



SUMMARY OF THE DISCUSSION

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

1. Introduction

The co-chairs welcomed Luc Fortin, President and Chief Executive Officer of the Montréal Exchange (MX) and Global Head of Trading, TMX Group, to the Canadian Fixed Income Forum.

2. Recent bond market developments

CFIF was joined by Vishwanath Tirupattur, Managing Director and Chief Fixed Income Strategist, Morgan Stanley, and Frances Donald, Chief Economist, RBC to present their outlook for fixed income markets in 2025 and the impact of tariffs on the Canadian and US economies.

Mr. Tirupattur noted that unlike the first Trump administration where tax cuts were implemented before tariffs, he expects the opposite sequence to happen in the current administration. His base case scenario has factored in all announced tariffs from the US, which includes 25% tariffs on Mexican goods and most of Canadian imports.¹ He has also built in a ramp up of tariffs on Chinese imports in addition to the recently announced 10% tariff for Chinese goods. He sees both tariffs and immigration policy by the Trump administration to be inflationary and that they will dampen growth in the US. While he expects the tax cuts to be extended, he does not believe there will be any significant increase in US deficit this year. In fact, he expects net issuance of US Treasuries in 2025 to be lower than 2024. As a result, Mr. Tirupattur is bullish on duration and credit and expects longer term US fixed income and credit markets to perform well in 2025.

Ms. Donald's discussion focused on the impact of tariffs on the Canadian and US economies. She pointed out that the average US import tariff rate will increase by more than 3 times, from 3% to 11%, should all announced tariff measures come into effect. She also noted that today's economy both in the US and Canada is very different compared to 2018, where tariffs on Canadian imports were introduced in the first Trump administration. She estimated that Canada will enter a recession should the announced US tariffs on Canadian goods last for more than 3 months. She also noted that although tariffs have a stagflationary impact on both economies, the relative impact on inflation and growth will be different. For Canada, the negative impact on growth will likely outweigh the upward pressure in prices, whereas in the US, the inflationary impact of tariffs will be more pronounced. Moreover, she pointed out that the Trump administration's policy on immigration will put further pressure on US inflation. US is projected to face the largest number of retirees in history in 2025, increasing the risk of labour shortages and putting upward pressure on wages, especially in the manufacturing sector in the mid-west.

¹ 10% tariffs on energy resources.

Both speakers commented that there is currently a lot of policy uncertainty, and as a result market volatility will likely continue. They are prepared to revise their base case forecast in the event of new policy announcements.

3. Global developments on pre-hedging

A representative from the Bank of Canada reminded CFIF that the Board of International Organization of Securities Commissions (IOSCO) released a [consultation report on pre-hedging](#) in November 2024 and is seeking industry feedback on its pre-hedging recommendations by February 21, 2025.² The speaker noted that the recommendations in the IOSCO consultation report align closely with the Global Foreign Exchange Committee (GFXC) [pre-hedging whitepaper](#), the Financial Markets Standards Board (FMSB) [Spotlight Review on pre-hedging](#), and the [Standard for the execution of Large Trades in FICC markets](#). In the consultation report, IOSCO aims to formulate a global standard definition of pre-heading across fixed-income, currency and commodities markets. IOSCO aims to release the final guidelines and recommendations for their IOSCO members by the end of 2025. Member regulators can then decide on appropriate implementation for their respective jurisdictions. CFIF members who would like to provide comments to the consultation can submit their responses directly or through their relevant industry association.

The speaker also noted that the FMSB has included pre-hedging practices for new issuance swaps for their 2025 workplan.

4. Credit rating selection process by issuers

A member referenced recent incidents where issuers in Canada have taken measures to manage potential negative credit rating revisions by dropping unfavourable ratings and requesting credit rating agencies to withdraw their unsolicited rating reports. It was noted that these actions have at times introduced additional volatility to the market because of the tie between credit ratings and index inclusion rules, particularly for investment grade securities. The speaker commented that these actions may affect credit investors negatively and have the potential of weakening the integrity of the Canadian fixed income market.

