22 March 2011

Summary of Comments – 2011–12 Debt Management Strategy Consultations

In the autumn of 2010, officials from the Department of Finance and the Bank of Canada sought the views of government securities distributors, institutional investors and other interested parties on issues related to the design and operation of the domestic Government of Canada debt program for 2011–12 and beyond. Consultations focused on obtaining feedback on changing maturity dates in certain sectors and on the number and size of the benchmark bonds that would ensure sufficient depth and liquidity in each sector. Market participants' views were also sought on bond buyback operations on a switch basis and the increased frequency of cash-management bond buyback operations.

As the sovereign and largest issuer of Canadian fixed-income securities, the government considers consultations with market participants to be an essential component of its ongoing commitment to the maintenance of a well-functioning government securities market and an integral part of the debt-management process.

A summary of the views received during these consultations is provided in this document.

Market Conditions

In general, market participants reported that the Government of Canada securities market continues to be liquid and functions well across all maturity sectors. Many dealers indicated that foreign investor interest in government securities continues to grow. Market participants also indicated that the demand for 30-year bonds (nominal and Real Return) from pension funds and insurance companies continues to be strong.

Bond Program

In view of the increase in Government of Canada bond issuance since 2008–09, discussions with market participants focused on potential adjustments to bond maturity dates and the number and size of benchmark issues as a means to smooth the cash flow maturity profile.

Market participants recognized the need to change certain bond maturity dates to smooth the debt maturity profile and reduce debt rollover risk. They were also supportive of shifting maturity patterns for all nominal bond sectors if required, with the exception of the 10-year sector. Participants expressed a preference for keeping four benchmarks in the 2-year sector, favoured a February-May-August-November cycle and recommended that 3-year maturities remain fungible (i.e., share the same maturity date) with 2-year maturity dates. Market participants were also supportive of changing the 30-year nominal bond maturity date from 1 June to 1 December, with 30-year nominal bonds maturing at different years from Real Return Bonds.

Market participants suggested that since stripping and reconstitution activities of fungible bonds have declined over the past two and a half years, benchmark target sizes should be increased to support bond liquidity. Participants indicated that, in general, larger benchmarks would be more effective than bond fungibility in enhancing benchmark liquidity. Discussions with market participants suggested that the sizes of bond auctions were appropriate for all maturity sectors, although it was mentioned that the size of 2-year bond auctions could be increased slightly.

Should there be a need to reduce bond issuance in light of lower financial requirements, most market participants suggested that issuance in the 2-, 3- and 10-year sectors be reduced before issuance in the 5-year sector and at the long end is decreased.

Bond Buyback Program

The majority of participants reported that the move to weekly cash-management bond buyback operations and the increased use of bond buybacks on a switch basis have been beneficial for market liquidity.

Many market participants suggested that switch operations at the long end continued to be conducted in quarters for which no 30-year nominal bond auctions are planned.

Treasury Bill Program

Market participants stated that the treasury bill market was functioning well in the current environment and that demand was supported by continued interest from international accounts. In light of potentially lower future financial requirements, market participants were of the view that the treasury bill stock could eventually be managed down to about $120 billion (i.e., average biweekly auction sizes of about $10 billion), with little to no impact on the well-functioning of the treasury bill market.