# 2016 Debt Management Consultations

## Overview

The Department of Finance and the Bank of Canada are seeking the views of government securities distributors, institutional investors and other interested parties on issues related to the design and operation of the Government of Canada's domestic debt program for 2017–18 and beyond. Regular consultations with market participants are an integral and valued part of the debt management process. All market participants are encouraged to provide input.

To guide feedback, this document sets out questions on the Government of Canada treasury bill and bond programs, the well-functioning of Government of Canada securities markets, and operational issues.

## Context

The fundamental objective of debt management is to raise stable and low-cost funding to meet the needs of the Government of Canada. Achieving stable and low-cost funding involves striking a balance between the cost and the risk associated with the debt structure under various market conditions and different funding requirement scenarios. An associated objective of debt management is to maintain a well-functioning market for Government of Canada securities, which helps to keep debt costs low and stable.

The Government's debt structure is driven in part by its medium-term debt strategy, which is aimed at maintaining a more even distribution across maturity sectors, while improving cost-risk characteristics over time. The debt structure is also informed by the input received from market participants during consultations.

The Government's borrowing needs and issuance strategy for 2017-18 have not been determined yet, but will be communicated in the *Debt Management Strategy for 2017-18*.

Within this context, feedback received through these consultations will help federal debt managers design a debt strategy for 2017–18 that will continue to strike a prudent balance between cost and risk, and to strive to maintain a liquid, well-functioning Government of Canada securities market.

## Bond Program

As indicated in the *Debt Management Strategy for 2016-17*, gross bond issuance of domestic marketable bonds is planned to increase by approximately $41 billion from 2015-16, bringing the total annual bond issuance to $133 billion. After considering scheduled maturities and planned debt repurchases, this will lead to a $544 billion stock of Government of Canada bonds outstanding by the end of 2016-17.

The Government has increased issuance in all nominal bond sectors with a focus on the issuance of short- and medium-term bonds (2-year to 5-year sectors) where the risk cost trade-off is most attractive (i.e., striking a balance between keeping funding costs low and mitigating risks).

The Government also reintroduced the 3-year bond sector in the second quarter as part of the 2016-17 debt strategy to manage the higher financial requirements in 2016-17 and those projected over the medium-term. Following public consultations, the Department and the Bank of Canada announced in June 2016 that 3-year bonds will be re-openings of previously issued 5-year bonds. The Government reserves the right to issue a fungible bond instead in the event of a significant difference in the prevailing rate for the 3-year sector and the coupon rate of the applicable previous 5-year bond.

The bond issuance pattern for 2016-17 has a total of eight maturity dates; a pattern introduced in 2011-12 alongside a revised medium-term debt strategy (Table 1).

Table 1: Maturity Date Patterns and Benchmark Bond Size Ranges per Sector for 2016–17 †

($ billions)

| | Feb. | Mar. | May | June | Aug. | Sept. | Nov. | Dec. |
|---|---|---|---|---|---|---|---|---|
| 2-year | 12 – 18 | | 12 – 18 | | 12 – 18 | | 12 – 18 | |
| 3-year | | 10 – 16 | | | | 10 – 16 | | |
| 5-year | | 14 – 20 | | | | 14 – 20 | | |
| 10-year | | | | 12 – 18 | | | | |
| 30-year | | | | | | | | 10 – 16 |
| RRB | | | | | | | | 10 – 16* |
| Total | 12 – 18 | 24 – 36 | 12 – 18 | 12 – 18 | 12 – 18 | 24 – 36 | 12 – 18 | 10 – 16 |

† 50-year bond issuance remains a tactical strategy that is subject to favourable market conditions. There are currently no plans to set up regular issuance of ultra-long bonds. Benchmark bond size ranges reflect new issuance in the respective sectors.

* Benchmark size ranges for Real Return Bonds include an estimate for inflation adjustment. The 30-year nominal bond and Real Return Bond typically do not mature in the same year.

*Consultation Questions:*

1. How is demand evolving in the various bond maturity sectors? Has the market capacity to absorb higher or lower levels of issuance changed? Have you noticed any changes in the types of investors and in investor behaviour in the past year?
2. How has the 3-year bond sector been functioning since its reintroduction?

