LAC DEBT GROUP
SECONDARY GOVERNMENT BOND MARKET

REPORT OF THE PRESENTATION TO THE
2nd LAC DEBT GROUP ANNUAL MEETING
CARTAGENA, COLOMBIA

APRIL 2006

CONTENTS

1. PROJECT OUTLINE

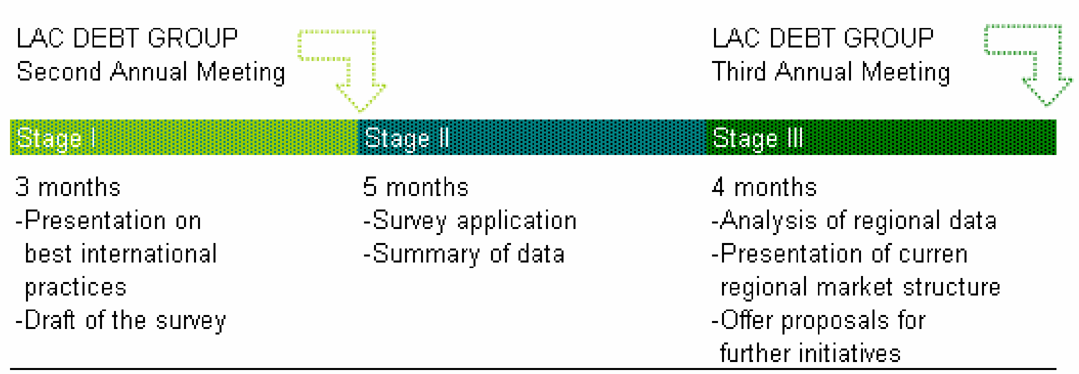
"STRENGHTENING INSTITUTIONS"

In light of the challenges to structure and develop bond markets amid changing environments, the IADB has set a project that aims to diagnose the current conditions for secondary government bonds market trading among LAC Debt Group members which can further substantiate initiatives to foment these markets according to regional characteristics. Ultimately, the main goal of this project is to strengthen the institutions of public debt management and provide them with insightful resources to develop bond markets.

This report is part of this project and a piece of the first stage. It is set to present in the next section some important aspects of market structure, interrelated factors that affect market liquidity in general, institutional framework that can support efficient markets and the necessity for transparency and communication. Later in the note, some international successful experiences are presented. The last section is dedicated to conclusions on general guidelines for public debt management and the development of secondary bond markets.

As an appendix, the note contains a draft of the survey which should be conducted in the second part of the project. The questionnaire should then be the base of information which would substantiate a clear diagnosis of these markets in individual countries and the region as a whole. It should primarily focus on the factors pointed out in this report as to determine the environment for bond trading while defining the markets dimensions, potentials and economic viability to implement further initiatives.

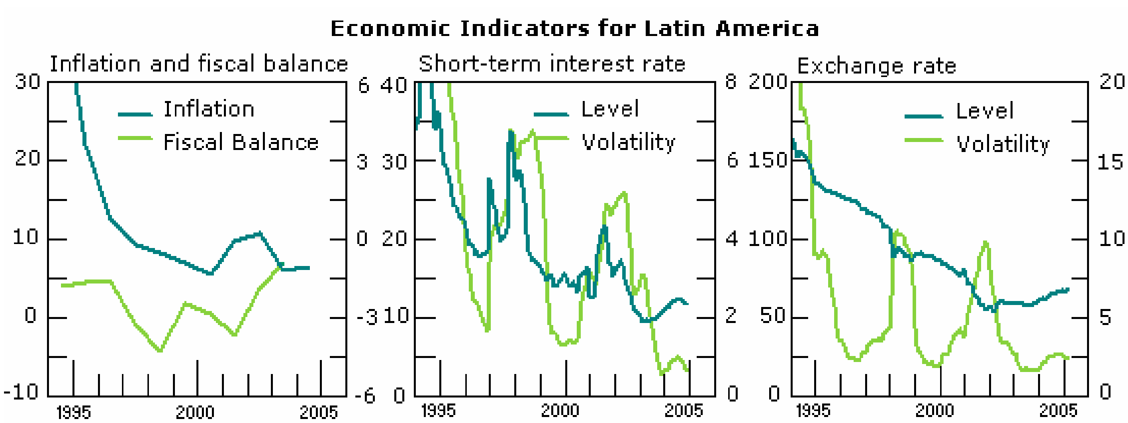
During the third stage of the program, based on the information provided in the survey, a complete report on the true conditions of local markets in regards to the dimensions and the potential to generate liquidity, current market structures and the efforts and results in achieving further advances should be conducted. Some proposals should also be presented based on specific models of market structure that have showed positive performance and that can further substantiate initiatives for advances.



