Summary of Comments – 2010–11 Debt Strategy Consultations

In November 2009, officials from the Department of Finance and the Bank of Canada sought views from government securities distributors, institutional investors, and other interested parties on issues relating to the design and operation of the domestic Government of Canada debt program for 2010–11 and beyond. Views were also sought on the functioning and liquidity of the Government of Canada domestic debt and related fixed-income markets.

As the sovereign and largest issuer of Canadian fixed-income securities, the government considers consultations with market participants as 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.

Information gathered during the consultations contributed to the development of the 2010–11 debt strategy. This document provides a summary of the views received during these consultations.

Market Conditions

Market participants indicated that conditions have normalized across the majority of fixed-income markets since the height of the global financial crisis. They reported that liquidity was excellent for Government of Canada benchmark securities. Higher trading volumes were reported, notably, due to more active client participation and increased activity from financial institutions and international accounts.

Bond Program

Market participants indicated that the increase over the past year in bond issuance by the government had been well received across all sectors. Additional maturity dates introduced in 2009–10 in the 2-year and 5-year sectors had gained acceptance as market benchmarks, and the market for the new 3-year sector was developing. Discussions were also held on benchmark sizes and current issuance patterns.

Market demand for Real Return Bonds was seen as increasing. Participants requested that the government continue to be mindful of coupon reinvestment flows when establishing auction sizes. Views were expressed on the coupon-setting process at auctions of Real Return Bonds. Increased market uncertainty, system issues, and marketability factors were given as reasons why the government should continue to establish the coupon rate ahead of the auction.

Bond Buyback Program

The majority of participants suggested that the government continue to support liquidity in long bonds by maintaining switch buyback operations in the long end of the yield curve. They also indicated that the threshold beyond which a bond is no longer eligible for regular bond buyback operations could be either reduced further or eliminated. Some participants suggested that the government could establish a switch program in the short end of the bond market to help redistribute large upcoming benchmark maturities and facilitate cash management. Most participants also indicated that the term and frequency of cash-management buybacks could be increased. In light of these comments and the significant size of some specific key maturity dates, effective 4 January 2010, the maximum term to maturity for the inclusion of Government of Canada bonds in the cash-management bond buyback operations was increased to 18 months.

Treasury Bill Program

Market participants stated that the treasury bill market was functioning well in the current environment of higher issuance and that demand continued to be strongest for the 3-month and shorter maturities. Some participants commented that demand for treasury bills could be affected by a higher interest rate environment or by an increased supply of other products such as commercial paper or bankers' acceptances.

Operational Issues

The views of market participants varied on moving the time of bond auctions from noon, the current time, to 10:30. Most indicated that the auction process had functioned well through the global financial crisis and in view of increased issuance. Some participants commented that the government may want to consider examining the uniform price (Dutch) auction format for nominal bonds as an alternative mechanism to the existing multi-price format.