on permanently, and additional guidance on the governance framework.

The presentation to CFIF also included the preliminary best practices recommendation and an approach for further investigation of operational enhancement to reduce settlement frictions. The Complementary Policies Working Group will present their final recommendations to CFIF in February.

A decision to approve the fail-fee component for public consultation will be taken at the February CFIF meeting in 2022, allowing CFIF members to socialize the proposal within their firms.

3. CARR update

CARR's co-chairs tabled the White Paper on the recommended future of CDOR for CFIF's approval. CARR recommends that Refinitiv Benchmark Services (UK) Limited (RBSL) should cease the calculation and publication of CDOR after June 30, 2024. CARR proposes a two-staged approach to the transition from CDOR. The first stage would run until June 30, 2023, and the second and final stage would end on June 30, 2024. By the end of stage one, it is expected that all new derivative contracts and securities to have transitioned to using CORRA, with no new CDOR exposure after that date except with limited exceptions. Those exceptions include derivatives that hedge or reduce CDOR exposures of derivatives or securities transacted before June 30th, 2023 or in loan agreements transacted before June 30, 2024.

CARR co-chairs noted that the decision to ultimately cease CDOR lies solely with RBSL and CARR's recommendation does not constitute a public statement or publication of information that CDOR has ceased or will cease permanently or indefinitely. Should RBSL agree with CARR's analysis and recommendations and announce that they will discontinue the publication of CDOR following their public consultation, the transition from CDOR to CORRA will benefit from the resources dedicated to the ongoing LIBOR transition. It will also benefit from work already done by the International Swaps and Derivatives Association (ISDA) to facilitate the move to overnight risk-free rates.

CFIF members unanimously agreed with CARR's recommendation and with the publication of the White Paper. (NB: the White Paper was [published](#) on 16 December)

Should RBSL agree with CARR's recommendation, it will have implications for the Canadian financial system. Accordingly, CARR's co-chairs asked for CARR's mandate to be broadened to also include preparing a comprehensive transition plan that could be executed if RBSL makes the determination that CDOR's publication should cease. CFIF members approved this expansion of CARR's mandate, although CFIF will review the exact wording changes to CARR's mandate.

While CARR's recommendation is only with respect to CDOR, the end of CDOR may have implications for the issuance of BAs, with banks potentially moving away from issuing short-dated BAs in favour of other forms of funding. CFIF members agreed that CFIF will work with industry to assess the potential impact of reduced BA issuance and determine what additional work, if any, is needed to support the investment community in adapting to any resulting changes.

Meeting participants:

CFIF members:

Jim Byrd, RBC Capital Markets, Co-Chair
Brian D'Costa, Algonquin Capital
John McArthur, Bank of America Securities
Nick Chan, BMO Capital Markets
Daniel Bergen, Canada Life Assurance Company
Karl Wildi, CIBC World Markets
Marlene Puffer, CN Investment Division
Philippe Ouellette, Fiera Capital
Rob Goobie, Healthcare of Ontario Pension Plan
Kelsey Gunderson, Laurentian Bank Financial Group
Graeme Robertson, Phillips, Hager and North Investment Management
Jason Lewis, Provincial Treasury of BC
Paul Scurfield, Scotiabank
Greg Moore, TD Bank

Bank of Canada:

Toni Gravelle, Co-Chair
Wendy Chan, Secretariat
Zahir Antia
Mark De Guzman
Annick Demers
Mark Hardisty
Grahame Johnson
Sheryl King
Stéphane Lavoie
Michael Mueller (Item 2)
Thomas Thorn
Harri Vikstedt
Sabrina Wu (Item 2)