For the meeting to be held at the International Energy Agency, 9 rue de la Fédération, 75739 Paris Cedex 15, on 7 and 8 November 2000, beginning at 9.30am on the first day.

For further information, please contact Mr. Hans Blommestein
(Tel: +33 1 45 24 79 90; Fax: +33 1 44 30 61 38;
E-mail: Hans.Blommestein@oecd.org)
Working Party on Government Debt Management
Paris, 7-8 November 2000

AGENDA

INTERNATIONAL ENERGY AGENCY
9 rue de la Fédération
75739 Paris Cedex 15

1. Adoption of the agenda
2. Tour d’horizon on recent innovations in government debt management techniques and practices and government securities markets
3. Survey on risk management practices concerning assets and liabilities of debt managers
4. Electronic debt trading systems in OECD countries
5. Government debt statistics
6. Policy implications of debt composition and holdings
7. Experience with index-linked bonds
9. Other business
ANNOTATIONS

General

In view of the interest of the Committee on Financial Markets in the work of the Group, it would be highly desirable that Experts submit documents in electronic form (OLIS, diskette or E-Mail: Hans.Blommestein@oecd.org) that can also be made available to the CFM. In order to assure a timely circulation of the materials, documents must be made available two weeks prior to the meeting. In the interest of speed, it is suggested that Delegates circulate electronically as much as possible documents directly to all members of the working part, including the Secretariat.

Item 2

It was considered that, in the future, there should be a markedly greater emphasis on written contributions in relation to recent Government debt management developments in member countries; and that there should be a strategic shift in the deliberations by the Working Party to a limited number of themes or issues at each meeting. It was agreed therefore that the “tour” should be divided into two parts, namely, a ‘themes’ discussion and the normal tour de table. In other words, the “tour” is being restructured in order to focus on topical issues. To this end, for the greatest benefit of the time spent together at the meeting of the Working Party, the following procedure will be adopted on a trial basis:

− Each country with significant changes/developments to report in its Government securities market within the preceding twelve months should submit to the OECD secretariat a short paper of around one-page. It is important that this report be circulated to all members of the Working Party (including the Secretariat) well in advance of the meeting (in the past it was agreed to submit material well in advance of the meeting). The allotted time for the oral introduction is around three minutes.

− In the interest of time, only a country that has made a written report may make a verbal presentation of around three minutes. Additional time will be allocated to questions addressed to a country’s representative in response to its written and oral submissions.

− Based on submissions by members, the Steering Group of the Working Party suggest to focus on the following substantive themes on Government debt management:
  
  • Handling of budget surpluses (issues: UMTS-licenses -- expected results and effects on debt management; buy backs and other techniques)
  • Electronic bond issuance through INTERNET (recent initiatives, expectations and effects on debt management)

These themes will be the main focus of discussion during the first part of the meeting. Prior to the meeting, the Secretariat will circulate a short document with suggested questions on these themes. This discussion
will be followed by a second part, an abbreviated version of the traditional tour d’horizon, in order to highlight any other important issues not addressed under the themes discussed.

- The meeting will start on the first day at 9:30 a.m. It is envisaged to allocate two hours to themes discussion; and one and a half hours to the traditional “tour”.

**Item 3**

Canada will present a paper on this subject.

**Item 4**

Belgium will present a paper on this subject, describing the main trends in electronic secondary market trading. The participants will be provided with the paper and a compilation of the forms.

During last year's November meeting of the Working Party on Debt Management in Paris, the Canadian Delegation submitted a paper on electronic trading in government debt. The study dealt with the driving forces in the development of electronic trading systems in debt markets, the types of systems in primary as well as in secondary markets and the effects on policy and regulations. It was decided that as a follow-up to the Canadian Study, the Belgian Delegation would construct a Survey so as to provide an overview of the development of electronic secondary market trading in government debt in the OECD countries. Therefore, each delegation was invited to complete this survey. The purpose of the Survey was not to be exhaustive, but if several electronic trading systems are operative in a country, the most important ones have been reported. Only multiple dealer systems and cross-matching systems which allow dealers and/or (institutional) customers to trade with multiple counter-parties were targeted.

