



SUMMARY OF THE DISCUSSION

Virtual Meeting, February 17, 2022, 4:00 p.m. to 6:00 p.m.

1. Recent bond market developments

The discussion began with three members recapping fixed income markets developments since the last CFIF meeting and sharing their thoughts on how markets are adjusting to an environment of expected liquidity withdrawal from central banks.

Members agreed that spread adjustments in the credit markets were results of general macro rates environment rather than deterioration of underlying credit quality. One member used an energy company, whose credit spread widened even though both its stock price and the underlying energy prices went up, as an illustrative example. Another member commented that the provincial bond markets experienced similar dynamics as provincial spreads widened while several provinces provided positive update on their fiscal situations.

The conversation then turned to expectations on potential market developments and transaction flows observed in the market. A member noted that client flows have been skewed towards selling credit securities, including from participants that have been relatively inactive in the past. Another member echoed that primary dealers' inventory level for credit products have increased with buyers being more selective in their investment decisions. It was noted that in the last couple of years, many investors have made structural changes to their investment portfolios such as adding alternative assets, including private securities, in reaction to the low interest rate environment. Consequently, investors are being more quality conscious for every marginal dollar allocated to fixed income products. Members agreed that the markets will likely take some time to adjust to the new environment with higher interest rates and reduced central bank balance sheets .

Members also briefly discussed short term financing and liquidity in the repo market.

2. Initiatives to enhance GoC Market Functioning

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

The co-chairs asked CFIF members to approve taking the fail fee component of the Blueprint, which had been tabled at the November CFIF meeting by the Calibration Working Group, for an industry-wide consultation in Q2-2022. The framework includes the formation of a governance group and the development of a white paper for public consultation.

The Complementary Policies Working Group presented their best practice recommendations and potential operational enhancements for CFIF feedback. The recommendations have been drafted with the expectation that market participants will not knowingly engage in operational practices or transactions that are likely to delay GoC settlement or result in fails. The best practice recommendations are an attempt to address existing and potential future frictions within the GoC settlement process. The objective of these recommendations is to promote efficient settlement of GoC transactions, especially during periods of increased trading volumes. Recommendations have been organized in two categories: (1) counterparty internal operational practices, and (2) potential structural changes to GoC Settlement for future industry consideration.

CFIF members approved taking the fail-fee component of Blueprint for public consultation. The final high-level recommendation on best practices and structural adjustments will be presented in March, allowing CFIF members to socialize the proposal within their firms and to provide feedback to GMF. The high-level recommendations will form the basis of a best practice guidance document for all stakeholders in the GoC settlement process.

3. CARR update

CARR's co-chairs presented CARR's new subgroup structure and the preliminary high-level timeline for CARR deliverables. There are seven subgroups in CARR's new structure, of which six are new subgroups. The subgroups cover the following areas: (1) Securities, (2) Loans, (3) Term CORRA, (4) Derivatives, (5) Operations and Infrastructure, (6) Outreach and Communication, and (7) Accounting, Taxing and Regulation.

In their update, the co-chairs noted that the timeline for a potential public consultation on the need and feasibility for a term CORRA to replace CDOR for some Canadian dollar loan products has been moved to Q2-2022 instead of the Q1 date outlined in the [CDOR White Paper](#). They also mentioned that a transition roadmap with timelines and milestones will be published on CARR's website following any announcement by RBSL to cease the publication of CDOR based on the results of their [consultation](#).

CARR's co-chairs also tabled for CFIF's approval an updated [Terms of Reference](#), which broadens CARR's authority to include a potential transition away from CDOR should RBSL agree with the recommendations in CARR's White Paper.

CFIF members approved the updated CARR Terms of Reference.

4. Debrief of CFIF workshop on impact of potential cessation of CDOR on Canadian money market

The co-leads of the first CFIF workshop on the impact of the potential cessation of CDOR on Canadian money market provided a debrief to CFIF members. The objective of the workshop was to follow up on money market investors' concerns on the implications for the issuance of Bankers' Acceptance (BA) in relation to the potential end of CDOR. The workshop aimed to connect issuers, investors, and dealers to address information gap, discuss constraints faced by different players in the market, and identify potential solutions. Alternatives raised at the workshop can be grouped into three general buckets: securities in existing investment universe, solution involving the repo market, and structured products.

The first workshop focused on existing investment universe and the possibility of scaling up issuance under the current regulatory regime from both an investor and issuer perspective. Building on the positive feedback received from the first workshop, the co-leads will commence planning for a second event to better understand the potential gap left if BAs disappear, as well as further clarify limitations for each alternative solution, including operational constraints, as well as areas of consideration for regulatory change to allow for more investment flexibility.

The co-leads aim to broaden the array of investors, including additional international participants as suggested by CFIF, in the second workshop.

5. CFIF credit beta project update

The Credit Beta Steering Committee updated CFIF on the progress of the project.

Feedback from market participants from previous workshops indicated a strong preference for a futures-based product instead of an OTC solution. The proposed specifications of the new futures contract includes: (1) pricing off an underlying Canadian credit index (exact details still to be finalised), (2) pricing as a spread off the Government of Canada securities curve, (3) settling in cash based on the index value, and (4) clearing at CDCC with cross-margining.

On the design of the underlying Canadian credit index, most market participants preferred a more transparent, rules based “selection” methodology with bonds that are selected to ensure diversified exposure across maturity term, industry sector and quality buckets. This index would closely track the FTSE Canada All Corporate Bond Index.

The Credit Beta Steering Committee will continue to work with TMX and relevant partners to develop the product and indices as planned. Subgroups will be created to provide additional input on: (1) efficient financing of short positions in the repo market or via prime brokerage, (2) Capital and margin requirement, (3) Index design, including a solution to an index constituent defaulting, and (4) Index pricing, including the basis between cash and futures.

6. Workplan discussion for 2022

The Secretariat tabled the proposed 2022 CFIF workplan for members’ consideration.

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
Nick Chan, BMO Capital Markets
Daniel Bergen, Canada Life Assurance Company
Karl Wildi, CIBC World Markets
Marlene Puffer, CN Investment Division
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

External participants: (agenda item 4 only)

Earl Davis, Managing Director & Head of Fixed Income and Money Markets, BMO Global Asset Management

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)