CANADIAN FIXED-INCOME FORUM

SUMMARY OF THE DISCUSSION

Toronto, May 6, 2025, 4:00 p.m. to 6:00 p.m.

1. Recent bond market developments

CFIF was joined by William Marshall, Head of US Rates Strategy, Goldman Sachs, and Ian Pollick, Managing Director and Head, FICC Strategy, CIBC for a discussion of the de-dollarization theme and potential impact on the US and Canadian markets.

Mr. Marshall observed that flows data do not suggest any signs of consistent selling in US Treasuries. He noted that the volatility observed in April was more consistent with deleveraging by the levered community, mainly hedge funds, instead of the outright selling of US dollar (USD) assets and dash for cash behaviour observed during the pandemic lockdowns. Instead, de-dollarization appears to be happening in a passive manner. The speaker noted that the typical purchase of US Treasuries associated with a depreciation of USD to rebalance exposure did not happen in recent weeks, suggesting there may be some reduction in US Treasury holdings in relative terms. In fact, foreign ownership has diminished as a share of US Treasury market since late 2000s and the share of net US Treasuries purchase by foreign private investors has surpassed the share of foreign official buyers over the last decade. According to Mr. Marshall, tailwinds for USD assets, such as bond supply constraints from the rest of the world and sustained periods of comparatively attractive US yields, both outright and FX-hedged, will likely diminish going forward.

Mr. Pollick echoed many points made by Mr. Marshall. He pointed out that the recent theme of US pessimism, which is charactered by a selloff of risk asset and a deprecation of the USD, is a rare event, happening approximately 5% of time[1] since 1996. He noted that the world remains overweigh US assets and that the European market has the best chance of becoming a viable alternative to the US market over the medium term, with the Canadian market being too small to absorb all the potential USD asset repatriation flow from Canada. He also commented that global term premia remain low compared to history, but that they have been on the rise on concerns over increased government fiscal spending and a reduction in central bank balance sheets. According to Mr. Pollick, the first adjustment that asset managers will likely make regarding their USD assets is an increase to their foreign exchange hedge ratio.

Both speakers agreed that US policy uncertainty is chipping away the dominance of USD assets in financial markets and hastens the speed of migration towards a more diverse and multi-polar global financial system. However, both speakers believe any movements away from USD assets, including US Treasuries, will take time and will likely be very gradual. Changes in banking regulations that improve dealer capabilities to intermediate, such as relief in the supplementary leverage ratio (SLR), will provide further support to the US Treasury market. At the same time, policies that undermine the stability of US institutions, such as the potential firing of the US Federal Reserve chairman, may lead to disorderly outcomes.

[1] Measured on a quarterly frequency.

2. Surveys on benchmark and money markets

A representative from the Bank of Canada informed CFIF that the BIS Markets Committee is finalising a survey on the use of interest rate benchmarks that will be circulated to global market participants sometime over the summer.

CFIF Secretariat also sought CFIF feedback on the usefulness of conducting a survey focusing on how the Canadian money market has transitioned away from BAs. Members concluded that given the smooth transition, there is limited value in conducting a survey at this time.

3. Update on Term CORRA

CFIF was joined by Andrew Munn, Head of Benchmarks at CanDeal Benchmark Administration Services (CBAS), for an update on Term CORRA ,which they administer. Mr. Munn noted that Term CORRA is now the key Canadian benchmark for corporate loans replacing CDOR, referenced by well over $200B of drawn loans and commitments. It is used by over a hundred global lenders.

He reminded members that the Term CORRA rate is calculated using quotes and trades from 1- and 3-month CORRA futures, and that while there have been sufficient quotes in the 1-month futures contract to calculate a robust level 1 rate, the volume of actual trades has been much lower than anticipated. As a result, the Montréal Exchange (MX) and CBAS are considering changes to the existing market maker contract to generate more trading volume in 1-month CORRA futures in order to ensure the long-term viability of Term CORRA.

Mr. Munn reiterated to CFIF the importance for all participants with Term CORRA risk to support the 1-month CORRA futures contract.

4. CAG update

A Bank of Canada representative provided an update on the work carried out by the CORRA Advisory Group (CAG). The representative informed CFIF that the 5-year sunset review of the CORRA methodology is focusing on potential changes to three areas: (i) the methodology used to remove the effect of bonds trading on special from the calculation of CORRA (i.e. the trim rate); (ii) the inclusion in the calculation of repo trades done with the Bank of Canada, and (iii) the minimum volume fallback threshold. However, he noted that the bar is high for any changes to the calculation as the rate is deemed as representative of the overnight GoC general collateral rate that it is meant to track. He also noted that CFIF members will be kept informed on the progress of the review and that any major changes that would impact the calculation methodology (i.e. have an impact on the daily calculated rate) would require a public consultation.

