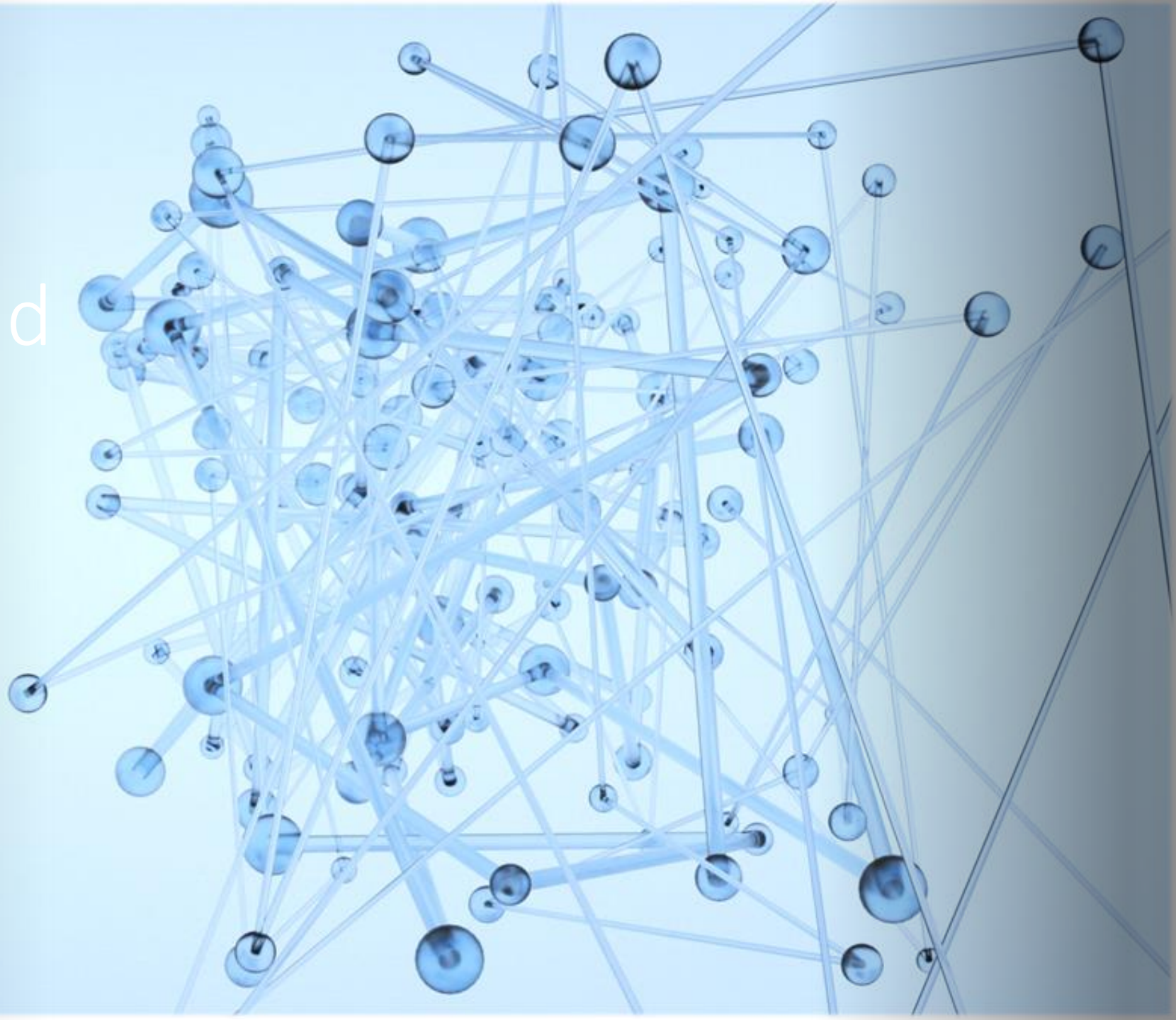


Collateral Infrastructure and Market Practices Advisory Group (CIMPA)

June 19, 2023



Proposed Mandate of the CIMPA

The key objective is to **promote operational efficiency in the Canadian securities financing and collateral markets** through **industry coordination**.

Specific goals for the group:

- Improve interconnectedness, standardization, and automation of securities flows
- Support market functioning through promotion of best practices for settlement and risk management
- Facilitate broad participation in the tri-party system and creation of general collateral baskets
- Publish educational whitepapers on collateral and securities financing markets

Benefits for the industry

Canadian collateral infrastructure is lagging that of other countries

- No true general collateral market and high reliance on bilateral repo transactions
- Shortage of infrastructure providers to standardize and automate collateral and repo flows across the whole market
- Operationally intensive processing of repo trades, substitutions, corporate actions

A well-developed Canadian collateral & security financing market will:

- Support funding markets by speeding up collateral velocity
- Facilitate inclusion of more assets (e.g., NHAMBS) as eligible collateral
- Lower the risk of collateral shortages and settlement fails
- Lower operational cost via standardization and automation
- Facilitate ability to react to market shocks and innovations
(e.g. scale up securities financing transactions and margin calls, accommodate shorter T+1 and T-0 settlement)
- Promote Canadian assets in foreign markets and lower barriers of entry for foreign firms and smaller asset managers
- Reduce reliance on foreign market infrastructure amidst increased geopolitical and cyber risks

Implications for CIMPA members

Group members would be expected to:

- Implement recommendations within their firms
- Promote recommendations with other market participants
- Support Canadian tri-party structure and development of the general collateral repo market

Subgroups may be formed under CIMPA, and specific projects may include:

- Encourage participation in triparty repo and securities lending transactions
- Expand collateral eligibility (e.g. NHAMBS, corporate bonds) into various collateral pools
- Harmonize processing of corporate actions and billing standard
- Oversees the implementation of the financial incentive mechanism for timely settlements of GoC securities
- Improve repo substitution process in bilateral transactions
- Shorten and synchronize settlement cycle across bilateral, triparty, custodian and centrally cleared trades
- Align custodian collateral and securities flows with major infrastructure providers
- Improve cross-border flows
- Maximize collateral velocity and minimize collateral and settlement costs

Integrating work by GMF into CIMPA

- The Government of Canada Market Functioning Steering Group (GMF) was formed in 2020, with the goal to support GoC market functioning. Its mandate is to:
 - Design a financial mechanism to incentivize timely settlement for GoC bonds and bills and to establish a governance body to oversee the implementation of the framework
 - Develop complementary policies or market practice changes that seek to improve market functioning and mitigate any potential unintended consequences
- The design phase of the fail-fee framework has largely been completed and a consultation paper was published in November 2022.
- The remaining work of GMF aligns with the goals of CIMPA and integrating this work into CIMPA will allow for better incorporation of the group's work into the wider objective.
 - TMPG was first formed to look at introducing financial charges on settlement fails. The Group's mandate was broadened to include discussing and promoting best practices related to trading, settlement and risk management in Treasury, agency debt and agency MBS market.

Approval and next steps

- Does CFIF support the creation of the Collateral Infrastructure and Markets Practices Advisory Group (CIMPA)?
- Does CFIF support the integration of the work by the GMF into CIMPA?

Next steps:

Subject to CFIF approval,

- Identify CIMPA co-chairs and engage industry to develop the structure of the group
- Finalize Terms of Reference and group structure
- Engage broader industry outreach in the fall and finalize CIMPA membership