



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

July 14, 2023

Funds Management Division
Financial Sector Policy Branch
Department of Finance Canada
90 Elgin Street
Ottawa ON K1A 0G5
Via Email: CMBconsultation-consultationsOHC@fin.gc.ca

Dear Sir/Madam,

Re: Consultation on the Proposal to Consolidate Canada Mortgage Bonds

The purpose of this letter is to provide comments from the Pension Investment Association of Canada (PIAC) on the consultation on the Department of Finance Canada's Consultation on the Proposal to Consolidate Canada Mortgage Bonds ("CMBs").

PIAC has been the voice for Canadian pension funds since 1977 in matters related to pension investment and governance. PIAC's members manage over \$2.8 trillion of assets on behalf of millions of Canadians. Our mission is to promote sound investment practices and good governance for the benefit of plan sponsors and beneficiaries.

CMBs have long been a prevalent investment vehicle for pension funds across the country, offering attractive benefits such as diversification, capital preservation, and appealing return profiles. Thus, PIAC welcomes the initiation of a formal consultation process on their potential consolidation into the GoC bond program.

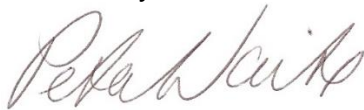
The role of CMBs in diversifying pension fund portfolios is significant. If CMBs were to be discontinued, investors would face a difficult choice between accepting lower yields with GoC regular bonds or assuming potentially higher risks with alternative securities that trade at higher yields than current CMBs. Should the consolidation occur, pension investors may face a more homogenous risk landscape and more limited opportunities to mitigate risk through fixed income asset diversification.

Additionally, it remains uncertain whether the significant share of foreign investors in CMBs would transition to other Canadian fixed income investments. If this transition does not occur or only happens partially, as predicted by some market participant organizations, the consolidation could lead to a loss of liquidity in the Canadian fixed income market and undermine the market's existing credibility with global investors.

If the government proceeds with the consolidation, we suggest that it optimizes its issuance annually according to its regular consultations with market participants and balances investor demand with keeping the cost of issuance low. Moreover, it is not advisable to open new benchmarks in existing sectors to accommodate new issuance and instead the GoC should consider increasing the size of existing bonds or rolling benchmarks more frequently to maximize liquidity. The resumption of Canadian Real Return bonds issuance, on which we are currently advocating, would also be an obvious avenue.

Thank you for the consideration of our comments. We look forward to continuing to work with the Department of Finance and would be pleased to meet with your officials to explore these issues further.

Yours truly,

A handwritten signature in cursive script, appearing to read "Peter Waite".

Peter Waite
Executive Director