**Item 5**

Statistics on central government debt instruments:
Delegations were requested to send to the Secretariat revised statistics and country notes by 20 September 2000. This information will be disseminated to the public at large in the form of an OECD publication. A brief progress report DAFFE/MC/DM(2000)4 will be circulated: i) to inform delegations on the status of the exercise; and ii) to provide an overall assessment of the statistics (including data comparability issues).

**Item 6**

Denmark will present a paper on this subject. The attached questionnaire is a follow-up on the survey conducted by Canada in the summer 1998. At the last OECD Working Party's meeting, it was decided carry out an updated survey in this field. The objective is to describe and compare debt structures across OECD countries, as well as the underlying policies, and to identify changes since 1998.

The survey contains 3 sections:

- Policy objectives
- Debt composition
- Distribution of holdings
In the first section policy objectives are identified. The second and third sections ask for statistics on debt composition and holdings. As for statistical methodology, the same definitions as in the forthcoming publication on government debt statistics from OECD, although some points may still have to be clarified.

Item 7

Australia will present a paper on this subject.

Item 8

Delegates are referred to the summary proceedings of the Tenth OECD Workshop on Government Securities Markets and Public Debt Management in Emerging Markets, held on 29-30 May 2000 in Warsaw. An oral report on the Warsaw meeting and follow-up will be given by the Secretariat. There will also be an oral report on the forthcoming meeting of the Steering Group.

Item 9

1. The Secretariat distributed a letter on June 23, 2000 (attached to this agenda) informing Delegates that the Committee on Financial Markets (CMF) discussed a number of new projects, including a project on *Long-term Effects of Changes in Bond Market Supply*. This project was proposed by the German Delegation. This proposal received considerable support from CMF delegates. The proposal argues that major changes are underway in the bond markets of the major OECD areas (United States, Europe, Japan), which may have implications for bond markets in emerging countries as well. In addition, the proposal lists a number of market and macroeconomic effects that would deserve to be studied.

The CMF noted that the Working Party on Debt Management has considerable expertise in this area. Accordingly, the Secretariat suggests that at its next November meeting the Working Party takes up some of the policy issues mentioned in the German project proposal. More specifically, it is suggested that the Working Party would focus on those issues mentioned in this project proposal that directly relates to the functioning of government securities markets. It is further suggested that the Working Party decides which issues can best be taken up in response to the request from the CMF.

The Secretariat will draft a report on this discussion and circulate it for comment to the members of the Steering Group. The revised draft will then be sent as a report to the CMF.

2. Delegates will be invited to make nominations for the functions of the chairman and vice-chairman of the Group for 2001. They will also be asked to make suggestions for the agenda of the 2001 meeting.
SUBJECT: BOND MARKET PROJECT COMMITTEE ON FINANCIAL MARKETS

Friday, June 23, 2000
Dear Delegate,
At its last meeting on April 5, 2000 the Committee on Financial Markets (CMF) discussed as part of the review of its Programme of Work a number of new projects, including their priority. One of the projects, *Long-term Effects of Changes in Bond Market Supply*, was proposed by the German Delegation. This proposal received considerable support from delegates at the April meeting. As can be seen from the points set out in the Annex, the proposal argues that major changes are underway in the bond markets of the major OECD areas (United States, Europe, Japan), which may have implications for bond markets in emerging countries as well. The Annex lists a number of market and macroeconomic effects that would deserve to be studied.

The CMF noted that the Working Party on Debt Management has considerable expertise in this area. Accordingly, the Secretariat suggests that at its next November meeting the Working Party takes up some of the policy issues mentioned in the German project proposal. More specifically, it is suggested that the Working Party would focus on those issues mentioned in this project proposal that directly relates to the functioning of government securities markets. Although the scope of the proposed project is broader, such expertise would be helpful in carrying it out.