2. OVERVIEW

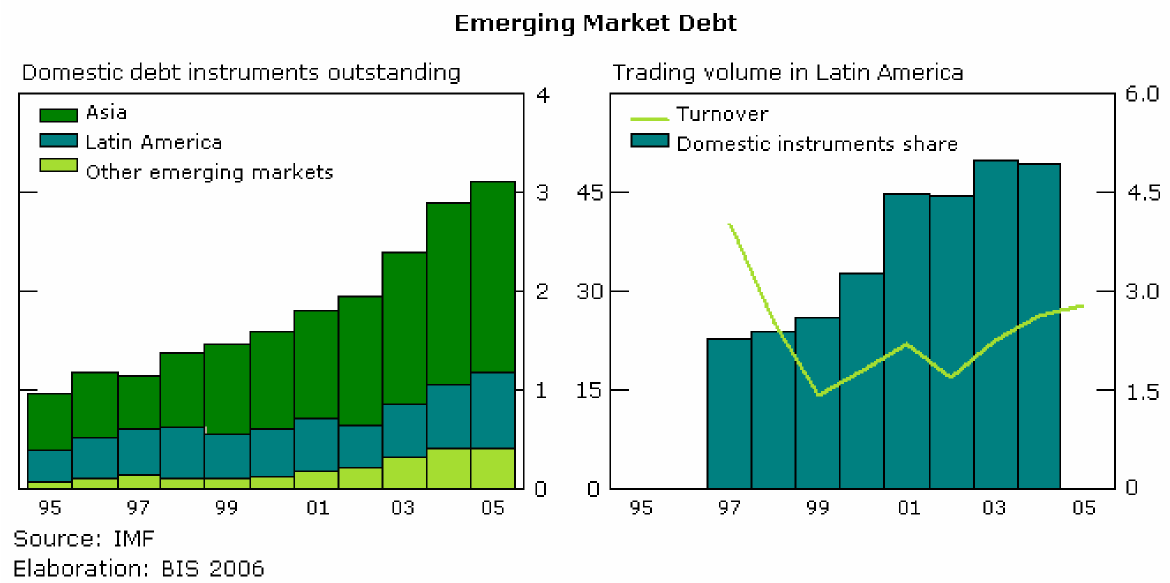
Domestic bond markets are evolving. Notably in Latin America, the emergence of favourable macroeconomic conditions, along with broader financial channels and portfolio diversification, has led public debt to become an increasingly important factor for government funding. Consequently, public debt managers are facing new challenges in obtaining their best results and may no longer aiming their objectives at only issuing at the lowest cost in medium to longer terms, but also attain to the benefits of having a well structured bond market.

A number of studies, survey and guidelines being the most remarkable the IMF Guideline for Public Debt (2003) have often approached the necessity for establishing an efficient primary market. Fundamentally these guidelines encompass a clear determination of objective and scope of public debt management. Moreover, sound macroeconomic policies such as fiscal responsibility of preserving sustainable levels of debt and interest services according to the size and conditions of the economy are necessary conditions for any further discussion of public debt management.



Source: IMF
Elaboration: BIS 2006

However, initiatives in fostering demand for government securities should also bear in mind at all times the essential issue of developing sustainable conditions for secondary market trading. This allows agents in the economy to diversify their risks, thereby helping make domestic financial markets more stable. Of course, well developed bond markets offer other important benefits, such as the non-inflationary funding of government budget deficits and a better transmission of monetary policy signals (BIS 2006). The existence of active and liquidity bond market also plays an important role in reducing the risk of carrying positions for a longer than expected period and enable agents to tailor their investments to their preferences and requirements, which can ultimately return benefit to the issuer as lower risk premium in the primary auctions.



Benefits of well functioning markets go beyond those of public debt interest as government debt pricing can create a yield curve against which corporate bond prices may be set. The relative larger size of government issues to that of corporate bonds and the fact that generally the former is regarded to have higher quality credit can contribute as a baseline to the corporate bond market in the sense that government bonds are often used as collateral assets for financial operations. Therefore, the development of structures and liquidity in public debt market can spread through operating channels to other markets.

Hence, some issues on how to foment and develop correctly these markets arise in this context. One way to look at this dilemma is to understand the nature of investors and their concerns to be willing to finance government debts and hold these positions in their portfolios. For instance, credit risks and legal risks can be mitigated with the reassurance of sound economic policies at both macro and micro levels. It is worth noticing that the reduction in inflation and the consolidation of fiscal accounts have contributed to lowering the volatility of domestic short-term interest rates. In addition to that, the removal of restrictions on foreign investment and the simplification of investment regulations in some cases represented good progress in terms of increasing the liquidity for government bonds. Strengthening institutional framework in matters such as clarifying the authority to borrow an issue new debt, invest and undertake transactions on the government's behalf, the mitigation of risks by modifying and properly managing the debt structure while developing a robust risk management that enables debt managers to assess and manage the trade-offs between expected cost and risk in the government debt portfolio should be encouraged (IMF 2001).

Surely information runs at the nature of financial market. Thus, it is accurate to state that transparency, generally defined as 'the widespread availability of information relative to current opportunities to trade and recently completed trade, supports market efficiency, fosters investor confidence and strengthens investor protection (IOSCO 2004). Specifically, it means that transparency problems should be tackled in all its contexts relevant to market liquidity: the transparency of issuers; the transparency of the issue schedule; and the transparency of market information. The first two contexts are much in line with the needs of the primary market as to reduce the uncertainties of credit and level of indebtedness. In fact, many of the matters attributed to be necessary to strengthen a primary market are just as necessary conditions for developing a secondary market. On the other hand, the matter of market information on both pre- and post-trading is a vital piece for the development of a well structured secondary market. In sum, constant changes in shape and size of these markets, along with the diversification of instruments and investors call for the need of broader transparency and have placed some new challenges to authorities and debt managers involved in this process.

