



SUMMARY OF THE DISCUSSION

Fiera Capital Corporation Montreal Office, September 4, 2025, 4:00 p.m. to 6:00 p.m.

CFIF welcomed Jason Cope, Head of Global Fixed Income & Rates, Polar Asset Management Partners to the committee.

1. Recent bond market developments

CFIF was joined by Nathaniel Rosenbaum, US High Grade Credit Strategist, J.P. Morgan Securities, for a discussion of the current backdrop and outlook for the investment grade (IG) corporate bond market.

Mr. Rosenbaum noted that he expects IG spreads to end up only slightly wider than the historically tight levels currently by the end of 2025. He pointed out that majority of investors continue to focus on all-in yields, which remain high and lead to strong demand, and not on the tight spreads. According to the speaker, the impact of tariffs on corporate profit has been manageable. Earning growth has slowed but continues to be robust and provides support to IG spreads. Meanwhile, JPM's credit card data indicates that US consumer spending continues to be strong, suggesting the impact of tariff has been limited to date. He pointed out that the reduction in oil prices has been an important offset helping to support consumer behaviour. Despite the focus on tariffs, Mr. Rosenbaum noted that the health of US consumer remains the most important factor for the US economy as imports only accounts for 14% of US GDP.

The speaker commented that typically interest rate cuts by the Federal Reserves are marginally positive for IG spreads. In their base case, three interest rate cuts by the Federal Reserves are expected. Mr. Rosenbaum pointed out that the one of the biggest risks to his base case scenario is a materially weaker US economy and the resulting lower yield environment, which discourages investor demand. Another risk relates to merger and acquisition (M&A) activities. He noted that a much stronger US economy may propel M&A activity, and the resulting issuance binge can cause material widening of credit spreads.

Mr. Rosenbaum concluded his presentation by pointing out several supporting technical factors for US credit spreads. They include a more diverse pool of demand, both domestically and abroad, for US corporate bonds than for treasuries, expected inflows into bond funds from money market as the Federal Reserves starts to cut rates, improved relative value of owning US IG bond for foreign investors, and US being the only market where there is sufficient supply of long duration credit products.

2. Update on bond ETFs market

Matt Montemurro (Managing Director and Head of Fixed Income and Equity Index ETFs, BMO GAM), Simon Gourde (Managing Director, Co-Head of Structured Products and Bond ETFs Trading, National Bank of Canada), and Dennis Jang (Managing Director, Co-Head of Agency MBS Trading and Head of FI ETF Trading, Citigroup Global Markets) joined CFIF for a discussion on the fixed income Exchange Traded Fund (ETF) market. Representatives from the Bank of Canada also presented their work on bond ETFs during March 2020.

Mr. Montemurro began the discussion with an overview of the growth in the ETFs market in Canada, noting that within the fixed income space, the corporate bond sector has seen the biggest growth and is the area with the highest increase in institutional investors activity. He then described the ETF ecosystem and explained the three levels of ETF liquidity, as well as the ETF create and the redeem mechanism. The first level of ETF liquidity occurs naturally between buyers and sellers of ETFs through the exchange, while the second level of liquidity is provided by dedicated market makers, who are responsible for posting bids and offers on the exchange. The third level of liquidity is through the unit creation and redeem mechanism, which allows market makers to offset demand or supply by creating or redeeming units and keep making markets. The speaker also noted that there are three ways for the create and redeem mechanism to work. In-kind transfer¹ using a daily standard basket established by the ETF issuer is the most common form. Through a cash transaction², where cash is sent to the ETF issuer, who in turn interacts directing in the market and purchases or sells securities is also possible. Lastly, a custom basket of bonds that fits the portfolio needs of the ETF issuer may also be used for the creation of new ETF units.

Mr. Gourde shared his perspective, as an ETF market maker, with CFIF. He noted that ETFs footprint in Canada's bond market has been growing steadily, but as a percentage, it still is relatively small, at around 2.4%. He then clarified the difference between bond ETFs net asset value (NAV) and bond ETFs bid-ask prices. The bond ETF NAV calculation relies on either composite prices sourced from multiple contributors or evaluated prices from pricing service specialists. ETF bid-ask prices, on the other hand, incorporate the liquidity of the underlying bonds and are subject to the ETF creation and redemption framework and constraints. They are updated intraday, tradeable and act as a transparent price discovery mechanism for the bond market. Mr. Gourde also pointed out that ETF trading costs are usually externalized to the investors via the bid-offer spread. Mutual funds, on the other hand, usually internalize trading costs and spread them over the remaining unitholders.

