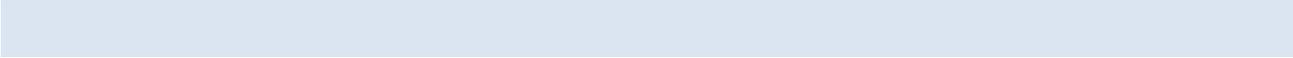


*OBJECTIVES, STRATEGY AND OPERATIONS
OF THE
OECD WORKING PARTY
ON PUBLIC DEBT MANAGEMENT*

Paris, 14 November 2007


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I. INTRODUCTION AND EXECUTIVE SUMMARY

The OECD provides authoritative information on technical and policy issues in the area of public debt management and government securities markets through its **Working Party on Public Debt Management (WPDM)**. The *first principal objective* of the WPDM is to provide a practical, hands-on policy forum for senior OECD debt managers. The first pillar of the WPDM's medium-term strategy is to strengthen this practical approach.

Since its creation, the WPDM has given senior government debt managers the opportunity to exchange informally and frankly their views and experiences in the field of government debt management and government securities markets. To that end, the agenda of the **Annual Meeting of the WPDM** (and also its **Global Forums**) tracks closely the rapid development in government debt policies and markets. Accordingly, the Working Party has focused on a wide range of topics, including such pressing government debt policy issues as the cost effectiveness of government debt instruments, the use of electronic systems, organisation of debt management offices (DMOs), the role of debt managers (DMs) in sovereign asset/wealth management, the performance measurement of DMOs, new selling techniques, the organisation of primary and secondary markets in government securities, advances in risk management, organisation of cash management, the role of derivatives, and the role of DMs in assessing and managing contingent liabilities.

In this way, it has been possible to compile a unique, authoritative and up-to-date pool of knowledge in this special field of government activity and policy. The *second main objective* of the WPDM is to formulate, where possible and relevant, leading practices based on discussions among OECD debt managers in this highly specialised area of government policy. Over the last decade, the OECD Working Party on Debt Management has achieved a singular international status in the international community of debt managers, while its activities have resulted in a set of leading practices that function de facto as global standards. The second pillar of the WPDM's medium-term strategy is to develop further the set of leading practices and to disseminate them in an efficient fashion to a global audience.

Information about leading practices related to government debt management policy as well as primary and secondary debt market operations have been shared with debt managers from emerging market economies. To that end, the Working Party initiated in 1990 a policy dialogue with transition countries and, later on, with emerging markets in several regional and global policy forums. As a result, the Working Party's unique and up-to-date pool of knowledge has become of great importance for the debt managers and other financial policy makers from emerging market economies when they design and implement policies. The *third main objective* of the WPDM is to share this

knowledge with policy makers from emerging debt markets via both dedicated WPDM global policy forums and outreach programmes. At global Forums public debt managers from the OECD area discuss in an in-depth fashion OECD practices and policies with their counter-parts from non-OECD countries. Forum meetings serve also as opportunities for in-depth follow-up discussions of topics that have been discussed by the WP. Accordingly, the third pillar of the WP's medium-term strategy is to strengthen and streamline the existing two global forums. It is also envisaged to deepen and extend the relations with non-OECD debt managers and other relevant multilateral organisations.

II. THE PRACTICAL NATURE OF THE OPERATIONS OF THE WPDM

In recent years, the Working Party continued to shift its orientation toward more concrete and problem-oriented discussions. In 2002, the WPDM initiated the use of ad hoc expert groups. To date, there have been ad hoc expert groups on risk control, the best practices related to the management of contingent liabilities, and performance measurement. This new working method was considered a very useful innovation. This new tool makes it possible to go deeper into a policy area, to discuss more concrete problems, and to suggest common standards or best practices. By way of conclusion each expert group prepares a report for discussion at the annual meeting of the WPDM.

As part of its medium-term strategy, the Working Party intends to continue this move towards more concrete and problem-oriented discussions, both as part of the Annual Meeting of the Working Party and the global forum/outreach programme. Where possible and relevant, the working party seeks to formulate and promote OECD-wide leading practices. This change in the operations of the WPDM has strengthened the practical nature of the outcome of policy discussions, while allowing a more focused outcome of discussions.

III. THE WORKING PARTY'S LEADING PRACTICES

The Working Party has given the following interpretation of 'leading practices'. The Working Party represents a forum of peers. And it is within this forum that two key policy questions are examined:

(1) is it feasible to arrive at a common understanding about leading practices with respect to the various policy measures? and (2) if so, how can we best formulate these leading practices?