Sincerely yours,

Hans J. Blommestein

[mailto:Hans.Blommestein@oecd.org]
LONG-TERM EFFECTS OF CHANGES IN BOND MARKET SUPPLY

Introduction

This project has been proposed by the delegate from the Deutsche Bundesbank -- which received considerable support from CMF delegates at the April meeting -- relates to the "long-term effects of changes in bond market supply". As can be seen from the points set out below, the delegate notes that major changes are underway in the bond markets of the major OECD areas (United States, Europe, Japan), which may have implications for bond markets in emerging countries as well. The proposal lists a number of market and macroeconomic effects that would deserve to be studied.

Changes in bond market supply

United States

- Declining volume of outstanding Treasuries.
- Adjustment of rhythm and volumes of Treasury issues; buy back programmes.
- Total repayment of debt until 2013; marketable securities even sooner.
- Traditionally strong corporate bond sector; new role of the agencies (benchmark substitutes); development in the ABS/MBS sector; new products (e.g. Tier 3-capital issues of banks).

Europe

- Declining net-borrowing of European states; prospect of balanced budgets in the near future; shrinking portion of government bonds relative to total outstanding volume; possibility of a US-like development in some member states.
- Booming corporate bond sector (abolition of traditional relationship banking/growing importance of capital markets/increasing transparency in the corporate sector/financing of M&A transactions).
- Jumbo-Pfandbriefe as possible benchmark substitutes? Expected surge in ABS transactions (restructuring of banks’ balance sheets; more efficient use of liable capital).

Japan

- Significant increase in issuance of government securities (As this situation does actually not exactly fit in the context of the topic, one could perhaps present the Japanese situation in some kind of appendix.);
- Japanese capital markets will probably not be excluded from securitisation and therefore the corporate bond sector should see a significant development in Japan as well.

Emerging Markets

The developments in industrialised countries will have implications for the bond market structures of emerging countries as well, although the time horizon remains unclear.
Effects of the Changing Supply Structure

Market effects:

Lack of reference issues for the pricing of spread products

- Hedging with government bond futures becomes more and more difficult;
- New derivative products will emerge (e.g. agency futures).

Swap markets become increasingly important.

Multi-benchmark environment (more than one benchmark, but probably smaller issue sizes).

Requirement for issuers to concentrate on only few large-sized issues.

Lower liquidity.

Higher volatility.

Macro economic effects:

- Growing importance of the credit risk factor (risk allocation)
- Effect of growing disintermediation on banks?
- Effects on interest rates and economic growth?
- Reaction of demand?

Are investors willing to switch their holdings completely in agencies?

What about diversification to other Triple-A borrowers (or lower rated issuers or even into equity)?
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<th>ROOM DOCUMENTS</th>
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<tbody>
<tr>
<td>1.</td>
<td>Tour d’Horizon</td>
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<td>(in connection with Item 2 of the Agenda)</td>
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<td>2.</td>
<td>Compilation of answers to the Questionnaire on Electronic Debt Trading Systems in OECD Countries)</td>
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<td>(in connection with Item 4 of the Agenda)</td>
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<td>3.</td>
<td>Implication of Budget Surpluses on Central Government Debt Management</td>
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<td>5.</td>
<td>Tour d’Horizon (2)</td>
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<td>(in connection with Item 2 of the Agenda)</td>
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<td>6.</td>
<td>Electronic Debt Trading Systems in Poland</td>
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<td>(in connection with Item 4 of the Agenda)</td>
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<td>7.</td>
<td>Poland – Policy implications of debt composition and holdings</td>
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<td>(in connection with Item 6 of the Agenda)</td>
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<td>8.</td>
<td>Tour d’Horizon (3)</td>
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