3. GUIDELINES FOR SECONDARY MARKET

3.1 Primary market

Secondary markets can be seen almost as a natural extension of primary markets. Consequently, the objective of achieving well functioning secondary markets necessarily involves a well structured primary market as well. Indeed, although the scope of this report is not to be focused in the main factors affecting the latter, many of the issues that can be raised for one can be then extended to the other.

Mitigating risks is a crucial task authorities and regulators should consider in designing proper structures for government bond markets. For instance, sound macroeconomic policies and fiscal responsibility in maintaining a sustainable level of public debt decrease credit risk, thus improving investors' confidence. In the same token, ensuring the legal landmarks regulating not only bond markets but also related markets such as repo, futures and other derivatives can play an important role to enhance confidence and liquidity. Evidently, appropriate infrastructure of settlement and custody to government bonds is also at the foremost concerns in developing a sound and safe investment environment.

Above all, transparency should be the key factor in promoting a better environment for investments. This would mean not only providing market information, but also rendering good information on public accounts, which could help creditors to better evaluate fiscal accounts and tailor their investments perspectives.

In sum, some of the basic concern investor would have in primary markets also affect investor of secondary markets. Thus, ensuring protection and positive perspectives to one can positively affect all potential investors.

3.2 Market structure

a. Settlement and custody

A sound, robust and safe market infrastructure, defined to comprise payment and settlement systems, the regulatory and supervising framework as well as market monitoring/surveillance, is a prerequisite for a properly functioning market. It promotes active participation; it can help to make the market more resilient to external shocks and contributes to continuous price discovery, thereby enhancing market liquidity.

b. Infrastructure to reduce hidden transaction costs

Standardised, robust trading rules and a safe infrastructure help reduce hidden transaction costs and thus promote market liquidity. This applies both to the underlying market and to related markets, such as those for repos, futures and options. It is especially important that participants can rely on a set of core conventions and practices, given the trend in some markets towards a proliferation of trading platforms.

Safety in trading and settlement is a prerequisite for the existence of deep and liquid markets, as more investors will be willing to trade in a safe market. In this sense, shorten settlement lags and delivery-versus-payment (DVP) practices are strongly recommended. Shorten settlement period and DVP have become common in the government securities markets of developed countries. If improved settlement practices for government securities are extended to the wider universe of fixed income securities, demand for arbitrage and hedging transactions could emerge, thus further enhancing market liquidity.

Standardisation of trading and settlement practices generally increases market liquidity, in cases where previous disparities in these practices had impeded trading incentives. When these practices are standardised, the supply of securities effectively becomes larger, resulting in less market fragmentation. In addition, standardisation may encourage participation by non-residents, thereby adding to the heterogeneity of market participants and contributing to market liquidity. In this respect, it may be noted that in organised exchange markets, it is straightforward to achieve this standardisation.

c. Trading systems

Financial instruments are traded through a wide variety of mechanisms, including OTC markets, organised exchanges, and a number of systems and structures that cannot be neatly placed in either of these categories. Which platform sees the bulk of trading of a particular asset class depends on the degree of standardisation of the underlying instrument, the size and sophistication of the participants in the market, and a host of other institutional, regulatory and historical factors. Trading often moves from one platform to another, as the financial system evolves, participants' needs change and advances in information technology are implemented. Therefore, it may be difficult to draw any general conclusions on the appropriate configuration of trading platforms. However, it is reasonable to expect the development of electronically facilities either linked to firm prices or just indicative quotes in order to widespread relevant information for the participants aiming at increase the transparency as a whole.

Nevertheless, as a fundamental strategy, maintaining a competitive market structure is important. Competition among dealers can heighten liquidity by increasing the pressure for a narrowing of bid-ask spreads. In the case of exchanges, while their number is limited, dynamic competition between the leading exchange and other exchanges, and between the OTC market and organised exchanges, contributes to market liquidity.

Thus, by the above mentioned strategy, it is necessary, on one hand, to maintain a "contestable market", that is a market where the dominant players can be challenged by new entrants if they attempt to exploit their monopoly or oligopoly power as an alternative to enhance their performances and their markets. On the other hand too fragmented market places run the risk of split liquidity, affecting the market's dynamic.

d. Dealer system

An important and cheap step to enhance the market's dynamic is to develop the primary dealer system in order to prepare and incentive specialists to run the risk to buy and hold, to sell short and give prices even at low liquidity times. Despite the lack of a clear consensus on the principle of granting special rights to participants it is useful to consider offering privileges for the institutions who accept the obligations of being a Dealer. Examples of such advantages are the right to buy a green shoe at the medium price of a previous auction, invitation on Dealers and Central Bank or Treasury meetings. Regarding obligations usually they are asked for minimum amount bids in the auction or other kind of activities that could help to increase liquidity and narrowed quotes even during turbulent times.

e. Derivatives alternatives

If hedging, arbitrage and speculative transactions can be conducted easily, market liquidity as a whole is enhanced. To this end, the development of related markets such as repo, futures and options markets is important. Repo transactions enable dealers to finance long positions and cover short positions, allowing them to respond to customers' needs quickly. A well structured futures market reduces hedging costs, and thus makes it easier to take cash market positions. An options market also facilitates flexible hedging and arbitrage.

As a result, encouraging the development of these related markets, in tandem with the underlying cash markets and on the basis of a sound legal, regulatory and operational infrastructure, would contribute to market liquidity.