A common understanding about leading practices within the Working Party reflects therefore a *consensus* among peers (debt managers). Leading practices are being 'found' during discussions and *not* imposed (from the outside). In other words, leading practices do *not* reflect some sort of blueprint. Leading practices are not equal to a

prescriptive set of standards either. A common understanding about leading practices is therefore *not* the same as a consensus outcome about prescribing minimum standards, guidelines or regulations. Moreover, this common understanding may change over time in the light of new circumstances, availability of new techniques and changes in institutions.

THE MULTI-STAGE PROCESS OF ARRIVING AT (OR FINDING) LEADING PRACTICES

The process of arriving at a consensus about leading practices can then best be described as a multi-stage process:

- **Step 1:** Inventory or survey of practices (e.g. for dealing with market squeezes or market risk).
- **Step 2:** What are the similarities in policy measures across countries? And, a related question, do they reflect a similar policy philosophy? Are there any differences and why? (Differences in philosophy? Differences in the market-infrastructure or other institutions such as the broader regulatory framework?)
- **Step 3:** Is there a consensus (possible) about policy or market best practices, taking into account the differences in structural framework of market or other institutions? If not, it may still be of interest to explain why this is not possible. (Differences in policy philosophy? Other reasons such as historical differences in primary or secondary market structure?)

This approach stimulates the debate in a useful and practical direction. As a general rule the Working Party will seek to publish policy recommendations and related leading practices, without compromising the confidential nature of its proceedings.

IV. POLICY RELEVANCE OF THE WPDM

Over the last decade the OECD Working Party on Debt Management has achieved a singular international status in the international community of debt managers. The active participation of OECD debt managers in the annual meeting is testimony that the Working Party is indeed successful in meeting its objectives as *the* policy forum of senior OECD debt managers. Also in the policy dialogue with non-member countries the WPDM plays a central role. Co-operation with other multilateral organisations further strengthens this position.

High policy relevance is assured as the programme of work of the Working Party is directed by a Bureau that acts as a steering group of senior OECD debt managers, while most policy documents are prepared by the debt managers themselves. This steering group meets once a year to plan WPDM's activities for the coming year and to discuss all relevant longer-term strategic issues facing the Working Party¹. As a result, the agenda of meetings of the Working Party tracks closely the policy priorities in the area of debt management and government securities markets. This means that the policy relevance of discussions is very high and directed toward concrete issues facing all OECD debt managers. As explained in section III, where possible and relevant, the Working Party seeks to formulate and promote OECD-wide leading practices. This has been particularly relevant over the last ten years as many OECD debt managers have experienced periods of wide fluctuations in financing needs and changes in the direction of outstanding debt. Recent topics include: risk management systems and practices, the role of derivatives, issues related to debt composition and duration, a reassessment of experiences with inflation-indexed securities in OECD countries, an update on electronic issuance and trading systems, falling debt issues, and an examination of the risks associated with contingent liabilities from a debt manager's point of view.

V. EFFICIENCY OF WPDM'S OPERATIONS

The Working Party has the reputation of being one of the most productive bodies of the OECD. Although the Working Party comes together for only one official face-to-face meeting a year, key debt management and market topics are addressed. Moreover, most documents for discussion at the annual meeting are prepared by members of the WP, often on the basis of surveys held among all OECD jurisdictions².

THE USE OF AD HOC DEBT MANAGEMENT EXPERT GROUPS

In recent years, the need to discuss the many policy issues faced by debt managers in a more in-depth fashion has been met via the use of *ad hoc* debt management expert groups. These groups have been successful in

¹ See section VIII.

² The efficiency, practical nature and policy relevance of WPDM was confirmed in a recent very positive evaluation report [DAF/MC/DM/WD(2007)2], by emphasising: (a) its highly focused, practical and problem-orientated discussions on debt management; (b) its high levels of capital-based participation and the high rate of attendance by senior officials; (c) the quantity and high quality of members' written contributions; (d) the high quality of the global debt and bond market forums; and (e) the good working relations with IMF and WB concerning emerging markets' activities.

examining in a thorough way selected pressing policy issues confronting OECD debt managers. These individual groups usually consist of a handful (5-7 persons) of the most interested and knowledgeable experts from the OECD area.