5. CIMPA update

CIMPA co-chairs informed CFIF that 11 participants, including 1 custodian, have so far joined the Canadian Collateral Management Service (CCMS), the recently launched triparty service from TMX and Clearstream. Over 20 additional market participants will be onboarded in two waves over the summer and fall, with over 35 participants expected to be active on the system by the end of the year, including two additional custodians. As a result, the volume of repo activity conducted through CCMS is expected to substantially increase.

The CIMPA co-chairs also provided an update on the work conducted by the various CIMPA subgroups since the last CFIF meeting. They noted that a new workstream would be formed under the Custodian subgroup to review the current settlement process.

The co-chairs mentioned that a new permanent subgroup would be formed in June with responsibility for the governance of the fail fee for Government of Canada securities trades. The framework for the fail fee had been approved and published by CFIF in January 2024. This subgroup will initially support CDS in building the infrastructure necessary to track and report fails, as well as monitor the 12-month trial period expected to begin towards the end of 2025 or beginning of 2026. During the trial period, CDS will start publishing the fail rates and producing monthly reports indicating what fees would be payable or be received if the fail fee was in place. However, no fees will be paid or received during the trial period. The subgroup will also be responsible in determining whether (or when) the fee should be turned on, subject to CIMPA and CFIF approval, or kept dormant after the conclusion of the 12-month trial phase.

The co-chairs further noted that with the successful completion of CDS' Post-Trade Modernization (PTM), CIMPA is forming a small working group to advise CDS on the required changes needed to facilitate the issuance of a T+0 short-dated CORRA-based floating rate note (FRN), an initiative proposed by the BA Transition Virtual Network back in 2023. The proposed instrument would mirror characteristics of the U.S. Yankee Floating Rate Certificate of Deposit notes currently issued by the Canadian banks in the US market.

The co-chairs asked CFIF members to nominate individuals from their organisations for (i) the new fail fee subgroup, (ii) the settlement process workstream under the Custodian subgroup, and (iii) the working group on the T+0 CORRA-based FRNs. They also mentioned that they would be reaching out to the broader Canadian financial industry to get additional nominations to the three CIMPA initiatives. They suggested that firms contact the CFIF Secretariat with their proposed nominations.

6. CFIF credit beta project update

CFIF's Credit Beta Steering Committee chair updated members on the progress of the project. As mentioned previously, the group is working with FTSE Russell and the MX to launch a Canadian credit spread futures contract. The futures contract will track a credit spread index, developed by FTSE Russell, based on a basket of senior and subordinated Canadian big-6 bank bonds. The chair noted that currently the expected launch date for the futures contract will be in Q1-2026, subject to applicable approvals. The committee chair informed CFIF that the group would like to rebrand the project and use the name Canadian credit futures going forward.

The speaker also noted that it takes time to onboard a new product and reiterated the importance of strong participation by all market participants at the launch as the success of the product will largely depend on wide participation.

7. Other business

The co-chair of the Sustainable Finance Virtual Network (SFVN) updated CFIF members on the revised SFVN workstreams, noting that the Indigenous Bond workstream has attracted a lot of attention from various stakeholders.

A Bank of Canada representative informed CFIF members that the Canadian Investment Regulatory Organization (CIRO) is forming a subject matter expert (SME) group to review and potentially revamp the Market Trading Reporting System (MTRS) reports and publications. Buy-side participants were asked to indicate their interest in being part of this work to the CFIF Secretariat.

Meeting participants:

CFIF members:
Jim Byrd, RBC Capital Markets, Co-Chair
Brian D'Costa, Algonquin Capital
Nick Chan, BMO Capital Markets
Roger Casgrain, Casgrain & Company Limited
Karl Wildi, CIBC World Markets
Pablo Suarez, Citi Canada
TJ Sutter, Connor, Clark & Lunn Investment Management
Bronwyn Ward, CPP Investment Board
Philippe Ouellette, Fiera Capital
Luc Fortin, Montreal Exchange
Jason Lewis, Ministry of Finance, Province of British Columbia
Chris Miller, National Bank Financial
Vinayak Seshasayee, PIMCO
Elaine Lindhorst, TD Asset Management

Item 1
William Marshall, Head of US Rates Strategy, Goldman Sachs
Ian Pollick, Managing Director and Head, FICC Strategy, CIBC

Item 2
Andrew Munn, Head of Benchmarks, CanDeal Benchmark Administration Services

Bank of Canada:
Toni Gravelle, Co-Chair
Wendy Chan, Secretariat
Annick Demers
Jean-Philippe Dion
Grahame Johnson
Sheryl King
Stéphane Lavoie
Nick Leswick
Harri Vikstedt