However, due to the necessary investment amounts it is difficult to imagine that markets with low liquidity could pay of for a robust derivatives framework.

3.3 Dynamics of market liquidity

A liquid market is defined as a market where participants can rapidly execute large-volume transactions with a small impact on prices.

According to the approach given in market microstructure, market liquidity can be measured by three dimensions: tightness, given by the spread between bid and ask prices; depth, denoting the volume order which can be traded without affecting prevailing prices; and resiliency noted as the speed which prices fluctuations resulted from trades are dissipated. Although market policies should aim at improving measures of liquidity, these ratios might not respond equally to policy changes. Yet, necessary policies at improving of liquidity should take into account the general overview including other measures such as the number and volume of trades, trade frequency, and turnover ratio (BIS).

Interrelated factors affecting market liquidity in general can be divided into market microstructure and market participant's behaviour.

a. Market microstructure

-Effects of transaction costs

Transaction costs include all factors that may affect the ease of executing transactions. Explicit transaction costs include commissions for trade and transaction taxes. Implicit transaction costs can take several different forms, including the temporary divergence of transaction prices from their market-clearing levels. Implicit costs often involve a trade-off between the cash cost of trading at a bad price and the opportunity cost of not being able to trade at the desired time.

-Interchangeable instruments

Low fragmentation leads to a competitive structure of trading and increases heterogeneity in market participants' behaviour, reflecting different transaction needs and investment horizons, should enhance market liquidity.

Other things being equal, market liquidity tends to be enhanced when instruments can be substituted for one another, since the market for each of them will be less fragmented. This is because high substitutability (or less fragmentation) means that there is a larger trading supply of securities. When the trading supply is large, it is easier to meet transaction demand. Of course, one should be aware of the trade-off between having a large volume of homogeneous products, which generally increases liquidity, and having heterogeneous products, which address the specific needs of market participants. Issuing bonds at several "key maturities" from the short to the long end of the yield curve, so as to meet the demands of various investors may be helpful in resolving this trade-off.

-Distribution of maturities and volumes

As mentioned above, issuing bonds at several "key maturities" along the yield curve can bring positive returns in terms of shaping and improving pricing of assets. However, it is worth noting that in markets for assets that can act as substitutes for one another, liquidity is often concentrated in one or a small number of the assets (BIS). That matter raises the concern on trade-off between spreading issues at different maturities and maintaining certain concentration of further issues at key maturities. Thus, re-opening previous issues can play an important role at improving liquidity for larger issues increase the supply of bonds and consequently can contribute to increase the number and the volume of trades, hence, improving liquidity in secondary market.

-Pre-announcement of issuance schedules

Although pre-announcement of issuance schedules can be noted as a transparency matter, it should also be part of a market microstructure policy affecting liquidity in the sense that bond auctions can, in fact, compete with secondary markets. Hence, anticipating schedule can help market agents to shape their portfolios. Furthermore, a less frequent issuance schedule is important to avoid primary auctions to compete for liquidity with secondary markets. For instance, if auctions are too frequent agents would better off wait for new issuance since they would have better chance of executing larger volumes without disrupting the market.

-Short sales

Market flexibility under strict regulatory supervision is the key issue to the promotion of government bonds short sales. Many aspects support the introduction of this trading feature as an important factor to increase market liquidity. For instance, it can help dealers to perform their task of market makers for both trading periods and before primary auctions. Furthermore, it creates an alternative structure of trading in which market participants can take advantage of expected reduction in prices, therefore, enhancing liquidity. Nonetheless, a close monitoring of authorities and policies that prevent market concentration and facilitate short sales are necessary to prevent risks of market squeeze.

b. Market participants' behaviour

-Heterogeneity of market participants

The degree of heterogeneity of participants can by itself affect market liquidity, by increasing the number of participants who are willing to trade on their differing perceptions of the value of an asset. A more heterogeneous customer base might also work to improve market liquidity by providing a dealer with more risk-sharing services than a more homogeneous customer base. This is because a more diverse set of customers, assuming this corresponds to a more diverse set of portfolio strategies and endowments, is less likely to present a dealer with a "one-way" trading session that would force the dealer to increase its inventory to an unacceptably risky level. In other words, as customer heterogeneity increases, dealers become more confident that they can offset a temporary surge in orders in one direction with an equal amount of orders in the opposite direction, so they are less likely to try to reduce liquidity (by increasing the bid-ask spread, for example) to dampen such surges.

-Self-fulfilling expectations

As in other market events self-fulfilling expectations can play an important role in liquidity determination by the fact that regard of market participants to a market as highly liquid helps it to become and remain highly liquid. Of course this effect can work both ways, which means that expectations can lead to lower liquidity depending on other conditions. However, this effect could be mitigated by interrelated factors mentioned above such as heterogeneity of market participants and well functioning market structures.

3.4 Institutional framework

a. The role of Central Banks

Central bank activities inevitably have an impact on market liquidity, corresponding to the various roles that central banks perform in the financial system. First, since central banks decide monetary policy, the information they communicate, such as policy decisions, statistics and notifications of open market operations, is rapidly incorporated into market prices.

Second, as major market participants, central banks conduct open market operations using government securities, and accept government securities as collateral, thereby affecting the trading supply of securities. Third, most often, as providers of clearing and settlement services for government securities, central banks influence underlying market liquidity conditions.