At the same time, the high overall level of efficiency of WPDM's operations is being maintained as these expert groups usually only come together only once for a face-to-face meeting, while this gathering is organised and hosted by the chair person of the expert group. Moreover, when additional meetings are deemed necessary they are usually held in the form of conference calls. Finally, expert groups are dissolved as soon as the report to the annual meeting of the WPDM has been completed. The experts groups make it possible to go deeper into policy areas, to suggest concrete solutions at the annual face-to-face meetings of the Working Party in Paris, and to suggest common standards or leading practices – for example, those related to the role of debt managers in managing the risks associated with contingent liabilities or the construction of performance benchmarks for sovereign debt management operations.

Given all of the above, the Working Party has grown over time into a strong policy forum for government debt management experts from OECD Member countries. Its policy relevance and dedicated focus on concrete issues facing OECD debt managers have contributed to the formulation of modern and efficient debt management policies in all OECD countries.

VI. GLOBAL FORUM AND OUTREACH POLICY OF THE WPDM

GLOBAL FORUMS

Two global forums are being organised under the aegis of the WPDM:

- The Annual OECD/World Bank/IMF Global Bond Market Forum.
- The Annual OECD Global Forum on Public Debt Management.

The first forum focuses on bond market problems and policy issues, while the second global forum addresses debt management policy issues and techniques, including their interface with the functioning of government securities markets and the role of other market participants. Both forums are organised under the aegis of the OECD Working Party on Debt Management, in co-operation with the OECD-Italian Treasury Network for Public Debt Management. The OECD Working Party is a policy forum for senior government debt managers from OECD member countries to exchange views, experiences, and policies in the field of government debt management

and development of government securities markets, including the identification of leading practices that could serve as a global standard.

The ***Annual OECD Global Forum on Public Debt Management*** brings together debt managers from all over the world to discuss viewpoints and experiences relating to public debt management. Its focus is on policies, techniques, and experiences in the field of government debt management. The focus of the ***Annual OECD/World Bank/IMF Global Bond Market Forum*** is on the factors and policies that shape the functioning of corporate and government bond markets. The annual global Bond Forum creates a policy platform to discuss the latest developments in worldwide bond markets and to share and learn from country cases and leading practices in developing efficient public and corporate bond markets.

Global Forums are round-table meetings where public debt managers from the OECD area (as well as debt market regulators, central bankers, other financial policy makers and -- on occasion -- private sector participants) discuss in an in-depth fashion OECD practices, experiences, and policies in the field of government debt management and the development of government and corporate securities markets with their counter-parts from non-OECD countries.

Often forum meetings serve as opportunities for follow-up discussions of topics that have been discussed by the OECD Working Party on Debt Management by extending and deepening the earlier or initial policy dialogue. Global Forums typically address 2-3 topics per meeting. For this reason, there is an opportunity for in-depth discussions that go sometimes further in terms of technical detail than at annual meetings of the WPDM. Examples include the assessment of auction methods, the management of market, credit, and operational risk, the role of the debt manager in managing guarantees, price discovery, the integration of debt and cash management and the role of derivatives in debt management.

The relevance of Global Forums has increased over the years as debt managers from emerging market countries increasingly face challenges similar to those of their counterparts from advanced markets due to pressures from global finance and the related need to implement OECD leading practices in this policy area. Emerging markets have also become more important players, with OECD governments, investors, and financial intermediaries standing to gain from emerging market countries making further progress in implementing leading OECD practices.

OUTREACH MEETINGS

Since debt managers from emerging market countries increasingly face challenges similar to those of their counterparts from advanced markets, the outreach strategy of the WPDM seeks to organise most of the policy dialogue with debt managers from emerging debt markets via the two global forums. Regional and country perspectives³ (in particular from the more developed emerging markets) are therefore directly linked to the two OECD global forums⁴. Another aspect of the outreach strategy is to strengthen the co-operation with other relevant multilateral organisations⁵ and to expand and deepen the relations with Asian and African debt managers.

Three outreach policy objectives can be distinguished. A *first* objective of outreach activities by the WPDM is to organise an effective multilateral policy dialogue between debt managers and other financial policy makers from OECD countries on the one hand, and their counter-parts from outreach countries on the other. Effectiveness and policy relevance are achieved via hands-on presentations by practitioners, which include on occasion outside experts (depending on the policy issue under consideration; for example, on occasion, rating agencies, commercial banks and operators of electronic platforms have been invited). The resulting peer-to-peer policy discussions aim at clarifying issues of particular interest to policy makers from outreach countries, resulting in

³ On occasion, the WPDM has also organised regional and country forums such as *OECD's Annual Baltic-Nordic Forum on Public Debt Management* (this forum was terminated in October 2004, after the entry of the Baltic countries into the EU), the *OECD-China Forum on Public Debt Management and Government Securities Markets* (and meetings in Brazil (in March 2003) and Indonesia (September 2005)). Only the OECD-China Forum is held on a regular basis (the first meeting of this forum was held in June 2004).

