# 2019-20 Debt Management Strategy Consultations Summary

## Summary of Comments

Regular consultations with market participants are an essential component of the Government's ongoing commitment to a well-functioning Government of Canada securities market and an integral part of the debt management process.

In October 2018, the Bank of Canada and the Department of Finance held over 30 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 2019–20.

The Bank of Canada and Department of Finance value the comments provided by market participants throughout the consultations. These comments, which are summarized below, were taken into consideration in the development of the *Debt Management Strategy for 2019–20*.

### Treasury Bill Program

Market participants indicated that primary and secondary markets for Government of Canada treasury bills have been generally functioning well over the past year. Many noted some tightness in short-dated treasury bills in early 2018 as treasury bill auction sizes were reduced in response to the Government's lower-than-expected financial requirements, causing the total outstanding stock to drop. However, issues related to the decreased supply dissipated as treasury bill auction sizes increased and the total outstanding stock rose part way through 2018 due to higher seasonal cash requirements and downward adjustments to the bond program. While opinions differed on what minimum stock and auction size are necessary to maintain market well-functioning in the sector, most participants agreed that a major reallocation between treasury bill sectors (3, 6 and 12 months) is not necessary. A preference for longer-dated fungible cash management bills was noted to alleviate tightness is some sectors over non-fungible, short dated cash management bills.

### Bond Program

Consultation participants noted that Government of Canada bond markets have been functioning well over the past year, with dealers and investors generally able to source desired allocations with minimal impact on price. However, there was a desire for more long-duration nominal issuance to satiate ongoing robust investor demand in this sector. It was also noted that the opportunity for advantageous long-bond issuance may be passing given the recent flatness of the yield curve and the ongoing global wind-down of central bank quantitative easing.

However, there was some divergence on where issuance should be reduced in favour of increased long-dated nominal issuance. Most participants noted that issuance could be reduced in the Real Return Bond sector given that demand for inflation exposure has shifted into other asset classes in recent years and that the cost to the Government of funding via this sector is relatively high. It was also suggested that there may be some flexibility to decrease 10-year issuance given that the 10-year futures market is now sufficiently developed. Participants also suggested that the 2-year sector is well-supplied and that issuance could be decreased if necessary.

Concerning the 3-year sector, most participants agreed that the sector could be reduced or eliminated with little implications for market well-functioning. However, given that the debt stock is expected to continue to grow in the coming years, participants believed that this sector should not be eliminated only to be reintroduced in future years. Some participants noted that the Government's commitment to the sector could be reaffirmed in the Debt Management Strategy to reassure investors.

## Issuance Stability

In 2017-18, a confluence of factors led to significantly lower borrowing requirements than were planned in the *Debt Management Strategy for 2017-18*. In response to decreased borrowing requirements, the bond program was adjusted mid-year to support higher treasury bill issuances by decreasing issuance in the 2-, 3-, and 5-year sectors. Market participants were widely supportive of the reduction in bond issuance to support the treasury bill sector, but requested more transparent communications if similar mid-year adjustments to the debt program are necessary in the future.

## Well-Functioning Markets

Market participants provided valuable feedback on the minimum issuance levels across the various sectors necessary to ensure well-functioning markets. This feedback was incorporated into the modelling analysis used to develop the *Debt Management Strategy for 2019-20* and will be used to inform issuance levels moving forward.