Given these roles and in the light of their responsibilities for financial stability, central banks have pursued their efforts to develop well-functioning markets and should closely monitor liquidity conditions in markets where liquidity could dry up under stress.

b. Taxes, if imposed, should be levied so as to minimise their impact on market liquidity.

Taxes tend to constitute an increase in explicit transaction costs, which could affect market liquidity. Such taxes can become impediments to the creation of deep and liquid markets in the sense that raising trading costs can constitute an entry barrier, attracting fewer dealers and investors. Hence, the tradeoff seems to be very clear. Government should weight the potential increase in tax revenues against the potential decline in market liquidity.

Furthermore, it is worth noticing that certain tax exemptions can create further incentives to the entrance of new investors in the market. For instance, reducing taxation for foreign investors can sometimes contribute to increase investors’ shape in number and investment horizons which, as mentioned before, should enhance market stability.

3.5 Transparency and communication

a. Transparency of sovereign issuers, issue schedules, trading information and its relationship to the liquidity

Facilitating the pricing of risk by investors and improving the information available on the financial condition of issuers will tend to encourage participation and trading activity, thereby promoting market liquidity.

Moreover, predictability of issuance can enhance market liquidity. To this end, it may be appropriate for sovereign issuers to maintain a regular issuance cycle and to preannounce the issue schedule (including the characteristics and amounts of the securities to be issued) insofar as this is possible given fluctuations in cash management needs. By doing so, more investors will participate in the market, as it will be easier to formulate an investment strategy conducive to the construction of an optimal portfolio.

Ensuring the transparency of both sovereign issuers and issue schedules is especially important for small open economies which rely on stable capital inflows from global investors.

Generally speaking, in a dealer market, the dissemination of prevailing prices to the broader trading community, including end-users, will help enhance market liquidity. By contrast, the disclosure of information on specific orders which endangers the anonymity of market participants would require careful consideration, as it might discourage dealers from making markets.

b. Government Bonds, Debt Securities and Transparency

The growing participation of retail investors in bonds in general has brought the opportunity to apply to the diagnosis that transparency allows investors to better look after their portfolios and reduces the risk of unfair and unethical trading practices and therefore increasing liquidity. (IOSCO)

The fact that bonds are usually traded in OTC markets due to the size of the tickets, to the predominance of institutional investors, and the dealers acting as principal to their clients asks other kind of electronically assistance capturing the information just before and after the trade happened, the called pre-trade and pos-trade data.

The level of transparency in bond markets is still little and some progress has been made in countries that have been extended pos-trade requirements. In general, pos-trade is more widely available than pre-trade

However, in view of the evolution of the bond market, regulators have been reassigning the adequacy of the markets' transparency (IOSCO). Of particular interest are the nature of pricing and the growing number of factors that may influence pricing. These seem to indicate that the info contained in trading data may be of greater importance that in the past.

