



SUMMARY OF THE DISCUSSION

Toronto, May 9, 2023, 4:00 p.m. to 6:00 p.m.

1. Canadian Collateral Management Services (CCMS)

Steve Everett, Head Business Strategy & Innovation from TMX updated CFIF on the status of the Canadian Collateral Management Services (CCMS).

CCMS is the first domestic tri-party collateral platform in Canada. The European style tri-party platform aims to optimize collateral with real time substitution throughout the business day and connect collateral pools across the market. Customers can start the onboarding process beginning in June 2023. The launch of the CCMS with un-cleared cash driven repo is targeted for late summer 2023, followed by Secured General Collateral (SGC) Services via CDCC. Securities lending is also being investigated for late 2023 delivery.

CFIF members welcome [link to CFIF statement] the launch of CCMS and expect the initiative to significantly improve Canadian financial ecosystem for securities financing and collateral markets.

2. Collateral infrastructure and market practices

A proposal to form a CFIF industry group focusing on Canadian collateral infrastructure was presented to members, which aligns with the collateral discussion at the [February CFIF meeting](#).

Members generally agree that such a group can be beneficial for the Canadian funding and fixed income market. Some members suggested that aiming to encourage and broaden participation in tri-party repo in Canada can be a practical starting point for the industry group. A robust tri-party repo market can support liquidity and funding by speeding up collateral velocity. It can also enhance central banks' toolkit for crisis management.

Presenters were asked to further refine the objectives of the proposal for CFIF to consider at the next meeting.

3. Recent bond market developments

There were two topics discussed at the meeting under recent market developments.

Mario Mendonca, Managing Director, Financial Services Research, Institutional Equity Research (TD Securities) shared his insights and outlook for the US and Canadian banking sector with CFIF members. He began by noting that recent issues with US regional banks are not systemic, but instead are due to idiosyncratic factors such as management's decision to purchase long-term assets in a historically low interest rate environment and having a deposit base that is heavily skewed towards large uninsured

deposits. The issue of unrealized losses associated with some of the recent bank failures in the US is not relevant for Canada as these are reflected in the consolidated financial statements for Canadian banks.

Going forward, Mr. Mendonca expects banks will shift their focus from profits to preserving liquidity. He foresees funding cost to increase, and banks to increase reserves for non-performing loans. He also expects market to focus on banks' exposure to commercial real estate, both in terms of the type and term of the exposures in the next earnings cycle.

Fred Nastos, Managing Director & Provincial Trading (BMO Capital Markets) shared his observations following the government's announcement to undertake market consultations on the proposal to potentially consolidate the Canada Mortgage Bonds (CMB) within the government's regular borrowing program. He noted that there is a lot of uncertainty surrounding the future of the CMB program and market participants are eagerly waiting for more information from the government. He referenced the recent [letter](#) by IIAC and shared some of the key concerns and questions raised in the letter.

The speaker raised the concerns as to how the spread over Government of Canada issuance will be determined for the government's purchases of the National Housing Act Mortgage-Backed Securities (NHA MBS) without the CMB program. Concerns were raised on the potential implications for smaller specialty lenders and mortgage lending competition in general. The speaker also commented that the cancellation of the CMB program may result in lower international investor interest in Canada, which may affect other Canadian issuers.

Members noted that any decision on the CMB program without careful considerations can have material negative implications for housing finance in Canada. Some argued that the authorities may want to keep the bigger picture in mind, including how mortgage securitization could be expanded (e.g. residential mortgage-back securities or RMBS) and what could be done to promote a longer maturity mortgage market in Canada.

4. CARR update

CARR's co-chairs provided an update on the group's work since the last CFIF meeting in February.

The [CORRA-first initiatives](#) relating to transitioning liquidity in the Canadian derivative markets from CDOR to CORRA continues to progress well. CARR's [weekly derivative monitor](#) shows the maturity-weighted notional volume in cleared Canadian dollar interest rate derivatives continues to migration from CDOR to CORRA. After June 30, 2023, all new derivatives and securities contracts are expected to have transitioned to using CORRA, with no new CDOR exposure after that date except in limited cases, such as loans or their associated derivative hedges or transaction that reduce legacy exposure. The co-chairs also mentioned that the work to create a Term CORRA benchmark is progressing as expected, with the rate being published in beta form later in the summer and officially launched in September.

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-chair shared an update of the group's work since the last CFIF meeting, including potentially delaying the implementation of the CDS rule book change to incorporate the fail-fee to after the end of the trial period during which no payment exchange would occur. The Group has met with the Canadian Securities Administrators (CSA) to discuss this option.

The GMF continues its work on finalizing the framework and following up on comments received from the public [consultation](#).

A summary of the consultation results along with the proposed responses will be circulated to CFIF members for approval and publication later in the summer.

6. Membership update

The co-chair informed members that Bronwyn Ward, Managing Director, Head of Trading, CPPIB, and Vinayak Seshasayee, Executive VP and Portfolio Manger, PIMCO will be joining CFIF.

Meeting participants:

CFIF members:

Jim Byrd, RBC Capital Markets, Co-Chair
Brian D'Costa, Algonquin Capital
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
Jason Lewis, Ministry of Finance, Province of British Columbia
Paul Scurfield, Scotiabank
Elaine Lindhorst, TD Asset Management
Eugene Lundrigan, SLC Management

External participants:

Item 1

Steve Everett, Head Business Strategy & Innovation, TMX

Item 3

Mario Mendonca, Managing Director, Financial Services Research, Institutional Equity Research, TD Securities
Fred Nastos, Managing Director & Provincial Trading, BMO Capital Markets

Bank of Canada:

Toni Gravelle, Co-Chair
Wendy Chan, Secretariat
Harri Vikstedt
Sheryl King
Mark Hardisty
Maksym Padalko
Zahir Antia