A few members noted that significant amount of work has been done after the global financial crisis aiming to solve the potential conflict of interests between credit rating agencies and securities issuers. The incentive structure introduces complexity to the matter since the credit rating is paid by the issuer. Another member expressed doubt that a policy answer is possible and pointed to the importance of investor due diligence when it comes to credit ratings.

CFIF agreed that the group can benefit from more information before deciding on potential next steps. A member volunteered to share their firm's work on the subject with CFIF members. Another member made several suggestions on potential adjustments to the index inclusion rules to mitigate the risk of increased volatility due to bonds getting in and out of the index rapidly.

² The Bank of Canada, on behalf of CFIF, and together with the Financial Markets Standards Board (FMSB) hosted an in-person roundtable on global developments in pre-hedging, especially as it applies to FX and fixed-income in April 2024.

It was agreed that this should potentially be further discussed with FTSE Russell at a future CFIF meeting.

5. CIMPA update

The Bank of Canada CFIF co-chair informed members that the Bank will join the [new Canadian Collateral Management triparty service](#) (CCMS), a triparty infrastructure aimed at enhancing market efficiency. He noted that CCMS operational efficiencies improve scalability and strengthen the Bank's monetary policy and liquidity provision market operations.

CCMS will enable the Bank to execute its operations with greater speed and flexibility, including same-day unlimited substitutions of securities used in repo transactions. The Bank intends to conduct most of its regular repo operations such as overnight and term repos with all Primary Dealers via the CCMS. Following the launch of repos, the Bank will explore using CCMS for securities lending. Throughout the implementation phase, the Bank will engage in consultation and testing with its major counterparties, Primary Dealers.

The Bank expects to begin system implementation in the second half of 2025. The go-live date will be announced several months before the Bank expects to complete all implementation and testing activities.

The CFIF co-chair also noted that the Bank will publish a [Staff Analytical Note](#) outlining the benefits of CCMS for Canadian financial market participants and detailing its role in supporting the repo market.

Members agreed that the Bank's decision to join will encourage participation in CCMS.

The CIMPA co-chairs informed CFIF members that the TMX is currently onboarding 35 counterparties to join CCMS. Most Primary Dealers are expected to be on the system by the end of Q1 2025. One custodian has already been onboarded and two others are expected to join by early summer, with a number of the largest Canadian buy-side clients.

The CIMPA co-chairs also provided an update on the group's work. Significant progress has been made in developing standardized collateral baskets for CCMS, which will be introduced in several phases. In the first phase, a Government of Canada General Collateral (GoC GC) basket, including Real Return Bonds (RRBs) will be launched to encourage broad industry adoption and facilitate initial trading. The next baskets to be introduced include provincial bonds and Canada Mortgage Bonds. Further baskets, including pension fund and investment grade corporate bond will be introduced later.

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 has decided to create a bank-only securities-based futures contract instead of basing it on a broad basket of corporate bonds to ensure more robust liquidity at the onset. A tentative launch date has been set for late Q3 or early Q4 of this year. The group is engaging key constituents to ensure system readiness and proper licencing ahead of the launch. They are also working with regulators on reporting requirements.

The speaker 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.

The Credit Beta Steering Committee will continue to work with TMX, FTSE Russell, and relevant partners to develop and finalise the product over the coming months.

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
Grahame Johnson, Department of Finance
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 2

Vishwanath Tirupattur, Managing Director and Chief Fixed Income Strategist, Morgan Stanley
Frances Donald, Chief Economist, RBC

Bank of Canada:

Toni Gravelle, Co-Chair
Wendy Chan, Secretariat
Zahir Antia
Sheryl King
Stéphane Lavoie
Nick Leswick
Philippe Muller
Maksym Padalko
Harri Vikstedt