4. INTERNATIONAL EXPERIENCES

4.1 Mexico

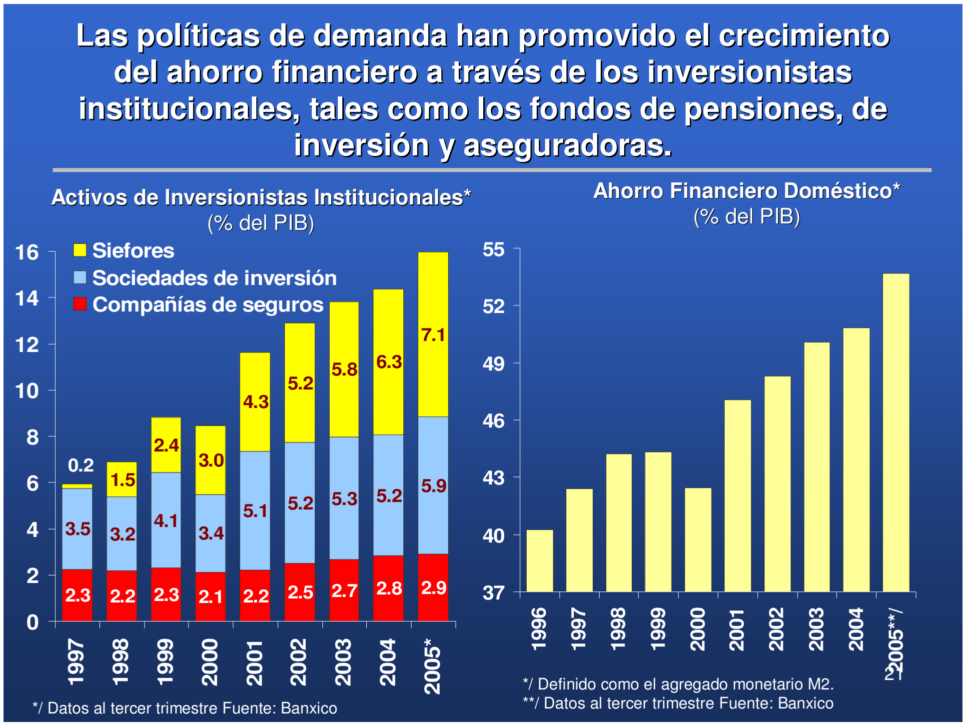
a. Macro management

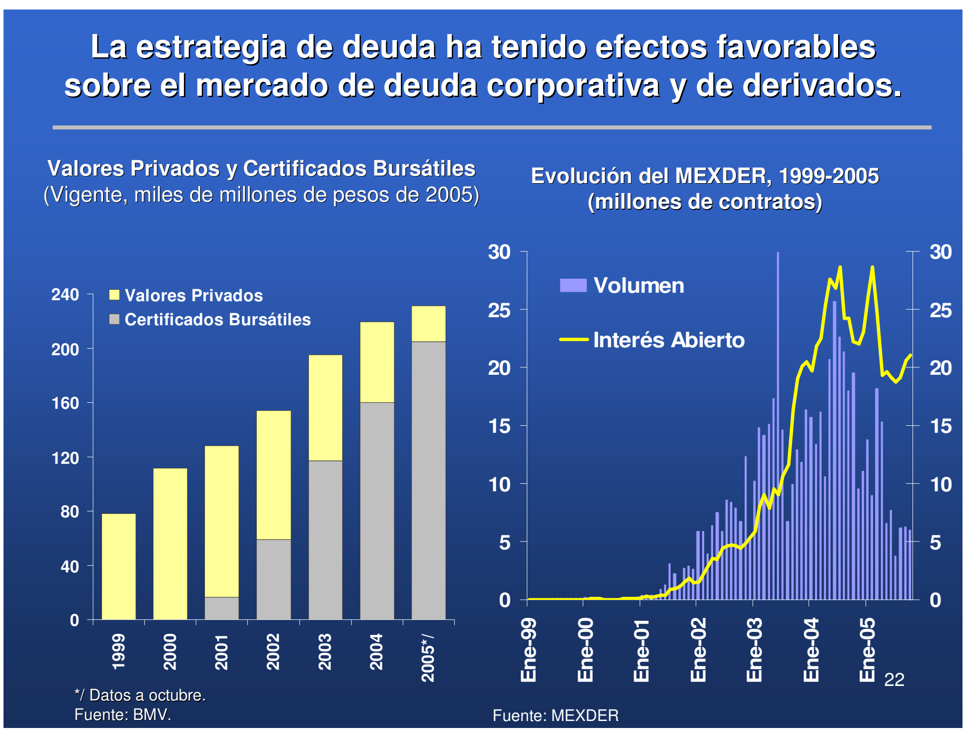
Macroeconomic and structural reforms aimed at strengthening the demand for domestic debt;
Clearly defined debt management strategy;
A derivatives exchange for the trading of financial contracts was launched in 1998;
Pension funds reform in 1997, allowing the increase in assets under management to around 7% in 2005;
New bankruptcy law, stating the netting of rights and obligations and giving preference to holders of collateral under repo agreements in 2000;
New regulation for repo and securities lending in 2003.

b. Micro management

Reopening of reference issues;
Adopted a proactive liability management strategy;
Swap short-for long-maturity bonds;
Predictability and transparency;

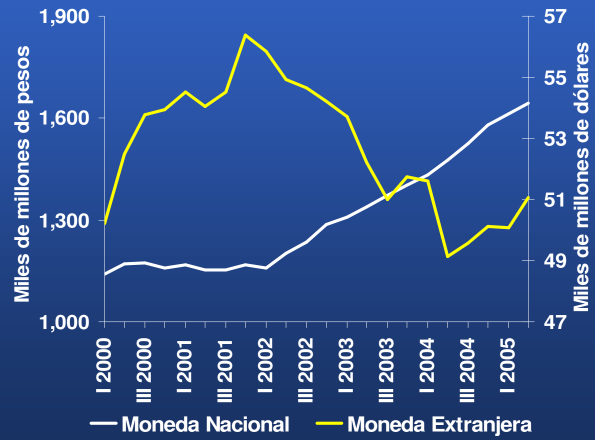
- Announcement of the debt strategy for the whole year
- Quarterly auction calendar
- Primary market auctions opened to a wider range of investors
- Improvements in electronic bidding platform


Las políticas de demanda han promovido el crecimiento del ahorro financiero a través de los inversionistas institucionales, tales como los fondos de pensiones, de inversión y aseguradoras.
Activos de Inversionistas Institucionales*
(% del PIB)
Siefores
Sociedades de inversión
Compañías de seguros
1997 1998 1999 2000 2001 2002 2003 2004 2005*
2.3 2.2 2.3 2.1 2.2 2.5 2.7 2.8 2.9
3.5 3.2 4.1 3.4 5.1 5.2 5.3 5.2 5.9
0.2 1.5 2.4 3.0 4.3 5.2 5.8 6.3 7.1
*/ Datos al tercer trimestre Fuente: Banxico
Ahorro Financiero Doméstico*
(% del PIB)
1996 1997 1998 1999 2000 2001 2002 2003 2004 2005**/
*/ Definido como el agregado monetario M2.
**/ Datos al tercer trimestre Fuente: Banxico


La estrategia de deuda ha tenido efectos favorables sobre el mercado de deuda corporativa y de derivados.
Valores Privados y Certificados Bursátiles
(Vigente, miles de millones de pesos de 2005)
Valores Privados
Certificados Bursátiles
1999 2000 2001 2002 2003 2004 2005*/
*/ Datos a octubre.
Fuente: BMV.
Evolución del MEXDER, 1999-2005
(millones de contratos)
Volumen
Interés Abierto
Ene-99 Ene-00 Ene-01 Ene-02 Ene-03 Ene-04 Ene-05
22
Fuente: MEXDER

Asimismo, se ha promovido el crecimiento y la recomposición del financiamiento al sector privado en favor de instrumentos en moneda nacional.