⁴ Accordingly, starting in 2006, the newly created *OECD Forum on African Public Debt Management and Government Securities Markets* was held back-to-back with the *Annual OECD Global Forum on Public Debt Management in Emerging Government Securities Markets*. Moreover, the agenda of this Africa Forum is fully aligned with the one of the Global Debt Forum.

⁵ The Global Bond Forum is being organised in co-operation with the World Bank and, starting in 2006, with structural input by the International Monetary Fund (IMF). The Asian Development Bank has been invited to provide input on Asian bond market issues and to suggest additional participants from Asian countries. The African Development Bank, IMF and World Bank play an active role in the *OECD Forum on African Public Debt Management and Government Securities Markets*, while the UNCTAD, UNITAR (United Nations Institute for Training and Research), BCEAO (Banque Centrale des États de l'Afrique de l'Ouest), BEAC (Banque Centrale des États d'Afrique Centrale) and MEFMI (Macroeconomic and Financial Management Institute for Eastern and Southern Africa) also participate in its proceedings.

the formulation of strategic recommendations for policy design and implementation. In this way, OECD-led policy dialogues play a complementary role to technical assistance activities by other multilateral agencies.

A *second* objective is to link debt managers and other relevant financial policy makers from outreach countries to the existing international network of OECD debt managers. Debt managers from outreach countries are also offered the opportunity to be linked to the electronic OECD-Italian Public Debt Management Network (see below).

A *third* objective is to make OECD debt managers more familiar with the policy challenges faced by debt managers in emerging financial markets and to acquaint them in detail with the market infrastructure and investors from outreach jurisdictions.

OECD-ITALIAN NETWORK FOR PUBLIC DEBT MANAGEMENT IN EMERGING MARKETS

The Network for Public Debt Management in Emerging Markets (PDM Network hereafter) is a joint venture between the OECD (and its Working Party on Debt Management) and the Italian Treasury (via its DMO)⁶. Its two main objectives are:

1. collecting and diffusing knowledge and techniques related to public debt management to emerging markets;
2. enhancing the dialogue between OECD debt managers and their counterparts from non-OECD countries.

⁶ To that end, a formal MOU was signed between the OECD and the Italian Treasury in 2004. Its permanent Secretariat is based in the Italian Ministry of Finance (Rome-based manager: Maria Cannata, Director General). OECD manager: Hans Blommestein. The Italian Treasury has borne most of the costs associated with the Network by generously supporting the development of the electronic website and making staff available.

As noted, in rapidly integrating global markets, debt managers from both advanced and emerging countries are increasingly facing similar policy challenges. As a result, information exchange on OECD leading practices and multilateral policy dialogue on public debt management are of great interest and growing importance for all parties concerned.

The joint OECD-Italian initiative to create this Network was subsequently endorsed by the OECD Working Party on Debt Management. Accordingly, the PDM Network operates as part of the work programme of the OECD Working Party on Public Debt Management. Its activities are complementary to that of OECD's Global Forums and Outreach activities, while the Network also contributes to these activities. More specifically, the activities by the PDM Network constitute a new, complimentary feature in the multilateral framework for co-operation in the area of public debt management by providing an electronic platform for continuous information exchange with interactive features that support an intensive and comprehensive electronic policy dialogue. In addition to the OECD website, this new electronic source seeks to provide continuous and multilateral information on experiences, leading practices and techniques on all aspects of public debt management to debt managers and other Partners such as supranational and multilateral organisations, public and private research centres and financial institutions.

The Network has a Governance Group⁷ responsible for the implementation of the POW. The Website of the Network plays therefore an important supporting role in executing the WPDM's Global Forum meetings as well as the outreach activities by diffusing in an efficient fashion the Working Party's pool of information. The Network is also a very useful tool in reducing some of the burden of bilateral contacts between OECD Debt Management Offices and their counter-parts from emerging markets, in particular by providing efficient access to information on OECD debt policies and bond market practices.

⁷ Current members: the Head of Debt Management from Denmark who is also the Chairman of the WPDM, the Italian Treasury, Spanish Central Bank, the Belgian Treasury and the OECD Secretariat. The summary record of meetings by the Governance Group are circulated to the WP.

