

2014–15 Debt Management Strategy Consultations

Summary of Comments

The Government of Canada considers regular 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.

Bilateral consultations took place with a total of 38 organizations through teleconferences, and meetings in Toronto and Montreal in October and November of 2013. This year's consultations were focused on obtaining views on the functioning of Government of Canada treasury bill and bond markets, as well as on the terms governing Government of Canada securities auctions. These consultations also sought to obtain greater insight into retail investor demand for and access to wholesale Government of Canada securities.

The Bank of Canada and the Department of Finance value the comments provided by market participants during consultations. The following summarizes the comments that were received.

Bond Program

In general, market participants reported that Government of Canada securities markets continue to function well across all maturity sectors. Participants indicated that demand for bonds with maturities of 40 years or longer from life insurance companies, pension funds and other investors has softened since 2012-13.

Treasury Bill Program

During consultations, market participants reported that they continued to see good demand at Government of Canada treasury bills auctions, and the secondary market for treasury bills continues to function well. It was noted that participants are well aware of the reduction in the stock of treasury bills in the last half of 2013-14 resulting from Insured Mortgage Purchase Program asset maturities. Some concern amongst market participants about the functioning of the treasury bill market was expressed however, given foreign investor appetite for treasury bills has remained strong while auction sizes are starting to decline.

Repo Market

Market participants expressed concern about the ongoing tightness in repo markets for Government of Canada securities, characterizing it as a larger structural issue that is only partly explained by the increased non-resident

demand for Canadian securities. It was widely noted that there had been an increase in the number of different bonds affected in the repo market, their premium and the length of time they traded “on special”.

Terms Governing Government of Canada Securities Auctions

Dealers reported that Government of Canada debt securities auctions function well, but there was broad consensus that the terms governing the auctions could be updated to ensure their continued relevance. In particular, most Primary Dealers (PD) and non-PD Government Securities Distributors (GSD) agreed that the minimum standard for maintaining or acquiring PD/GSD status should be made more stringent.

Retail Investor Access to Government of Canada Securities

Retail asset brokers and managers indicated that less than 2 per cent of retail investment assets are in Government of Canada securities. Given that retail investors are now primarily interested in yield and are less sensitive to credit worthiness than they had been in the past, most prefer provincial and corporate instruments which tend to have higher yields. Retail investors also have access to a number of different fixed income products that offer more attractive rates, some of which are insured by the Government of Canada (through the Canada Deposit Insurance Corporation), such as Guaranteed Investment Certificates with a maturity of up to 5 years.