



SUMMARY OF THE DISCUSSION

Toronto, May 7, 2024, 4:00 p.m. to 6:00 p.m.

1. Introduction

The co-chairs welcomed Chris Miller, Managing Director, Head of Interest Rate Trading, National Bank Financial, and welcomed back Roger Casgrain, Executive Vice-President, Casgrain & Company Limited to the Canadian Fixed Income Forum. The co-chairs also informed members that Kelsey Gunderson, John McArthur, and Paul Scurfield will be leaving CFIF. The co-chairs expressed their gratitude to Messrs. Gunderson, McArthur, and Scurfield for their contributions to the group.

2. Recent bond market developments

CFIF was joined by Gennadiy Goldberg, Head of US Rates Strategy, TD Securities, for a discussion on the impact of US fiscal deficits on the US Treasury market.

Mr. Goldberg remarked that US deficits are on one of the worst trajectories on record. They are set to deteriorate further than the Congressional Budget Office (CBO) deficit estimates as some of the \$3 trillion 2017 tax cuts are likely to be renewed next year. He noted that mandatory outlays continue to grow. Interest payments are increasing rapidly, running at 3.6% of GDP over the past 12 months compared with just 2.1% in 2021. Discretionary spending now makes up less than 30% of all outlays, of which half of it is military spending. The reinstatement of the debt ceiling in early 2025 coupled with relatively smaller share of discretionary spending would likely make the upcoming political negotiations challenging. He believes next year's negotiation is likely to be one of the most contentious showdowns since 2011 and sees a potential risk of another downgrade to the US credit rating. He also thinks the bar for the Federal Reserve to intervene if liquidity conditions deteriorate is high and that the markets may be relying too much on a central bank backstop.

Despite the negative deficit outlook, Mr. Goldberg believes the Treasury market is likely to remain focused on inflation and growth in the near-term. However, with dealer balance sheets remaining constrained and the deficit outlook continuing to deteriorate, investor sentiment can change rapidly, and markets may continue to suffer from intermittent bouts of volatility alongside rising term premium.

3. Update on T+1 settlement

The discussion began with an update from the Canadian Capital Market Association (CCMA), who are coordinating the move to T+1 in Canada. Keith Evans, Executive Director, CCMA and Jason O'Born, Managing Director, Global Head Securities Clearance, RBC Capital Markets updated CFIF members on the industry's readiness to move to T+1 settlement.

CFIF was informed that the first T+1 trade date for Canada, Mexico and Argentina will be May 27, 2024, while the first US T+1 trade date will be Tuesday, May 28, 2024, given the Memorial Day holiday in the US on the Monday. The date for T+1 transition for Europe and the UK is still unknown though both jurisdictions are committed to transition by the end of 2027.

The speakers presented the key findings of the December/January 2024 T+1 Pulse Survey.¹ Survey results showed that 76% of US and Canadian participants are engaged and prepared for T+1. While large institutions are generally prepared for the transition, investors are lagging with 30% of global investors, mainly in Europe and Asia, still unprepared for T+1. They noted that several issues relating to ETFs, mutual funds, securities lending, and foreign exchange markets remain to be resolved, with 28% of survey respondents expecting their T+1 work to continue after May 2024. Because of the potentially lingering issues, the average trade fails rate is expected to increase temporarily from 2.9% to 4.1% after the move to T+1.

CCMA will continue to work closely with relevant stakeholders for the smooth transition to T+1. CFIF thanked CCMA for their update and their work on the transition.

The discussion then turned to Government of Canada's (GoC) primary auctions. A representation of the Bank of Canada informed CFIF that the government intends to proceed with the move to T+1 for primary market issuance and cash management bond buybacks (CMBB) following the secondary market's move. He noted that the Bank had recently consulted the primary dealers on whether the primary market should also move to T+1, and that the team was asking for CFIF members feedback on any potential fatal flaws or red flags that could prevent the plan to move forward.

Members did not raise any issues and are comfortable with GoC auctions transitioning to T+1 settlement.

4. Debrief of the roundtable on global development on pre-hedging

The Bank of Canada, on behalf of CFIF, and together with the Financial Markets Standards Board (FMSB) hosted in April an in-person roundtable on global developments in pre-hedging, especially as it applies to FX and fixed-income. The FMSB led the roundtable discussion, which outlined the existing guidance on pre-hedging from the [Global Foreign Exchange Committee](#) (GFXC) and from the [FICC Markets Standards Board](#) (FMSB). They also discussed some of the recent regulatory developments on pre-hedging from Australia, European Securities and Markets Authority's (ESMA) previous work on the topic, and the potential upcoming work being done by International Organization of Securities Commissions (IOSCO) on the subject.