# Quarterly Bond Schedule and Flexibility

The Government's debt issuance decisions are guided by its core principles of being a regular, transparent, and prudent issuer. Following these principles, the Government has aimed to ensure the market is well aware of its quarterly issuance plans.

*Consultation Questions:*

3. Are there any issues with the timing of the release and the information conveyed in the quarterly bond schedules, and if so do you have suggestions on how those processes could be improved?
4. Would you recommend more flexibility with elements of the Government debt issuance program? If so, what changes would you like to see and what would be the main benefits and potential downsides of those changes?
5. What are your views on varying auction sizes for a given bond over time?

# Treasury Bill Program and Cash Management

The Government of Canada's treasury bill program is an important cash management tool, allowing the Government to adjust its debt issuance intra-year to fluctuations in its cash flow. Over the course of 2016-17, the stock of treasury bills is projected to decrease from $136 billion at the start of the fiscal year to $134 billion by the end of the fiscal year. Bi-weekly issuance of 3-, 6-, and 12-month maturities have been continued for 2016-17, with bi-weekly auction sizes projected to be largely in the $8 billion to $14 billion range.

Cash management bills (CMBs) and Cash Management Bond Buybacks (CMBBs) will continue to be used to help manage the Government's cash in an efficient manner.

*Consultation Questions:*

6. Please describe how the Government of Canada treasury bill market has been functioning this year and relative to previous years. How do you expect liquidity and activity in this market to evolve going forward? What is your sense of an appropriate range for the amount of treasury bills outstanding and amount of treasury bills being issued per auction?
7. Currently, the Government offers to repurchase $0.5 billion (for weeks when treasury bills are not being issued) and $1 billion (for weeks when treasury bills are being issued) through the Cash Management Bond Buyback (CMBB) program. Would you recommend greater flexibilities in the Government's management of this program? For example, do you foresee any concerns with varying the size of the operations more than is currently being done, or modifying the Call for Tenders process (CFT) with the introduction of a 2-step approach: preliminary CFT followed by a final CFT as late as the day prior to the operation?

## Well-Functioning Markets

Having access to a well-functioning government securities market ensures that funding can be raised efficiently over time to meet the Government's needs. A liquid and well-functioning market for Government of Canada securities also provides broader benefits to Canada's capital markets given the important roles that the securities play. To support a liquid and well-functioning Government of Canada securities market, the Government strives to promote transparency and regularity in its domestic debt issuance practices.

### *Consultation Questions:*

8. What are your views on the liquidity and functioning of each of the Government of Canada bond maturity sectors, for benchmark and off-the-run bonds? How has this evolved over the past few years, and what are your expectations going forward?
9. How have the various other Canadian bond markets been functioning recently (e.g., provincial, Canada Mortgage Bonds and corporate)? What are your expectations going forward?
10. Are there impediments to a well-functioning Government of Canada securities market, and if so what are they? Do you have any suggestions on potential actions the Government or the Bank of Canada should take to address these impediments?
11. Please describe the impact of any on-going and upcoming regulatory, reporting, and accounting developments that you believe will have a material influence on your organization's ability to intermediate/invest in fixed income and money markets.
12. How has the repo market activity evolved in the past year, and what have been the main drivers?