Financiamiento Total al Sector Privado No Financiero
(miles de millones de pesos y de dólares)



*/ El financiamiento en moneda extranjera incluye financiamiento externo directo y emisión de deuda en el exterior. El financiamiento en pesos incluye el otorgado por la banca comercial y de desarrollo, por los intermediarios no bancarios y la emisión de instrumentos de deuda Fuente: Banxico.

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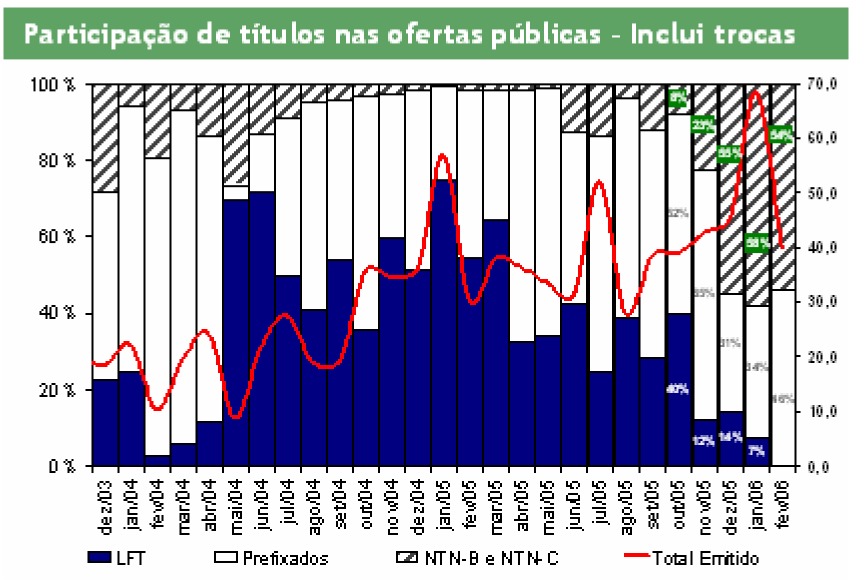
4.2 Brazil

a. Macro management

Fiscal responsibility law;
Inflation targeting;
Floating exchange rate regime.

b. Micro management

Early announcement of issuance schedule;
Increased concentration of issues in "key maturities" and reduced the frequency of primary auctions;
Increased frequency of repo auctions;
Developed initiatives to facilitate short selling positions and electronic trading platform;
Developed derivatives markets as alternative hedging;
Improved dealer system;
Strengthened the relationship between authorities and market agents;
External debt buy back;
Exemption on foreign investment ;
Enhancement of the fixed-float ratio of the public debt profile.



5. CONCLUSIONS REMARKS

A well functioning market is one that ensures liquidity and transparency to its participants. For that said, it is worth noticing that although macroeconomic conditions among Latin American and Caribbean countries have improved, sound economic policies are necessary but not sufficient condition to enhance liquidity and facilitate the development of government bond markets.

In this sense, various macro and institutional initiatives that may be taken by authorities can help to develop domestic bond market. As mentioned above, liquidity conditions can be enhanced by a series of interrelated measures aiming to avoid legal risks, lower transaction costs and increase accessibility of prices. At the same time, it is important to ensure initiatives that provide a proper investment framework and general conditions in order to assure liquidity and safety for retail, domestic and foreign investors.

In addition, transparency and communication support market efficiency, foster investor confidence and strengthen investor protection. These factors influence to the same direction of other possible initiatives that increase the base and diversity of investors. Sustainable conditions for secondary markets allow agents to diversify their risks which in return help to make financial markets more stable.

As mentioned before, the existence of active and liquid bond market plays an important role in reducing risks inherent to government bond positions which can lead to lower risk premium in the primary auctions. Some of the above mentioned examples offer empirical evidences that the application of interrelated measures presented in many of the available guidelines can indeed enhance liquidity and transparency with positive results to public debt management.

Therefore, it is reasonable to state that well structured and functioning secondary markets are very important to the development of primary government bond markets and ultimately to the consolidation of good practices in public debt management. Hence, authorities should embrace this challenge as a direct part of debt management policies.

LAC DEBT GROUP
SECONDARY GOVERNMENT BOND MARKET SURVEY

- Please return the survey to Reinaldo Le Grazie via email (grazie@proventusinvest.com.br) by July 31st,2006.

- You may contact:

Reinaldo Le Grazie
(Phone 55 -11-3897-7800 grazie@proventusinvest.com.br)
or Jose Maria Fernandez
(Phone xxx-xxx-xxx)
at anytime with any questions you may have concerning the survey or the overall project. The final report, including a detailed perspective of the LAC Debt group participants and suggestions to promote liquidity under secondary market for government bonds in the region will be finalized for the 3rd LAC Debt Group Annual Meeting.

Contact details:
Name of department/Country:
Contact person:
Telephone:
Fax:
Email:

I. MACRO QUESTIONS

The following questions are intended to determine the dimension of characteristics of public debt.

