Quantitative easing is uncharted terrain for Canadians, Kevin Carmichael writes.

The response to the coronavirus crisis will result in many unforeseen consequences. An early one is that the Bank of Canada was thrust into BlackRock Inc.’s increasingly crowded orbit.

Canada’s central bank has a capable markets desk, but there’s only so much a relatively small group of 100 men and women can do at one time, especially when they have been forced to spread out in multiple locations to lower the odds that COVID-19 will infect their ranks.

Governor Stephen Poloz, senior deputy governor Carolyn Wilkins and the rest of the Governing Council had already asked their trading team to implement or overhaul six programs, including a foray into short-term provincial paper, when they decided earlier this month that they’d have to do something about the strains in the market for commercial paper, too.

The council was also getting ready to take the plunge into quantitative easing, or QE, an aggressive approach to monetary policy that involves creating money to purchase financial assets. Along with commercial paper, the central bank’s leaders were gearing up to buy tens of billions of dollars’ worth of government bonds.

Almost all of this was new terrain. Policy-makers had prepared for the day when simply cutting the benchmark interest rate wouldn’t be enough to save the economy, but they had never actually executed a guerrilla war on specific credit markets. The Bank of Canada’s markets team was capable of handling a few of these experiments at once, but eight of them, on top of existing operations, was too much.

The central bank put out a call for help. No one in the financial markets would have been surprised to hear that New York-based BlackRock offered its services. You might find a few contrarians who would beg to differ, but most probably would concede that there is no other firm in the world that can match what BlackRock brings to the table, especially on short notice and with only a day or so to prepare a pitch.

BlackRock is best known as the world’s largest asset manager, mostly because of its dominant position in the market for exchange-traded funds. But in the aftermath of the financial crisis, the firm also usurped Goldman Sachs Group Inc. as the most influential financial institution. Larry Fink, founder and chief executive, goes out of his way to befriend politicians, all while building up a formidable consulting arm that has advised the likes of the U.S. Federal Reserve and the European Central Bank.

“There are few parties aside from BlackRock that could help the Bank of Canada at this point in time,” said Alexander Dyck, a professor of finance and economic analysis at the University of Toronto’s Rotman School of Management.

Polo came to the same conclusion, opting to put urgency ahead of dithering over potential traps such as conflicts of interest, a rushed tendering process and bad optics.

March 27 was a huge day in the Bank of Canada’s history. Poloz and his deputies dropped the benchmark rate to effectively zero and announced they would deploy QE, a policy the central bank had avoided using a decade ago while navigating the Great Recession.

At around 10 a.m., the central bank announced it would be creating the Commercial Paper Purchase Program (CPPP) to unblock an important source of short-term funding for bigger companies.

A few hours later, officials updated the original announcement to reveal that BlackRock’s Financial Markets Advisory would be working alongside the bank as a consultant.

TD Asset Management was hired to oversee the Canadian central bank’s new portfolio of commercial paper, and CIBC Mellon was chosen as the custodian. No contract information has been released, but it eventually will be, in keeping with the Bank of Canada’s transparency guidelines.

“The bank has retained these firms in order to provide us with the operational capacity to set up the program quickly,” said Rebecca Spence, a Bank of Canada spokesperson. “These institutions were selected based on their capabilities, prominent role in the Canadian financial system and capacity to respond quickly and establish the CPPP on behalf of the bank.”

The Bank of Canada’s decision to deputize three financial institutions in its fight against the coronavirus crisis has attracted little attention, and rightly so given the scale of events that are taking place at centre stage on a daily basis. That could change when things settle down. Like Goldman Sachs before it, BlackRock has
become a symbol of the revolving door between government and finance. Philipp Hildebrand, the former head of the Swiss central bank, is the firm's vice-chairman, and Jean Boivin, a former Bank of Canada deputy governor and a candidate to succeed Poloz, heads the research arm.

Being policy minded isn't enough to charge BlackRock for abusing its market power. Rotman's Dyck said that as far as he can tell, the firm is on the side of "good," at least as far as profit-seeking enterprises go. As an active player in Canadian credit markets, TD Asset Management would probably be in the best position to profit off its association with the commercial-paper program. But Spence said the firm has "put in place robust conflict-of-interest measures." TD declined to release those measures, citing confidentiality constraints. "As in normal course, we treat all our clients fairly," said Derek Kirk, a spokesperson.

In other words, trust us. That will suffice for now since we all have bigger things to worry about. But let's not forget to ask some more questions later. Financial Post