Summary of Comments – 2012–13 Debt Management Strategy Consultations

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

The November and December 2011 debt management strategy consultations were focused on obtaining feedback regarding the effectiveness of the government's debt-distribution framework. The main purpose was to ensure that the auction and intermediation processes continued to support the government's debt-strategy objectives of raising stable, low-cost funding, and promoting a well-functioning market for its securities. Specifically, the views of market participants were sought regarding trends affecting the Government of Canada securities market, Department of Finance and Bank of Canada communications with market participants, and the changing profile of participants at auctions.

Bilateral consultations were conducted with approximately 30 organizations in Vancouver, Edmonton, Montréal and Toronto. The following text summarizes the comments received from market participants.

Market Conditions

In general, market participants reported that the Government of Canada securities market remains liquid and functions well across all maturity sectors. Some market participants, however, did indicate that the liquidity in long-term bonds was at times thin, especially during periods of volatile markets. It was also noted that there has been increased participation by foreign investors in secondary markets for Government of Canada securities.

The implementation of new regulatory frameworks, such as Basel III and Dodd-Frank, were viewed as potentially having a negative impact on the ability of dealers to use their balance sheets, thereby possibly affecting their market-making and risk-taking activities.

Investors commented that Alternative Trading Systems (ATSs) have contributed to improved pricing transparency and competition between dealers, and have provided increased liquidity in secondary markets, serving to maintain relatively tight bid-ask spreads. It was also noted by several market participants that foreign dealers have been active in the Canadian marketplace through ATSs.

Distribution Framework

Market participants commented that the current distribution framework and the primary market are functioning well. Dealers indicated an interest in the single-price auction format for nominal bonds and a desire to learn more about the Spanish auction format.

Dealers were supportive of bond auctions taking place earlier in the day, between 11:00 and 11:30 (ET), when markets are generally more liquid.

Communications and Transparency

Information about Government of Canada securities and auctions available on the Bank of Canada and Department of Finance websites was deemed easily accessible by domestic market participants. It was noted that a single website could facilitate and improve accessibility to the information, especially for international investors.

Bond Program and Treasury Bill Program

Dealers expressed concern about the expected decrease in the stock of treasury bills in 2013–14, particularly if international demand remains strong and the need for high-quality, liquid collateral continues to increase with the implementation of new regulatory frameworks. Dealers advised that any reduction in the treasury bill stock be managed carefully to ensure that markets continue functioning properly.

Recent changes to the maturity cycle in the 2-, 3- and 5-year sectors were viewed as having been implemented successfully and to have been beneficial for market participants. Dealers indicated that the amount of issuance for 2-year bonds that are a re-opening of a previously issued 3-year bond (i.e., with the same coupon) could be reduced and the difference reallocated to other benchmarks in that sector. Overall, a predictable, consistent issuance pattern was viewed as preferable for all 2-year bond issues.

Dealers and investors reiterated that there is strong demand for long-dated nominal bonds and Real Return Bonds, as evidenced by the increased use of liability-driven investment mandates by pension funds and insurance companies. Some market participants indicated a preference for more supply and fewer bond buyback operations on a cash basis in the long end. Other market participants expressed a need to maintain bond buyback operations on a switch basis to provide liquidity in off-the-run long-dated bonds in quarters when no auction is planned.