



SUMMARY OF THE DISCUSSION

Toronto, February 7, 2023, 4:00 p.m. to 6:00 p.m.

1. Recent bond market developments

Tom Porcelli, Managing Director, and Chief U.S. Economist (RBC Capital Market) shared his outlook of the US markets with CFIF members. He began by noting that the better-than-expected job numbers from the most recent nonfarm payroll release did not change his outlook for the US economy. In his base case, the US economy in 2023 will be characterized by a sluggish economic backdrop with a high level of both upside and downside risks to the forecast. According to him, consumer behaviour will be the key determining factor and the shallow negative growth forecast in his base case scenario can easily change depending on consumer spending.

He believes inflation will continue to improve in 2023 and the decline in inflation combined with a weaker labour market should allow the Federal Reserve to ease off on monetary policy tightening. The speaker also noted that without further action, real fed funds rate will increase as inflation continues to decline; thereby providing support for the case of potential nominal fed funds rate cut(s) towards the end of 2023.

There were also discussions on long-term inflation outlook, quantitative easing and debt ceiling.

2. Evolution of collateral management

Two CFIF members discussed the evolution of collateral management in Canada since the Global Financial Crisis (GFC). A confluence of factors, including regulations put in place since the GFC, have moved collateral management from a credit risk mitigation process of managing assets pledged by one party to another to a capital optimization issue. Given its potential impact on the functioning of the Canadian fixed-income market, the presenters were asking for CFIF members views on how to best take forward the work on improving the efficiency of the collateral infrastructure in Canada.

Members were in general agreement that this is an important issue and modernizing the collateral management infrastructure in Canada can have a major positive impact for the functioning of the Canadian fixed income market. They asked the presenters to return to the Forum with well-defined objectives and potential workplan options for CFIF to consider at the next meeting.

3. BA Transition Virtual Network

The co-chairs of the BA Transition Virtual Network (working group) updated CFIF on the launch of the working group following the publication of the [CFIF white paper](#) on the impact of CDOR cessation on the Bankers' Acceptance market on January 16.

The initiative received strong support from the industry. Several meetings have been held since the establishment of the working group and over 30 members, representing both buy-side and sell-side participants, have taken part in the discussions. The working group identified four areas of work and formed subgroups focusing on each area. They are new products, regulation¹, cliff-effect², and education.

The working group will help to support a smooth transition from the impending cessation of BA issuance.

4. CARR update

CARR's co-chairs provided an update on the group's work and highlighted a number of key CARR milestones since the last CFIF meeting in November.

The first of the [CORRA-first initiatives](#) relating to transitioning liquidity in the Canadian derivative markets from CDOR to CORRA was launched on January 9, 2023. These initiatives see the convention for posting quotations in the inter-dealer market switch from CDOR to CORRA. The first date covers linear derivatives (i.e., Canadian dollar interest rate swaps), while both non-linear derivatives (e.g., Canadian dollar swaptions) and cross-currency basis swaps will move from CDOR to CORRA on March 27, 2023.

On January 11, 2023, CARR [announced](#) the development of a 1- and 3-month Term CORRA benchmark that would be aligned with the IOSCO Principles for Financial Benchmarks. CARR also announced the same day the launch of a series of [CDOR Transition Webcasts](#), developed in partnership with the TMX, to share insights and perspectives on the transition from CDOR to CORRA. The 1-month [CORRA futures](#) were launched by the Montreal Exchange on January 23, 2023.

The co-chairs also discussed upcoming outreach efforts, as well as the various white papers and documents scheduled to be released in the next few months by CARR covering cash securities, loans and infrastructure.

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

The GoC Market Functioning Steering Group (GMF) co-chairs shared an update of the group's work and provided an overview of the [consultation](#) responses to CFIF.

Respondents were generally supportive of the proposed fail-fee and its parameterization. However, they provided very helpful feedback on some aspects of the fail-fee for further clarification. GMF will review and discuss these consultation results. A summary of the consultation results along with the proposed responses will be circulated to CFIF members in the spring for approval and publication.

¹ The Network has engaged the Investment Funds Institute of Canada (IFIC) to help coordinate the work on regulatory issues.

² This relates to when and how BA issuance should transition from the current approximately \$90 billion to zero by July 2024.

In addition, the GMF will commence the development of the Terms of Reference for the governance group, taking into account the comments and suggestions from the consultation.

6. Other business

The co-chair informed members that Marlene Puffer will be leaving the Forum. The committee expressed their gratitude to Ms. Puffer for her contributions.

Meeting participants:

CFIF members:

Jim Byrd, RBC Capital Markets, Co-Chair
Brian D'Costa, Algonquin Capital
Marlene Puffer, Alberta Investment Management Corporation
John McArthur, Bank of America Securities
Nick Chan, BMO Capital Markets
TJ Sutter, Connor, Clark & Lunn
Karl Wildi, CIBC World Markets
Philippe Ouellette, Fiera Capital
Rob Goobie, Healthcare of Ontario Pension Plan
Kelsey Gunderson, Laurentian Bank Financial Group
Paul Scurfield, Scotiabank
Elaine Lindhorst, TD Asset Management
Eugene Lundrigan, SLC Management

External participants:

Item 1

Tom Porcelli, Managing Director, and Chief U.S. Economist, RBC Capital Markets

Item 3

Charles Lesaux, Managing Director, Fixed Income Repo ,RBC Capital Markets

Bank of Canada:

Toni Gravelle, Co-Chair
Wendy Chan, Secretariat
Harri Vikstedt
Sheryl King
Alexandra Lai
Mark de Guzman
Mark Hardisty
Zahir Antia