



SUMMARY OF THE DISCUSSION

Toronto, May 16, 2024, 4:00 p.m. to 6:00 p.m.

1. Welcome and introductions

The co-chairs welcomed members to the inaugural meeting of the Collateral Infrastructure and Market Practices Advisory Group (CIMPA) and thanked them for their participation in the Group. Members introduced themselves and shared their areas of expertise and acknowledged the importance of, improving collateral management, enhancing liquidity and developing best practices.

2. Background and objectives of CIMPA

The co-chairs presented the main objectives and initial priorities of CIMPA. They provided a historical context of collateral management and its evolution since the global financial crisis (GFC). The role of collateral has expanded since the GFC, becoming a critical component in balancing liquidity and capital, necessitating a more robust infrastructure to support these functions effectively.

They noted that Canadian collateral infrastructure lags its international peers and faces several challenges. There is a lack of breadth for financing non-Government collateral and less ability to finance for longer tenors. Additionally, since the market is primarily based on bilateral repo, there is no ability to trade General Collateral (GC) baskets, restricting market flexibility. Furthermore, limited CCP repo coverage and limited acceptance of Canadian Dollar collateral abroad add to the challenges. The process is also more operationally intensive due to the lack of a widely used tri-party platform, adding to the inefficiencies.

Therefore, CIMPA has been established by the Canadian Fixed Income Forum (CFIF), to promote the well-functioning of the Canadian securities and financing market through improved operational efficiency, reduced market segmentation, and industry coordination on related issues and initiatives. Its goals are to address these challenges by focusing on several strategic objectives. These include improving interconnectedness, standardization and automation of securities flows, supporting market functioning, and facilitating broad adoption of the recently introduced Canadian Collateral Management Service (CCMS) to improve the efficiency and effectiveness of collateral management, and establishing industry standards and best practices to reduce operational errors and increase transparency. The importance of collaboration was emphasized, with a focus on fostering cooperation between industry participants to create a cohesive approach to market improvements. While CIMPA is not a regulatory body, it will work closely with regulatory agencies to ensure that any proposed changes align with regulatory requirements.

The co-chair provided an overview of how CIMPA will be organized and expectations of members. Work will primarily be done through CIMPA subgroups formed across industry subject matter experts. Any recommendations made by CIMPA will be tabled to CFIF for final approval. Substantiative changes will be subject to broader public consultation. The Bank of Canada will provide

secretariat functions. Finally, it was noted that the secretariat will circulate a draft Terms of Reference for approval.

The discussion highlighted how other markets, such as the UK, Europe, and the US, have addressed similar issues. Members agreed that the group can learn from these jurisdictions to avoid pitfalls and adopt best practices.

3. Canadian Collateral Management Service (CCMS) update

A representative from the TMX provided an update on the Canadian Collateral Management Service – a tri-party repo service developed by the TMX and Clearstream. He highlighted the current status, noting that the first CCMS trades took place in April. He also outlined the future roadmap for the initiative. He noted strong market support for the service with a healthy pipeline of participants showing interest in joining CCMS. The onboarding of buy-side firms is set to commence in June, followed by the integration of the custodian model. Members from CDS also shared insights on the lessons learned from onboarding participants and executing trades through CCMS. They highlighted the behavioral changes required to adapt to the highly automated nature of CCMS and the need for continuous education and support for market participants.

The discussion also covered the ongoing development of a framework for standardized baskets of collateral, with the aim to create a more scalable and flexible system that allows for easy financing and trading of collateral baskets.

Additionally, the equity collateral feature of CCMS is ready for trade, which has generated significant interest from asset managers.

The roadmap for CCMS was discussed in detail, with a focus on the bilateral trade capabilities and post-trade modernization (PTM). The goal is to enable more efficient and timely settlement processes, particularly in the context of T+1 settlement cycles. The PTM platform is seen as a transformational tool that will streamline post-trade activities and reduce operational friction.

