



GUIDANCE

Guiding Principles for Designating Canada Bonds as Benchmarks

BACKGROUND

Stakeholders have adopted their own approaches for determining benchmark status- including through informal surveys of market participants. The absence of a defined guiding principles may, at times, result in delayed, duplicative, inconsistent, or conflicting information being communicated to the marketplace.

OBJECTIVE

Develop a set of guiding principles for when Canada benchmark rolls should occur. The guiding principles should assist market participants in determining benchmark status by minimizing the number of subjective decisions required, be straightforward and transparent allowing for decisions to be made and communicated in a timely manner. The guiding principles should also accommodate plausible but infrequent occurrences such unforeseen changes in auction schedules.

Principle 1 - *New* auction bonds roll if they hit benchmark size

Empirical thresholds that define benchmark outstanding notional should be relied on when determining benchmark status. Specifically, *new* auction bonds roll if they hit benchmark size as established by the Bank of Canada. The benchmark sizes, according to the BOC Debt Management Strategy Report for 2021-2022 are as follows:

Maturity Date Patterns and Benchmark Size Ranges¹

	Feb.	Mar.	Apr.	May	June	Aug.	Sept.	Oct.	Nov.	Dec.
2-year	16-22			16-22		16-22			16-22	
3-year			16-20					16-20		
5-year		22-26					22-26			
10-year					38-44					38-44
30-year ²										46-58
Real Return Bonds ^{2,3}										8-12
Ultra-long ⁴										N/A

Source: Department of Finance Canada calculations.

Note: These amounts do not include coupon payments.

¹ Actual annual issuance may differ.

² The 30-year nominal bond and Real Return Bond do not mature each year or in the same year as each other.

³ Benchmark size range includes estimate for inflation adjustment, while planned annual issuance does not.

⁴ There is currently no benchmark size set for the 50-year ultra-long bond, which matures on December 1, 2064.

Source: Bank of Canada Debt Management Strategy for 2021-2022

- For *new* auction bonds market participants can be relied on individually to carry out the above roll/no-roll determination except for bonds with “**Duration Exceptions**” (see principle 2).

Principle 2 - Bonds with “Duration Exceptions” require additional considerations

- Additional considerations are necessary where the duration of the *new* bond at the time of the re-opening is shorter than the number of years of a particular benchmark; or where the duration of the existing benchmark is less than 90% of number of years of a particular benchmark.
- In these circumstances, a canvassing of Primary Dealers can help in determining the “roll/no-roll” decision.

Principle 3 - Dealer views should be sought for re-opening of *existing* benchmark bonds

- For auctions consisting of a re-opening of a Canada bond that has rolled down the curve and may have a smaller trading float than their amount outstanding would suggest, a canvassing of Primary Dealers can be relied on to determine whether the re-opening attains the benchmark status.

Principle 4 - The polling process should be fair and efficient

- Primary Dealers may be contacted by a ‘polling agent’ to ascertain industry view on benchmark status in the case of re-opening of existing benchmark bonds or new bonds with duration exceptions. Each Primary Dealer should:
 - Establish their own internal procedures for arriving to a firm-wide view on the roll/no-roll decision.
 - Have procedures for addressing any real or perceived conflicts of interest in developing their firm’s view on the roll/no-roll decision.
 - Communicate their roll/no-roll decision broadly within their firm.
 - On an annual basis, provide polling agents with the contact (including a minimum of one alternate) who is qualified to present their firm’s position on the matter.
 - Ensure their firm’s contact information is maintained current at all times with the polling agents that they deal with.
 - Provide their firm’s response to the polling agent in a timely and accurate fashion.
- Any entity that intends to poll Primary Dealers on benchmark status will be entrusted to:
 - Stay informed of all scheduled Bank of Canada auction dates.
 - Review pertinent communications from the Bank of Canada leading up to the auction to determine whether the auction will be comprised of i) a *new* Canada bond or ii) A re-opening of an existing benchmark bond.
 - For a re-opening of an existing benchmark bond, poll Primary Dealers to determine whether benchmark should be rolled.
 - Hold all responses in confidence.
 - Accept the **majority** view in determining whether the re-opening of an existing benchmark bond attains the benchmark status.
 - Broadly communicate their roll/no-roll decision to primary dealers, fixed-income marketplaces, Inter-Dealer Brokers, Market Data Providers, etc.