



SUMMARY OF THE DISCUSSION

Toronto, June 21, 2022, 4:00 p.m. to 6:00 p.m.

1. Recent bond market developments

Edward Martinez, Head of Credit Strategy (TD Securities), and Chris Laham, Managing Director & Co-Head, Debt Syndicate (BMO Capital Markets) summarized recent market developments and provided members with a broad overview of their outlook of the corporate bond market.

The first speaker started by noting that corporate bond yields have moved up significantly this year, and that the asset class has shown a negative total return. He noted that while liquidity has decreased, the market is still functioning relatively well. Many corporations have taken advantage of the low interest rate environment over the last two years to raise funds in the market, which has reduced their overall funding needs and provided some flexibility as interest rates started to increase. There remains, however, risks that credit spreads may widen further, particularly for high yield bonds, as central banks continue to withdraw liquidity from the market. The speaker also noted that investment flows into the corporate bond market have remained low in 2022.

The second speaker echoed that new issuance concessions are widening, and the pool of buyers has declined. The composition of new issuance this year has also changed materially. In prior years, non-financial corporations have typically accounted for around 70% of new issuance, while this year, the majority of new issuance was done by commercial banks. Non-financial corporates appeared to have switched to using bank credit lines, where credit spread adjustments have been relatively subdued, to meet their funding needs instead of raising funds through issuance in the primary market. A member remarked that credit markets maybe currently functioning reasonably well despite a decrease in the number of buyers due to the smaller number of non-financial corporate issuers in the market. Other members agreed that the situation can change, as banks adjust their spreads for bank lines and more corporations return to issuing in the primary market to rollover maturing market debt and to maintain diversified funding structures in the fall.

2. CFIF credit beta project update

The Credit Beta Steering Committee was joined by Corey Garriott, Head, Product Research (TMX), for an update to CFIF on the progress of the project.

Since their last presentation to CFIF in February, TMX has focused on client engagement and collected feedback on the product design. The meetings revealed strong and wide buy-side interest in the proposed product, echoing similar sentiments expressed by several CFIF members. TMX has made good progress on the index methodology so that the basket of bonds used to calculate the new index will

closely track the FTSE Canada All Corporate Bond Index. There are ongoing conversations on how to handle defaults, and how to remove interest rate risk so that the product can be traded on a credit spread basis.

The current plan is to launch the product in Q2-2023. The lead of the project noted that the success of the project relies heavily on support from both buy- and sell-side participants to ensure that the product has sufficient liquidity at launch. CFIF asked TMX and the Credit Beta Steering Committee to come back with a communication plan to help facilitate the launch.

The Credit Beta Steering Committee will continue to work with TMX and relevant partners to develop the product and indices as planned.

3. Impact of CDOR cessation on Canadian money market workshop debrief

One of the co-leads of the CFIF workshops on the impact of CDOR cessation on Canadian money market provided a debrief of the third workshop to CFIF members.

The purpose of the third workshop was to review constraints, with a focus on regulatory, legal, system and operational aspect, of the potential products to replace bankers' acceptances (BAs) that had been discussed at the prior workshops. The co-lead reiterated that a single solution will unlikely be able cover all the needs currently served by BAs. The products have varied degree of complexity and most participants noted that they face resource constraints in implementing them. It is, therefore, paramount to have sufficient lead time to allow for proper work prioritization.

Another workshop will take place later in June, which will focus on updating various regulatory bodies on the issues. The co-leads and CFIF Secretariat will continue to work with the industry and regulatory bodies to advance the conversation

4. CARR update

CARR's co-chairs reported that the post CDOR cessation [announcement](#) outreach events in New York and London were very well received, and that they gained valuable feedback from international market participants on certain aspects of the transition.

The [consultation](#) for a potential forward looking Term CORRA benchmark to replace CDOR in certain types of loan facilities has been extended to close at the end of June as a result of requests from market participants for additional time. The result of the consultation will form the basis of any decision to create such a rate.

The co-chairs also informed CFIF that their work on identifying "tough" legacy securities has progressed well since the last update to CFIF, with fewer securities now considered "tough legacy" than at CFIF's previous meeting. Any outstanding issues can likely be resolved bilaterally between the issuer and investors through legal means and there is no need for a legislative solution. They noted that a synthetic CDOR solution is not an option in Canada.

CARR will continue its work to facilitate a smooth transition away from CDOR, and to ensure Canada's benchmark regime is robust, reliable, and effective.

5. Initiatives to enhance GoC Market Functioning

GoC Market Functioning Steering Group (GMF) co-chairs shared an update on the progress of the GMF work.

In their update, the co-chairs informed CFIF that GMF is working on clarifying what constitute a 'fail' for the calculation of the proposed fail-fee. Specifically, the fail-fee should only be applied if a trade fails to settle because of the non-availability of securities. The co-chairs also note that the public consultation document for the fail-fee component of the Blueprint will be circulated to members for their feedback and approval later in the summer.

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
Greg Moore, TD Bank

External participants:

Edward Martinez, Head of Credit Strategy, TD Securities (Item 1)
Chris Laham, Managing Director & Co-Head, Debt Syndicate, BMO Capital Markets (Item 1)
Corey Garriott, Head, Product Research, TMX (Item 2)

Bank of Canada:

Toni Gravelle, Co-Chair
Wendy Chan, Secretariat
Zahir Antia
Mark Hardisty
Stéphane Lavoie
Harri Vikstedt