CFIF members pointed out that any regulatory guidance should allow for the unique characteristics of local markets and that very granular rules could negatively impact market liquidity. The Bank will follow up with the relevant Canadian Securities Administrators (CSA) to ensure that they are fully aware of the pre-hedging issues and industry discussions related to the topic.

¹ By DTCC, TMX, AFME, ASIFMA, EFAMA and ISITC.

5. CIMPA update

The Collateral Infrastructure and Market Practices Advisory Group ([CIMPA](#)) was officially [launched](#) on April 25, 2024. The group will meet on a quarterly basis and the inaugural meeting will be held in Toronto on May 16, 2024. Initial efforts are focussed on addressing any implementation issues for the Canadian Collateral Management Service ([CCMS](#)), which will bring tri-party repo to Canada, as well as getting broad participation in the service. CCMS will help modernize the Canadian repo market and ultimately support bond market liquidity.

CIMPA will work with industry stakeholders to provide guidance and support changes to Canadian financing and collateral infrastructure and develop market practices that support the safe and efficient movement of securities in the cash, collateral, and securities financing markets.

6. CARR update

CARR's co-chairs provided an update on the group's work since the last CFIF meeting in February, noting that the CDOR transition continues to progress well with only 52 days left before CDOR ceases to be published.

They noted that the Montreal Exchange recently converted all but the June BAX contract into CORRA futures and that CME and LCH are preparing for the conversion of cleared OTC CDOR interest rate swaps to CORRA on May 17 and June 8 to 9, respectively. The transition in loan markets is on schedule for bilateral corporate loans, but slightly behind for commercial and syndicated loans, with the bulk of the conversions to CORRA or Term CORRA expected to occur just prior to the cessation of CDOR. This is similar to what happened with USD LIBOR based loans. They also noted the government's [introduction](#) of the one-month treasury bill to support the transition from BAs, which so far has been relatively orderly.

They also noted that CARR recently released a market [notice](#) reiterating that market participants with CDOR-based loans, derivatives or securities must prepare for CDOR's cessation post June 28, 2024. CDS has also issued a [bulletin](#) and a [template](#) regarding fallbacks for securities referencing the CDOR, which provides a process for issuers to update market participants on the applicable CDOR fallback that would apply after CDOR ceases to be published. CARR will soon [publish](#) two presentations to clarify how CARR's recommended fallback rate for floating rate notes that reference CDOR should be implemented for calculating the coupon and accrued interest post June 2024.

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.

7. CFIF credit beta project update

CFIF's Credit Beta Steering Committee updated members on the progress of the project. Feedback from market participants from previous workshops indicated a strong preference for a futures-based product of a tradeable Canadian corporate credit basket instead of an OTC solution. Since their last presentation to CFIF, the group has been focusing on finding ways to ensure liquidity of the potential new futures product. The conclusion is to narrow the basket and create a bank-only securities based futures contract instead of basing it on a broad basket of corporate bonds. Although the coverage is narrower, the

correlation with the FTSE Canada All Corporate Bond Index of such a product is strong and if proven successful, may allow for creation of a more comprehensive basket in the future.

The Credit Beta Steering Committee will continue to work with TMX and relevant partners to develop and finalise the product.

Meeting participants:

CFIF members:

Jim Byrd, RBC Capital Markets, Co-Chair
Nick Chan, BMO Capital Markets
Roger Casgrain, Casgrain & Company Limited
Karl Wildi, CIBC World Markets
TJ Sutter, Connor, Clark & Lunn
Grahame Johnson, Department of Finance
Philippe Ouellette, Fiera Capital
Rob Goobie, Health Care of Ontario Pension Plan
Chris Miller, National Bank Financial
Vinayak Seshasayee, PIMCO
Jason Lewis, Ministry of Finance, Province of British Columbia
Elaine Lindhorst, TD Asset Management
Eugene Lundrigan, SLC Management

External participants:

Item 2

Gennadiy Goldberg, Head of US Rates Strategy, TD Securities

Item 3

Kevin Evans, Executive Director, CCMA
Jason O'Born, Managing Director, Global Head Securities Clearance, RBC Capital Markets

Bank of Canada:

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