

2018-19 Debt Management Strategy Consultations Summary

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 of Canada securities market and an integral part of the debt management process.

In September and October 2017, the Bank of Canada and the Department of Finance held about 35 bilateral meetings with organizations in Toronto, Montreal and New York. These consultations sought the views of market participants on issues related to the design and operation of the Government of Canada's domestic debt program for 2018–19 and on post-trade transparency.

The Bank of Canada and Department of Finance value the comments provided by market participants during consultations. Those comments were taken into consideration in the development of the *Debt Management Strategy for 2018–19*. Below is a summary of the comments that were received.

Bond Program

Market participants reported that the Government of Canada bond market continues to function very well and has been showing good levels of liquidity in core maturity sectors. Liquidity in off-the-run bonds was deemed to have improved from recent years although they remain less liquid than benchmark bonds, particularly for longer-dated maturities (between 10 and 30 years). Many dealers stated that the long-dated switch provides a good opportunity to reduce stale positions from their balance sheet.

A number of market participants pointed out that limited supply in the 10-year and 30-year sectors, strong demand by foreign investors moving out the curve, and the re-emergence of relative value trading as factors that have contributed to the relative flatness of the Government of Canada yield curve over the past year.

Treasury Bill Program and Cash Management

The treasury bill market continues to function well, however, market participants pointed out that the stock of outstanding bills is approaching a level below which the well-functioning of the treasury bill market could be impacted. In particular, it was noted that the demand for very short-term product (3 months and under) currently outpaces supply.

The flexible Cash Management Bond Buyback pilot introduced in January 2017, which uses a two-step Call-for-Tenders with issuance size ranging from \$500 million to \$2 billion, has been well received and market participants support the continuation of the pilot.

Ultra-Long Bonds

The inaugural ultra-long bond auction conducted on August 29, 2017 was well received. Market participants appreciated the increased level of transparency provided by the new issuance process.

Ongoing demand for ultra-long bonds was deemed as sufficient to support additional issuance in the future. The Government of Canada ultra-long bond remains relatively illiquid, though a few dealers noted the ability to move slightly larger blocks more recently. Views on variable auction size were mixed, with some market participants indicating that it could work, however, others indicated that the process would increase uncertainty and make it more difficult to properly price ultra-long bonds. Moving forward, a number of market participants suggested terminating the ultra-long bond program to increase the level of supply in the 10-year and 30-year sectors.

Mandatory Post-Trade Transparency for Government Securities

Market participants discussed the benefits and risks of mandatory post-trade transparency for Government securities. A more fulsome discussion is expected in the upcoming Canadian Securities Administrators market consultation.