



SUMMARY OF THE DISCUSSION

Toronto, September 20, 2022, 4:00 p.m. to 6:00 p.m.

1. Introduction

The co-chairs welcomed Eugene Lundrigan, President, Sun Life Capital Management Canada, to the Canadian Fixed Income Forum. The co-chairs also informed members that Daniel Bergen and Graeme Robertson will be leaving the Forum. This is Mr. Bergen's last CIFF meeting, and Mr. Robertson will be leaving the Forum at the end of the year. The co-chairs expressed their gratitude to Messrs. Bergen and Robertson for their contributions to the Forum.

2. Recent bond market developments

Mark Cabana, Managing Director and Global Head, US Rates Strategy (BofA Securities), provided his perspectives on the impact of quantitative tightening in the US and short-term funding markets. He pointed out that the impact of quantitative tightening (QT) can be analysed through a stock effect, and a flow effect. In his view, the stock effect of QT in the US has been reflected in market pricing, whereas the flow effect of QT has yet to be fully incorporated. He expects liquidity drain in the US to proceed through phases. In the beginning phase, bank reserves remain abundant, and banks have little incentive to adjust their deposit rates, leading to deposit rates lagging the increase in the effective federal funds rate. Overtime, as cash continues to be removed from the system, banks will start to compete for desired deposits by raising their deposit rates. Funding market dynamics mirror the balance between the quantity of cash and collateral. The quantity of cash has overwhelmed collateral since March 2020, which has pushed money market rates lower. This balance is expected to reverse as liquidity continues to be removed and the supply of collateral rise with deficits, quantitative easing, and Federal Home Loan Banks (FHLB) advances.

Lukasz Brzezinski, Managing Director and Head of Liability and Funding Optimization (BMO Capital Markets) discussed the short-term funding markets and Canadian bank funding activities. Loan growth in Canada has outpaced deposit growth this year. As of September, banks have issued over \$50B of securities, the highest level since 2016. US money market funds are major investors of short dated Canadian bank credit, holding approximately \$74B of securities issued by the biggest five Canadian banks at the end of September 2022.

3. Initiatives to enhance GoC Market Functioning

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

The GMF highlighted the key changes of the forthcoming whitepaper, where revisions were focused on the trial period. In the latest version, the dry run period has been extended to accommodate the transition

to T+1 settlement. There is an added decision point for the Governance Group to recommend to CFIF when to proceed with fee exchange. The fail fee is now recommended to be at the permanent floor of 50bps during the trial period and the minimum transfer amount is eliminated in the CDS system build.

CFIF approved the publication of the whitepaper and the commencement of the public consultation.

4. CARR update

CARR's co-chair updated CFIF on work progress for CARR's seven subgroups.¹

The [consultation](#) for a potential forward looking Term CORRA benchmark to replace CDOR in certain types of loan facilities was concluded at the end of June. The [consultative feedback](#) clearly indicates that there is a strong demand from Canadian companies for a forward-looking Term CORRA benchmark. The plan is to publish a more comprehensive communication regarding Term CORRA in the fall. The publication is expected to include a detailed summary of the consultation, CARR's recommended methodology for the calculation of Term CORRA, the allowable use cases for Term CORRA in financial markets, and next steps regarding the selection of a Term CORRA benchmark administrator.

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. Impact of CDOR cession on Canadian money market workshop

The co-lead of the CFIF workshops on the impact of CDOR cessation on Canadian money market provided a summary of the key findings from the workshops to CFIF members.

In his update, the co-lead presented a list of potential investment substitutes for Banker's Acceptances (BA) discussed during the workshops. The presentation also included possible considerations for regulatory relief. During the discussion, a member pointed out that in addition to looking for alternative products for BAs, some investors may also need to search for a new benchmark as CDOR ceases to be published. Members also noted that additional work may be needed to further clarify the details behind an orderly unwind of the BA market.

The CFIF co-chairs requested the co-leads to propose an action plan for CFIF to opine. The co-leads and CFIF Secretariat will continue to work with the industry and regulatory bodies to advance the conversation.

¹ 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.

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

External participants:

Item 2

Mark Cabana, Managing Director and Global Head, US Rates Strategy, BofA Securities
Lukasz Brzezinski, Managing Director & Head of Liability and Funding Optimization, BMO Capital Markets

Item 5

Earl Davis, Head of Fixed Income & Money Market, BMO GAM

Bank of Canada:

Toni Gravelle, Co-Chair
Wendy Chan, Secretariat
Mark Hardisty
Sheryl King
Mark de Guzman
Tamara Gomes
Alexandra Lai
Zahir Antia
Michael Mueller
Sabrina Wu