# Appendix

| BOND PORTFOLIO | | | | | |
|---|---|---|---|---|---|
| Term to Maturity (years) | Coupon | Maturity | Issuance Sector | Outstanding Net of Repurchased (CAD Millions) | Repurchased (CAD Millions) |
| **Nominal Bond** | | | | | |
| 0.0 | 2.75% | Sep 2016 | 5Y | 7,917 | 2,583 |
| 0.2 | 1% | Nov 2016 | 2Y | 8,387 | 1,813 |
| 0.4 | 1.5% | Feb 2017 | 2Y | 12,353 | 4,747 |
| 0.5 | 1.5% | Mar 2017 | 5Y | 9,027 | 1,473 |
| 0.7 | 0.25% | May 2017 | 2Y | 8,481 | 1,919 |
| 0.8 | 4% | Jun 2017 | 10Y | 8,654 | 1,688 |
| 0.9 | 1.25% | Aug 2017 | 2Y | 15,455 | 3,645 |
| 1.0 | 1.5% | Sep 2017 | 5Y | 9,019 | 1,181 |
| 1.2 | 0.25% | Nov 2017 | 2Y | 13,300 | 100 |
| 1.4 | 1.25% | Feb 2018 | 2Y | 19,200 | 0 |
| 1.5 | 1.25% | Mar 2018 | 5Y | 10,200 | 0 |
| 1.7 | 0.25% | May 2018 | 2Y | 15,000 | 0 |
| 1.8 | 4.25% | Jun 2018 | 10Y | 10,623 | 0 |
| 1.9 | 0.5% | Aug 2018 | 2Y | 15,600 | 0 |
| 2.0 | 1.25% | Sep 2018 | 5Y | 10,200 | 0 |
| 2.2 | 0.5% | Nov 2018 | 2Y | 3,900 | 0 |
| 2.5 | 1.75% | Mar 2019 | 5Y | 10,200 | 0 |
| 2.8 | 3.75% | Jun 2019 | 10Y | 17,650 | 0 |
| 3.0 | 1.75% | Sep 2019 | 3Y | 16,700 | 0 |
| 3.5 | 1.5% | Mar 2020 | 5Y | 10,200 | 0 |
| 3.8 | 3.5% | Jun 2020 | 10Y | 13,100 | 0 |
| 4.0 | 0.75% | Sep 2020 | 5Y | 13,000 | 0 |
| 4.5 | 0.75% | Mar 2021 | 5Y | 13,800 | 0 |
| 4.5 | 10.5% | Mar 2021 | 30Y | 567 | 1,233 |
| 4.8 | 3.25% | Jun 2021 | 10Y | 11,500 | 0 |
| 4.8 | 9.75% | Jun 2021 | 30Y | 286 | 4,364 |
| 5.0 | 0.75% | Sep 2021 | 5Y | 15,000 | 0 |
| 5.8 | 2.75% | Jun 2022 | 10Y | 12,700 | 0 |
| 5.8 | 9.25% | Jun 2022 | 30Y | 206 | 2,344 |
| 6.8 | 1.5% | Jun 2023 | 10Y | 14,200 | 0 |
| 6.8 | 8% | Jun 2023 | 30Y | 2,359 | 5,841 |
| 7.8 | 2.5% | Jun 2024 | 10Y | 13,800 | 0 |
| 8.8 | 2.25% | Jun 2025 | 10Y | 13,100 | 0 |
| 8.8 | 9% | Jun 2025 | 30Y | 2,303 | 6,597 |
| 9.8 | 1.5% | Jun 2026 | 10Y | 13,500 | 0 |
| 10.8 | 1% | Jun 2027 | 10Y | 3,000 | 0 |
| 10.8 | 8% | Jun 2027 | 30Y | 4,036 | 5,564 |
| 12.8 | 5.75% | Jun 2029 | 30Y | 10,950 | 2,950 |
| 16.8 | 5.75% | Jun 2033 | 30Y | 12,796 | 614 |
| 20.8 | 5% | Jun 2037 | 30Y | 13,517 | 482 |
| 24.8 | 4% | Jun 2041 | 30Y | 15,693 | 107 |
| 29.3 | 3.5% | Dec 2045 | 30Y | 16,400 | 0 |
| 32.3 | 2.75% | Dec 2048 | 30Y | 9,550 | 0 |
| 48.3 | 2.75% | Dec 2064 | 50Y | 3,500 | 0 |
| **RRB** | | | | | |
| 5.3 | 4.25% | Dec 2021 | RRB | 5,175 | 0 |
| 10.3 | 4.25% | Dec 2026 | RRB | 5,250 | 0 |
| 15.3 | 4% | Dec 2031 | RRB | 5,800 | 0 |
| 20.3 | 3% | Dec 2036 | RRB | 5,850 | 0 |
| 25.3 | 2% | Dec 2041 | RRB | 6,550 | 0 |
| 28.3 | 1.5% | Dec 2044 | RRB | 7,700 | 0 |
| 31.3 | 1.25% | Dec 2047 | RRB | 6,200 | 0 |

**Benchmark** **Building to Benchmark**

**Source: Bank of Canada as of 31 Aug 2016*

**RRB numbers do not include inflation adjustment*