Mr. Jang brought the viewpoints of a US ETF market maker to the discussion. He commended that cash bond trading in the US has materially moved from voice trading to electronic trading, which has also supported the growth in portfolio trading. The number of line items in a typical portfolio trade and the trade sizes have both been trending higher. He noted that for fixed income ETFs, the underlying product knowledge is important and some firms in the industry have their fixed income ETF trading reside with their fixed income function to take advantage of the expert knowledge, in contrast to Canada where most firms have their fixed income ETF trading resides with equities. The speaker concluded his presentation by describing some of the recent innovations and growth opportunities that have taken place in the US ETF space. They include continued mutual fund conversion to ETF, leveraged CLO ETFs, tax-advantaged fixed income ETFs and tokenized ETF offerings.

Representatives from the Bank of Canada shared with CFIF their work on the behaviour of bond ETFs during March 2020. They noted that the difference between ETF prices and their respective NAV spiked in March 2020 in Canada and the US. Central bank actions in the form of corporate bond purchasing programs, both by the Federal Reserve Bank of NY and the [Bank of the Canada](#) contributed to reducing this difference. The presenters pointed out that Canadian Bond ETFs and mutual funds rebalanced their portfolios differently during this time. Mutual funds reduced their cash and Government of Canada bonds and increased holdings in credit products while ETFs reduced their positions in all types of bonds and increasing their cash slightly.

¹ Securities are transferred without selling in the "market".

² There are usually additional charges associate with cash transactions.

3. Update on pre-hedging

A representative from the Bank of Canada updated CFIF on IOSCO's [pre-hedging consultation](#) process, noting that the final high-level guidance is expected to be released in November. The guidance will cover fixed income, commodities, currency and derivatives market. The speaker pointed out that the IOSCO guidance is meant for local securities regulators (i.e. IOSCO members) and it will be up to them to decide how to implement the guidelines in their respective jurisdictions.

CFIF Secretariat will circulate the final guidance document to the members when it is published.

4. SIMA Capital Markets Steering Committee

The co-chairs of SIMA Capital Markets Steering Committee gave CFIF an overview of [the Securities and Investment Management Association](#) (SIMA), formerly the Investment Funds Institute of Canada, and the newly formed Capital Markets Steering Committee. Members agreed that it was important to collaborate with SIMA and the new committee on issues relevant to the Canadian fixed income market. The CIMPA co-chair noted that SIMA is an observer on CIMPA.

5. CIMPA update

CIMPA co-chairs informed CFIF that setting up participants on the Canadian Collateral Management Service (CCMS) has been taking more time than expected, due to the industry's focus on CDS' [post-trade modernization](#) (PTM) system work, which has delayed new client onboarding efforts. The co-chairs mentioned that 20 to 25 participants, including a number of larger buy-side participants, are expected to be set up on the system by the end of the year.

The co-chairs noted that a dedicated workstream is being finalized to support the development of a short-dated T+0 CORRA based floating rate note (FRN), a follow up item from previous work by the BA Transition Virtual Network.

The co-chairs also mentioned that the Fail Fee subgroup, which will be responsible for the governance of the fail fee for Government of Canada securities trades, is in the process of being formed. 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 sometime in the first half of 2026. The trial period will be to test the process and ensure that the fees are correctly captured, but no actual fees will be paid or received during the 12-month trial period. The subgroup will also be responsible in determining whether (or when) the fee should be turned on (for payment), subject to CIMPA and CFIF approval, or kept dormant (i.e. calculated but not paid) after the conclusion of the trial phase.

Other business

A Bank of Canada representative updated CFIF on the progress of the [CORRA Sunset review](#). The Bank expects to publish the results of the sunset review before the end of the year, which include no change at this time to the calculation methodology for the CORRA rate.

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 (virtual)
Chris Miller, National Bank Financial
Vinayak Seshasayee, PIMCO
Jason Cope, Polar Asset Management Partners
Elaine Lindhorst, TD Asset Management

Guest speakersItem 1

Nathaniel Rosenbaum, US HG credit Strategist, J.P. Morgan Securities

Item 2

Matt Montemurro, Managing Director and Head of Fixed Income and Equity Index, BMO GAM
Simon Gourde, Managing Director, Co-Head of Structured Products and Bond ETFs Trading, National Bank of Canada
Dennis Jang, Managing Director, Co-Head of Agency MBS Trading and Head of FI ETF Trading, Citigroup Global Markets

Bank of Canada:

Toni Gravelle, Co-Chair
Wendy Chan, Secretariat
Andreas Uthemann (virtual)
Annick Demers
Jean-Philippe Dion (virtual)
Grahame Johnson
Rishi Vaka (virtual)
Harri Vikstedt