

Debt-Management Services

The Bank provides a variety of debt-management services in its role as fiscal agent for the federal government.

Most of these services relate to operations and systems support for what is commonly referred to as the government's retail debt. This is the debt, principally Canada Savings Bonds (CSBs), that is held by individuals. Because of the millions of accounts involved, this debt requires considerably more administrative support than that held by institutional investors. In fact, about 85 per cent of the Bank's debt-management expenditures in 1997 were related to retail debt.



PHOTO: NORMAND HUBERDEAU

*Senior Regional Representative Lorraine Laviolette
in Magog, Quebec*

The amendments to the Bank of Canada Act in 1997 included a provision that enables the Bank to charge the federal government for providing retail debt services. This was done to strengthen the accountability framework for the government's retail debt program, which is now under the direction of Canada Investment and Savings, an agency of the Department of Finance. With the change in the act effective on 15 June, the Bank has charged back to the government its retail debt expenses from that date.

Market debt-management activities for the Bank relate to the government's treasury bill and marketable bond debt and to borrowings on behalf of the Exchange Fund Account. These activities include providing advice, managing new financings and, for Canadian dollar debt, servicing outstanding issues. Consistent with past practice, expenditures for these operations are not recovered from the government.

Year in review

Retail debt services

Work continued on a major computer-based system, initiated in 1994, to upgrade the handling of the government's retail debt. The project is on schedule and is expected to be completed in 1998. The initial phase-in of a new system to handle the CSB payroll savings plan began in 1997. This system will eliminate fees paid by the government to financial institutions for their services and will significantly reduce the workload of companies offering the payroll plan. The Bank also provided systems support for new RRSP and RIF products.

In response to increasing use by the public, the 1-800 call centre for information on CSBs and other retail debt was expanded in 1997. The higher use was due to inquiries regarding new products and maturing CSBs, as well as greater public awareness of this service.

Market debt services

In 1997, the Bank managed over 80 auctions through which new treasury bills and marketable bonds were issued for the government. The Bank was also involved in raising U.S. dollars for the Exchange Fund Account through two global bond issues, several swap transactions from Canadian dollars, regular short-term Canada Bill borrowings, and medium-term note programs both in North America and abroad.

Along with the Department of Finance, the Bank consulted with financial market participants regarding appropriate steps to help markets adjust to reduced government borrowing requirements. One step taken was a shift to fewer maturity dates and to biweekly rather than weekly auctions of treasury bills, resulting in larger and more liquid issues. Another was the sale of government securities from the Bank's portfolio to cope with market shortages of a particular issue. A review of auction bidding rules was undertaken, focussed on limiting the concentration of new government issues among holders.

Operating expenses

Overall, expenses for debt-management services were approximately \$56 million in 1997, about 30 per cent of the Bank's total operating expenses. Retail debt expenses for the full year were close to \$48 million, about 26 per cent of total operating expenses. This represents an increase in expenses of 14 per cent from 1996, as a result of the initiatives noted previously, partially offset by savings associated with a consolidation of bond services. About \$29 million of these expenses were charged back to the government. Expenses for the market debt services of the Bank declined to \$8.5 million from just under \$10 million, as continued efficiencies were realized through the elimination of certificates and in the computerized handling of outstanding treasury bills and marketable bonds.

For CSB information

use our call centre

(1-800-575-5151) or

<http://www.cis-pec.gc.ca/>

on the World Wide Web.

Operating expenses related to debt-management services

