Municipal Finance
Authority of BC

November 18, 2019

Dear fixed income market participant,

I am writing to elicit your feedback and support in discussions we are undertaking with market participants, regulatory bodies and index providers with the aim of reclassifying Municipal Finance Authority of British Columbia (BCMFA) public bonds.

Since BCMFA was created in 1970, market participants have generally classified our organization's public fixed income securities as "municipal" or "local government". While our mission is to provide financial services to all municipalities across BC, we are not a municipality per se but rather a regional infrastructure financing authority: we have a defined mandate provided to us from the Province of British Columbia with accompanying **legislated province-wide taxation powers on all real estate in British Columbia.**

Historically, we have not made a concerted effort to promote a widespread and nuanced understanding of our unique credit as our AAA rating and strong investor following has provided us effective access to the capital markets. However, the distinction between Local, Regional or Provincial, and Federal government securities has become increasingly important given various regulatory changes that have been accelerating since the 2007-08 crisis. Today, these distinctions can have wide-ranging impacts on regulatory capital and liquidity constraints, eligibility for central bank liquidity programs and more broadly on investors' relative perception of the value of the securities they purchase.

Unlike municipalities in Canada (or globally, for that matter), which can only tax real estate or otherwise raise revenues in their own limited geographic jurisdiction, BCMFA **is unique in that it has legislated unlimited taxation authority on all $1.75 trillion of real property (both commercial and residential) in the Province**. This is a unique credit strength among our infrastructure agency peers globally. No other "Public Sector Funding Agencies" (PSFA*) around the world possess equivalent taxation authority.

* PSFA is a term which we believe was first introduced by S&P and is a category which includes financial entities responsible for offering pooled financial services to (mainly) local governments.

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As BCMFA has worked to broaden distribution of our fixed income securities over the last few years, it has become clear that certain investors would benefit from a deeper understanding of our unique credit strengths. For example, we have found some international central banks, insurance companies and banks using their own internal risk and liquidity models (in some cases verified by their own regulator) appear to apply less restrictive capital and better liquidity characteristics to BCMFA bonds than many North American institutions.

We believe many Canadian fixed income market participants would benefit directly (or indirectly) from a renewed understanding of our credit story, which could support BCMFA's reclassification as a provincial (or regional government) issuer for the purposes of: 1) capital and liquidity treatment by financial institutions; 2) liquidity facilities managed by the Bank of Canada; and 3) fixed income index providers. In a world of decreased secondary market activity and shrinking AAA securities in which to invest, market participants and regulators should always be looking to for alternative securities to help enhance choice and contribute to a vibrant market.

In addition to our direct taxation power, BCMFA's profile as a regional infrastructure bank, more akin to a province than a local government, may be further supported by the following facts/features:

- **Provincial oversight**: The Province of BC is responsible for the financial sustainability of local governments in BC (BCMFA's customers). In addition, the Province oversees the MFA Act, which sets local government borrowing limits and provides for provincial oversight. For example, the Province reviews and approves loan authorization bylaws before BCMFA can lend to those clients.
- **Joint & several guarantee**: BCMFA's borrowers within a regional district are jointly and severally liable for each others' debts.
- **Capitalization & performance history**: BCMFA has set its own capital policy far above its legislated 1% Debt Reserve Fund and has never experienced a credit loss in its 50-year history.
- **Secondary market liquidity**: BCMFA bullet bonds are generally more liquid than many smaller provincial bullet bond programs - and typically far more liquid than the vast majority of bonds in the Canadian municipal sector.
- **Index classification of peers/similar entities**: The FTSE Russell Canada Provincial Bond Index currently includes over 50 issuers that have close ties to a Province, yet many of those issuers have weaker ties to their provincial government than BCMFA (and many of those bonds exhibit far less liquidity).

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We sincerely hope you will be able to provide us some comments with respect to your own institution's view about BCMFA. In particular, we are most interested in feedback on the following questions:

1) **Would you be supportive of BCMFA moving out of the municipal indexes in Canada and moving into the provincial indexes?**
2) **Would you support the Bank of Canada, OSFI and/or other regulatory bodies considering BCMFA as a provincial credit in its assessment of BCMFA for liquidity, capital, haircutting or other purposes?**

While we certainly expect that regulatory entities and index providers will make their own credit and other determinations necessary to incorporate any changes in their methodologies, hearing directly from market participants (particularly those investors who are currently holding our bonds) is certainly a useful exercise.

Unless you tell us otherwise, I personally commit that any correspondence we receive directly from you will be kept confidential at BCMFA and will only be used in the context of discussions with regulatory bodies or index providers in the future.

Thanking you in advance for your feedback,

Peter Urbanc
Chief Executive Officer
Municipal Finance Authority of British Columbia

P.S.: In order to respond to this letter, you may email us directly at mfa@mfa.bc.ca using "Investor Feedback" in the subject of the email or, if you prefer, a letter may be submitted to any debt capital markets banker or an institutional salesforce member of MFABC's bond underwriting syndicate (BMO Capital Markets, Casgrain, CIBC Capital Markets, Laurentian Bank, National Bank Financial, RBC Capital Markets, Scotiabank and TD Securities). We would appreciate receiving feedback on these particular questions by January 31, 2020.