2017-18 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 of Canada securities market and an integral part of the debt management process.

In September 2016, the Bank of Canada and the Department of Finance held about 40 bilateral meetings with organizations in Toronto, Montréal 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 2017–18 and beyond.

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 2017–18*. Below is a summary of the comments that were received.

Bond Program

Market participants commented that the Government of Canada securities market continues to function well across all maturity sectors and the market has adjusted well to the reintroduction of 3-year bond auctions. Benchmark bonds continue to be liquid although some liquidity issues associated with off-the-run securities remain, especially in longer term maturities. Some market participants indicated interest in higher levels of issuance of debt with term to maturities of 10 years and longer, while acknowledging that the Government's current funding strategy balances cost and risk.

Issues around repo market tightness have dissipated but some participants expressed concern that tightness could return. In the past, repo market tightness limited the use of relative value trading strategies, which further exacerbated liquidity issues in off-the-run bonds.

Quarterly Bond Schedule and Flexibility

In terms of the current Quarterly Bond Schedule (QBS) process, those consulted noted that it works well and that additional transparency would be welcomed. Suggestions included releasing the QBS earlier, extending the period of time the schedule covers beyond one quarter, and standardizing the sector sequencing of auctions from one quarter to the next.

Regarding flexibility of the debt program, some market participants expressed positive views on the potential of fine-tuning sectoral issuance to foster liquidity in the market but cautioned against extensive use of tactical issuance, which could introduce additional uncertainty for market participants and result in a higher risk premium for Government of Canada securities.

Treasury Bill Program and Cash Management

The treasury bill market continues to function well at the current outstanding level. Participants commented that the current bi-weekly auction size ($8 to $14 billion) and allocation of issuance among the three tranches (3-, 6- and 12-month) are appropriate. Nonetheless, it was noted that secondary market trading of treasury bills can be light at times, particularly for shorter term securities that have less than 3 months remaining to maturity.

The proposal to introduce greater flexibility in the Government's management of the Cash Management Bond Buyback (CMBB) program was received positively.[1] Market participants were generally supportive of the idea of introducing a two-step Call-for-Tenders (CFT) process for the CMBB operations, similar to the approach used for treasury bill auctions, in which a preliminary CFT will be followed by a final CFT as late as the morning of the operation. Additionally, some participants indicated that the range for the potential repurchase amount announced in the preliminary CFT should have a floor that is greater than zero.

Well-functioning Market

Market participants commented that the market has generally adapted to the changing liquidity landscape. A number of them noted the importance of cultivating good trading relationships in order to be able to access market liquidity. Participants indicated that regulatory changes will continue to affect repo funding availability and some expressed concern about retaining or obtaining sufficient access to repo funding going forward as dealer balance sheets remain constrained.

[1] On January 5, 2017 the Bank of Canada announced a pilot project for this initiative which commenced on 17 January 2017 (http://www.bankofcanada.ca/2017/01/pilot-government-canada-cash-management-bond-buyback-program/).