4. Confirmation of priorities and the way forward

Members agreed that CIMPA's initial focus should be to make the CCMS fully operational and increase adoption in Canada. Three subgroups will be formed to help fully operationalise CCMS and ensure maximum operational effectiveness for the Canadian repo market:

- a. Custodian Model: This subgroup aims to develop working models for custodians to ensure a seamless integration of custodians into the system which will facilitate buy-side involvement in CCMS. This subgroup will be co-chaired by a member from CDS.
- b. Standardized Basket: This subgroup will focus on developing standardized general collateral (GC) repo baskets. The objective is to create standardized baskets that can be easily traded and financed, improving access to the Canadian repo market. A representative from the Bank of Canada will be one of the co-chairs.

- c. Valuation – Pricing and Haircuts: The aim of this subgroup is to develop standardized valuation methodologies for market participants, including pricing and haircuts. A representative from CDS will co-chair this subgroup.

Participants were requested to specify if their institutions are interested in participating in any of these subgroups. The subgroups are expected to be formed by late June.

Another priority identified was overseeing the eventual implementation of a [fail fee framework](#) developed by CFIF. This framework aims to penalize settlement fails in Government of Canada securities to encourage timely settlements and reduce operational risks.

The group also agreed that another important initiative was to ensure that floating rate Bearer Deposit Notes (BDN) issuance could be facilitated on a T+0, instead of T+2, basis for the Canadian money market. This will facilitate investments in BDNs as an alternative to Bankers' Acceptances (BAs) once their issuance ends.

5. Recent market developments

A representative from the Bank of Canada provided an update on the Bank of Canada's transition from the Securities Repo Operations (SRO) to the Securities Lending Program (SLP). This transition is scheduled to take place in Q3/Q4, with further details to be shared with primary dealers and market participants prior to implementation.

A member from CDS provided an update on the industry's preparedness for the transition to T+1 settlement, noting that extensive testing has been conducted and everything appears to be in order. The group also discussed potential adjustments to inter-dealer broker repo auction timings to accommodate the T+1 settlement cycle, highlighting the need for flexibility and coordination.

The member from CDCC provided an update on the progress of the Secured General Collateral (SGC) initiative, highlighting the successful onboarding of the SGC product by CDCC within the TMX framework.

6. Other items

In closing, CIMPA's co-chairs reiterated their gratitude for the members' commitment and support, emphasising the collaborative nature of CIMPA and the importance of working together to achieve the group's goals. Members were encouraged to reach out with any questions or suggestions and to stay engaged in the ongoing discussions and activities.

Members agreed that CIMPA would meet quarterly in person at the Bank of Canada's Toronto office. The Secretariat will distribute a meeting schedule for the remainder of the year and placeholders for 2025 following the end of the meeting.

Meeting participants:

CIMPA members:

Nicholas Chan, BMO Capital Markets, Co-Chair
André Zanga, Casgrain & Company Limited
George Kormas, CDCC
Steve Everett, CDS
Rob Lemon, CIBC
Louis Lesnika, CIBC Mellon (representing Richard Anton, CIBC Mellon)
Sandy McRae, CPP Investment Board
Marcus Barrett, Fiera Capital
Rob Goobie, HOOPP
David McKinnon, Manulife
Chris Miller, National Bank
Rajiv Nambiar, RBC IS (representing Arthur Kolodziejczyk, RBC IS)
Ciaran Dayal, Scotiabank (representing Robert Dias, Scotiabank)
Travis Keltner, State Street
Adnann Syed, TD Asset Management

External participants:

Craig Kinart, CDS
Kevin Sampson, TMX
Fabrice Tomenko, Clearstream

Bank of Canada:

Harri Vikstedt, Co-Chair
Maks Padalko
Wendy Chan
Jean-Philippe Dion
Zahir Antia
Danny Auger
Adrian Walton
Xuezhi Liu
Greyson Addo