FIXED INCOME MARKET REGULATORY UPDATE

August 2017

Keeping you informed on recent policy and regulatory developments shaping credit markets in Canada & abroad

Canada

BoC 2018 Schedule for Policy Interest Rate Announcements

The Bank of Canada (BoC) has released its 2018 schedule for policy interest rate announcements. A fixed schedule of eight announcement dates are planned next year, with all rate announcements continuing to be made at 10:00 (ET). The BoC will also be publishing its Monetary Policy Report concurrently with the January, April, July and October announcements.

On July 12, 2017, the BoC raised its key policy rate by 25 basis points to 0.75 per cent – its first-rate increase in seven years. On September 6, the BoC raised its key rate another 25 basis points, to one per cent, despite stubbornly low inflation rates, an uncertain outlook for the economy, heightened geo-political tensions and ongoing concerns over Canada's housing market.

OSFI: Derivatives Practices for Federally Regulated Pension Plans

The Office of the Superintendent of Financial Institutions (OSFI) issued for comment a draft derivatives guideline titled Derivatives Sound Practices for Federally Regulated Private Pension Plans (Draft Guideline). The Draft Guideline adjusts the 1997 guideline to current practices in terms of the risk management of derivatives activities and covers both exchange-traded and over-the-counter (OTC) derivatives. The Draft Guideline covers market risk, counterparty credit risk, liquidity and operational risk, and stress-testing procedures. It also sets out OSFI's expectations for plan administrators who invest in derivatives indirectly through various types of funds, including pooled funds and hedge funds.

United States

OCC Seeks Feedback on Changes to Volcker Rule

On August 2, 2017, the Office of the Comptroller of the Currency (OCC) announced it is seeking public input on revising the final regulations for the Volker Rule. The OCC specifically requests input on whether certain aspects of the regulation should be revised to better meet the Rule's objectives, while decreasing the compliance burden on banks to foster economic growth. In particular, the OCC invites input on ways to clarify key prohibited and permissible activities.

The OCC questions whether the definition of "covered funds" is too broad, capturing funds that facilitate lending and capital formation, but are not traditional private equity funds or hedge funds. The OCC also seeks input on how the regulatory objectives of the Rule can be achieved without regulatory amendment. The OCC initiative is in response to Bank criticism that the Rule is unclear on which investments are banned and puts an unnecessary compliance burden on banks that pose little systemic risk.

SEC Publishes Staff Report on Access to Capital and Market Liquidity

The Securities and Exchange Commission (SEC) Division of Economic and Risk Analysis has published a report describing the impact of issuance and secondary market trading from post-crisis regulatory reforms. The report, requested by Congress, includes a survey and analysis of recent academic literature, as well as original analyses drawn from available databases and non-public regulatory filings. The report examines the issuance of debt, equity and asset-backed securities, as well as activity and liquidity in U.S. Treasuries, corporate bonds, single-name credit default swaps and bond funds.

The research concludes total primary market security issuance is not lower after the enactment of the Dodd-Frank Act (including during the implementation of the Volcker Rule) and during the implementation of Basel III, and it may have increased around the implementation of the JOBS Act. Evidence for the impact of regulatory reforms on market liquidity is mixed, with different measures of market liquidity showing different trends.

TMPG Seeks Comment on Proposed Best Practices for Information Handling

The Treasury Market Practices Group (TMPG) is proposing updates to its Best Practices for Treasury, Agency Debt and Agency Mortgage-Backed Securities Markets to add recommendations related to the appropriate handling and use of confidential information. The TMPG has also developed examples that provide some illustrative situations when the proposed best practices could apply. The TMPG notes several serious cases of misuse of confidential information that undermined the integrity of financial markets. To support market functioning and integrity, The TMPG thought it prudent to develop practice guidance for its covered markets.

The proposed best practice recommendations call for market participants to communicate in a clear and truthful manner, not share or use confidential information with the intent of adversely affecting the interests of a counterparty or the integrity of the market, limit sharing and use of confidential information, adopt policies and procedures that address limitations on the sharing and use of confidential information, make information handling practices available to counterparties, and establish internal controls to ensure compliance with established polices.

Europe

ECB's Approach to Implement FX Global Code

Since the publication of the FX Global Code (the "Code") earlier this year, central banks have devoted efforts to raise awareness among market participants and encourage its adoption. The European Central Bank (ECB) has taken a number of steps to promote the Code:

i) It invited foreign exchange trading counterparties to commit publicly to the principles in the Code by endorsing the Statement of Commitment annexed to the Code by the end of May, 2018.

ii) It reaffirmed its own intent to commit to the FX Global Code when participating in the foreign exchange market.

iii) It decided to make membership of its Foreign Exchange Contact Group (FXCG) contingent on adherence to those principles.

iv) It required FXCG members to demonstrate commitment to the FX Global Code, in line with the FXCG's updated Terms of Reference.

The FX Global Code is a set of global principles of good practice in foreign exchange markets, developed by central banks and market participants from 16 jurisdictions around the globe to promote a robust, fair, liquid, open and appropriately transparent market.

Asia Pacific

APRA Substituted Compliance for Margin Requirements for Non-Centrally Cleared Derivatives

The Australian Prudential Regulation Authority (APRA) announced it will permit "substituted compliance" with respect to margin requirements for non-centrally cleared derivatives. In its Notice, the APRA recognizes the regulatory bodies in Canada, the European Union, Hong Kong, Singapore, the United States, Japan and Switzerland.

Substituted compliance will alleviate the regulatory burden by permitting a foreign counterparty in derivatives transactions to meet either the domestic or foreign recognized compliance standard.