



SUMMARY OF THE DISCUSSION

Toronto, February 6, 2024, 4:00 p.m. to 6:00 p.m.

1. Recent bond market developments

CFIF was joined by Ian Pollick, Managing Director, Head, Fixed Income, Currency & Commodity (FICC) Strategy Team, CIBC Capital Markets, for a discussion on the recent drivers in the Canadian repo market which have impacted the Canadian Overnight Repo Rate Average (CORRA) settings.

Mr. Pollick noted that CORRA, which is calculated from overnight repo transactions using GoC securities as collateral, has deviated from the Bank's target overnight rate for 20 consecutive weeks, beginning in September 2023. He noted that in his opinion this is not a concern and disagreed with the often-cited reason that settlement balances have fallen below a required threshold, pointing out that the current level of just over \$100 billion provided more than enough liquidity. Instead, he thinks institution specific funds transfer pricing dynamics, which cause dealers to self-fund more than usual, increased regulatory costs, and the distribution of settlement balances are making leverage incrementally more expensive and pushing CORRA higher.

The speaker then presented his expectations on the path of settlement balances and their implications for CORRA. He also shared his recommendations on potential ways to mitigate some of the recent pressure on CORRA, including the potential introduction of tiered pricing for settlement balances that has been successfully used in some other jurisdictions. He noted that it is not clear that ending quantitative tightening, which will stabilize the level of settlement balances, will exert downward pressure on CORRA but may only limit further upward pressure. He also emphasized that the Bank of Canada should avoid reverting back to the corridor system at all costs.

CFIF members were informed that Deputy Governor Toni Gravelle will give a [speech](#), hosted by CFA Toronto Society, on the normalization of balance sheet on March 21, 2024.

2. Upcoming consultation on eligibility of Maple Bonds for the FTSE Canada Universe Bond Index

David Sol, Head of Governance and Policy, Nikki Stefanelli, Head of Fixed Income and Multi-Asset Index Policy, and Marina Mets, Fixed Income and Multi-Asset Product Management, Americas from FTSE Russell discussed their [intention](#) to open a public consultation on potentially adding Maple Bonds to the FTSE Canada Universe Bond Index. They noted that Canada is an outlier in not having these types of bonds as part of the key benchmark index.

The consultation will gather feedback on the development of the Maple Bond market, sector, and issuer country eligibility, as well as implementation considerations for any potential rule change, such as notice period and go-forward inclusion.

CFIF members provided preliminary feedback on the initiative. Some members strongly support the idea as it would improve liquidity in the asset class and potentially bring new global issuers into the Canadian market. On the other hand, a few members raised concerns regarding the commitment of some Maple bond issuers to the Canadian marketplace with respect to sustained Canadian dollar issuance and, potentially, the difficulties faced by the investors in the case of an abrupt bankruptcy of the issuer that is litigated outside of Canada. Members discussed some ways to alleviate these concerns including having a minimum number of credit ratings, and criteria on minimum issuance and syndicate size to ensure any Maple Bonds that would be eligible for the index is widely distributed.

The co-chair thanked FTSE Russell for their update and encouraged members to provide their feedback during the public consultations, which is expected to be launched before the end of February.

3. Update on the launch of CIMPA and wind down of the GMF

CIMPA co-chairs provided an update on the progress made towards establishing the group. The industry meeting, held on January 10, 2024, with over 40 key stakeholders was well received and the initiative received close to unanimous industry support. Based on this wide-ranging support, CFIF has asked the co-chairs to officially form the committee.

The co-chairs discussed the potential CIMPA composition, including potential firms. CFIF members underlined the importance of having custodians on the committee given their importance in ensuring successful implementation of any collateral related infrastructure initiatives. Based on the CFIF feedback the co-chairs will finalise CIMPA membership and start to reach out to potential individual members. They noted the plan is to launch CIMPA by the end of March, with the first meeting expected to take place in April 2024.

The GMF co-chairs noted that the final framework on a fee for failing to settle GoC securities transactions was published on January 11. They also noted that GMF will be officially unwind as the remaining work on the fail fee, including its governance, will be incorporated into CIMPA. CFIF members agreed to this change, which had been previously discussed in the fall.

4. CARR update

CARR's co-chairs provided an update on the group's work since the last CFIF meeting in November, noting that the CDOR transition continues to progress well.

The co-chair noted that the institutional participants in the derivatives market have almost completely transitioned, with residual CDOR activity focused on converting legacy exposures to CORRA. The corporate clients have also begun transitioning their derivative activity. They noted that liquidity in futures is now overwhelmingly concentrated in CORRA futures rather than BAX futures, with any remaining HFTs still in BAXs expected to transition to CORRA futures fully soon.

The co-chair mentioned that loans had started to transition from CDOR to using either CORRA or Term CORRA, with the choice of the benchmark rate depending on whether the loan was hedged. They noted that for existing CDOR facilities that are hedged, the borrowers need to consider the effectiveness of the hedge going forward by transitioning both the loan and the hedge at the same time by aligning the fallbacks between the two products.

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. BA Transition Virtual Network update

The co-chairs of the BA Transition Virtual Network (Network) updated CFIF on the progress on the group's work.

The Network had a productive meeting with Department of Finance in December to discuss the potential temporary issuance of a 1-month treasury bill to help with the smooth transition away from Bankers' Acceptance (BAs). Any decision on a 1-month T-bill is expected to be announced through the Government's Debt Management Strategy which is published concurrently with the next budget. In addition, the group continues to have dialogs and regular updates from the TMX regarding the launch of the [Canadian Collateral Management Services](#) to introduce a triparty repo solution in Canada and CDCC on their Secured General Collateral (SGC) note initiative to provide a secured repo security.

From the educational front, the Network is working on two documents, one on asset-backed commercial paper (ABCP) and another on the repo market, to help investors that are unfamiliar with these products to better assess how ABCP and reverse repo may fit into their BA transition strategy.

The co-chairs also provided an update on the market conditions of the BA market. It was noted that BA trading volume has decreased by around 25% since the beginning of November, which is consistent with the [CFIF recommended path](#) for wind down of the BA market. Although market participants seem to be adjusting to the lower BA environment, the co-chairs reiterated the important role a potential 1-month treasury bill can play in the transition away from BAs.

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

6. Other business

CFIF members were informed that a roundtable will be organized in April with the Financial Markets Standards Board (FMSB) and bank dealers to discuss pre-hedging.

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
Bronwyn Ward, CPP Investment Board
Philippe Ouellette, Fiera Capital
Rob Goobie, Health Care of Ontario Pension Plan
Kelsey Gunderson, Laurentian Bank Financial Group
Vinayak Seshasayee, PIMCO
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

Ian Pollick, Managing Director & Head FICC Strategy, Global Markets, CIBC Capital Markets

Item 2

David Sol, Head of Governance and Policy, FTSE Russell
Nikki Stefanelli, Head of Fixed Income and Multi-Asset Index Policy, FTSE Russell
Marina Mets, Fixed Income and Multi-Asset Product Management, Americas, FTSE Russell

Item 5

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

Bank of Canada:

Toni Gravelle, Co-Chair
Wendy Chan, Secretariat
Harri Vikstedt
Nick Leswick
Sheryl King
Stéphane Lavoie
Boran Plong