1. What is the Central Government Debt (as of Dec/05)?
% of GDP ☐ US$ equivalent ☐

2. Please complete the following table in regards to the Central Government Debt composition.

As of Dec/05 or indicate otherwise		% of total debt	Duration	Average life
Domestic*	Fixed			
	Floating			
	Inflation-linked			
	FX-linked			
	Other			
External	Contractual			
	Sovereign			
	Bradies			
	Other			
Total				

* Denominated in Local Currency.

3. Please complete the following in regards to the Central Government Debt maturity composition.

(In % of total debt)

As of Dec/05 or indicate otherwise	< 1yr	1yr < 5yr	5yr < 10yr	> 10yr
Local				
External				
Total				

4. Is the use of derivatives well spread in public debt management? Y or N
If yes, please list which instruments are used.

The following questions are intended to determine public debt management structures.

5. Does your country have a DMO, "Debt Managent Office"? Y or N
If yes, under which official agency is the DMO located?

If no, which official agency and departments fulfill the DMO functions?

6. Does your DMO have any official announcement to disclose debt management strategy? Y or N
If yes, explain how and with which frequency.

If no, how do you disclose your financing strategy to the market?

7. Does your DMO or related agency provides regular reports on public debt? Y or N
Is yes, please, state the level of disclosure of information relevant to market participants.

If no, how do market agents can have access to this information?

8. What are the main means of communication to disclose public debt information?
Official reports ☐ Internet ☐ Traditional media ☐ market feeders .Other ____

9. Does your strategy allow DMO to take active positions in the optimization of its results? Y or N

Comments, if necessary:

10. Briefly list what are the financial market regulators and their responsibilities regarding primary and secondary markets?

Institution	Responsibilities

II. MARKET STRUCTURE

The following questions are intended to determine the development of payment system.

11. What is the timeframe for settling government bond operations?
Intraday ☐ D1 ☐ D2 ☐ Other ____

12. Are bond trades cleared by DVP, "Delivery versus payment" ? Y or N
If no, what is the gap and which agent takes the risk of settlement?

13. Is there a clearing house for government bonds? Y or N
If yes, briefly explain how it works.

The following questions are intended to determine the primary market structure.

14. What kind of auctions are used in the issuance of government bonds?

15. What is the frequency of auctions?
Daily ☐ Weekly ☐ Monthly ☐ Other _____

Comments, if necessary:

16. Is there any pre-announcement schedule of issuance? Y or N
If yes, select the following:

Frequency: Daily ☐ Weekly ☐ Monthly ☐ Other ____
Schedule range: Daily ☐ Weekly ☐ Monthly ☐ Other ____
Types of bonds: Y or N
Volume: By auction ☐ By total schedule ☐ None ☐ Other _____

If no, how is the announcement made?

17. How are bond maturities for new issues selected?
Vertex ☐ Key maturities ☐ Discretionary ☐

18. Are government bond issuances competitive among investors? Y or N
If yes, is taxing framework equal to all investors? Y or N
If no, are there, if any, limits on types of investors?
(E.g. foreign investor positions) Y or N

Comments, if necessary:

The following questions are intended to determine the dealership framework.

19. Is there any dealership framework (a group of specialists bond traders aiming to monitor the market), at use? Y or N

If no, please skip to the 24th question.

If yes, what are its goals?

If no, is there any institution responsible for promoting market liquidity? (Please then skip to the following section)

20. List the main responsibilities a dealer should maintain in promoting liquidity for secondary markets.

21. List the benefits an institution can be granted in becoming an active dealer.

22. What type of institution is allowed to become dealers?
Banks ☐ Brokers ☐ .Other financial institutions ☐ .Other _____

23. Please describe, shortly, what are the requirements to become a dealer.

24. Please describe, shortly, what are the requirements to remain a dealer.

25. How often is the dealer group reevaluated?
Quarter ☐ Semester ☐ Annual ☐ Other _____

III. SECONDARY MARKET STRUCTURE

The following questions are intended to determine the secondary market liquidity.

26. What is the size and turnover of government bond market?

As of Dec/05 or indicate otherwise	OTC	Exchange-traded
Size (USD)		
Turnover		

27. What is the size and turnover of derivatives markets?

As of Dec/05 or indicate otherwise	OTC	Exchange-traded
Size (USD)		
Turnover		

28. Is short sale of government bond regulated? Y or N
Is yes, please explain repo facilities and which institution monitors short positions in the market.

If no, are there any repo facilities regulations? Y or N

29. State the frequency and type of interventions, if any, Central Bank has in cash markets.

The following questions are intended to determine the secondary market transparency

30. Is there intraday pricing information available? Y or N
If yes, please comment about the sources

If no, is there a baseline pricing framework to determine current prices?
Y or N

Comments, if necessary:

31. Is there an official closing price for government bonds? Y or N
If yes, who provides the pricing curve?

If no, is marked-to-market routine well spread among market participants? How is it defined without a closing price?

32. Is government bond trade information disclosed to market participants? Y or N
If yes, please select the following:

Registered location: Exchange ☐ .Clearing house ☐
Central Bank ☐ Treasury ☐ Other ____

Timeframe: Less than 1 hour ☐ Twice a day ☐
End of the day ☐ Other ☐

Volume: Y or N
Price: Y or N
Counterparties: Y or N

33. Does your country have any interest in building a common platform for trading public securities? Y or N
If yes, what would be the main difficulties in terms of settlements, transaction costs and information availability?

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