VII. EXTERNAL COMMUNICATION POLICY OF THE WPDM

The WPDM seeks to implement a policy of high transparency concerning its operations as well as the outcome of its key findings⁸. Accordingly, the WPDM seeks to disseminate information on policies, techniques and best practices to a wider audience. Important publications include *“Trends and Recent Structural Changes in OECD Public Debt Markets”* (Paris, 2002), *“Public Debt Management and Government Securities in the 21st Century”* (Paris, 2002) and *“Advances in Risk Management of Government Debt”* (Paris, 2005). Articles on debt management policies and government securities markets are also published in *OECD’s Financial Market Trends* and other outlets.

Also the websites of the OECD and the OECD-Italian PDM Network play an important role by diffusing in an efficient fashion the Working Party’s pool of information on OECD debt policies and bond market practices.

The WPDM also plays a directing role in the construction of government debt statistics. They are published, together with clarifying methodological notes, in an annual OECD publication: *“Central Government Debt: Statistical Yearbook”*.

The medium-term communication strategy of the WPDM is to disseminate more frequently and widely information on policies, techniques and best practices to a global audience. Moreover, the aim is to expand the OECD publication on debt statistics with new series as well as to include more recent data.

VIII. COMPOSITION AND FUNCTIONING OF THE BUREAU OF THE WPDM

The activities of the Working Party are directed and supported by a **Bureau** (acting as a **Steering Group** for planning the activities of the Working Party) with as members the Chairman and 10 Vice-Chairs of the Working

⁸ In order to protect the confidential nature of its proceedings, all information that is being disseminated is subject to the approval of the WPDM.

Party⁹. The steering group is an *informal* body with its members volunteering to support the Secretariat in its management of the WP. The steering group is the key planning and coordinating body of the Working. Its members are involved in directing all major activities of the WPDM, in particular by drafting its work programme and organising annual meetings of the WP by providing guidance on the choice and scheduling of public debt management topics. To that end, the steering group meets once a year to discuss the planned activities in the coming year, while shorter (even more informal) meetings are held *en marge* of most WPDM events to discuss the latest WP business. Moreover, the steering group provides the secretariat with informal feed-back on issues of general interest for the WPDM such as new working methods, requests or suggestions from other organisations, evaluation exercises, etc. However, the emphasis of steering group meetings is on the discussion of public debt management issues and policies (aka “content”) and not on the discussion of general OECD policies and other general issues (aka “process”). Process issues of general interest are only discussed by way of informal feedback and at the ad hoc request of the Secretariat.

Transparency in the direction of the WP is ensured as follows. The agenda of the annual steering group is circulated to the Working Party. Also the possible comments by the steering group on documents with issues of general interest for the WPDM (such as new working methods, requests or suggestions from other organisations, publication suggestions, evaluation exercises, etc.) are communicated to the WP as a whole. The transparency of steering group proceedings is also ensured by circulating a report on the decisions of the annual meeting of the steering group to the Working Party.

Once a year, members of the bureau are chosen by member delegates to the WPDM. The composition of the bureau reflects to some degree geographical and institutional considerations, as well as market-stage development perspectives. The members of the bureau/steering group are senior debt managers from around the world with a high respect in the debt manager community. They are expected to bring a variety of opinions to the table, while they have a good reputation in contributing actively to WPDM meetings and other WP activities.

⁹ The following persons were elected in 2007 to the Bureau: Chair : Mr. Ove Sten JENSEN (Danmarks Nationalbank); Vice-chair: Mr. Zolt BANGO (Hungarian Government Debt Management Agency), Ms. Maria CANNATA (Italian Treasury), Mr. Benoît COEURE (Agence France Trésor), Mr. Neil HYDEN (Australian Office of Financial Management), Mr. Masaaki KAIZUKA (Japanese Ministry of Finance), Mr. Karthik RAMANATHAN (United States Treasury), Mr. Gerhard SCHLEIF (German Finance Agency), Mr. Herwig SMISSAERT (National Bank of Belgium), Mr. Rob STEWART (Canadian Department of Finance), and Mr. Robert STHEEMAN (United Kingdom Debt Management Office) . Hans Blommestein is the OECD co-ordinator.

IX. HOW TO CONTACT US

Further information on the activities of the Working Party can be obtained from Hans J. Blommestein, Co-ordinator of the OECD Working Party on Public Debt Management, 2 rue Andre-Pascal, 75016 Paris, France; tel.: 33-1-45247990; fax: 33-1-44 30 63 26; e-mail: [\[mailto:Hans.Blommestein@oecd.org\]](mailto:Hans.Blommestein@oecd.org)