Debt Management Strategy Consultations

Overview

On April 7, 2022, the Government of Canada published the *Debt Management Strategy 2022-23* that sets out the government's borrowing plans as we come out of the COVID-19 crisis. The Department of Finance and the Bank of Canada are seeking the views of government securities distributors, institutional investors, and other interested parties on issues related to how the Government of Canada securities market is performing and views for the design and operations of the Government of Canada's domestic debt program for 2023–24. Regular consultations with market participants are an integral and valued part of the debt management process, and all market participants are encouraged to provide input.

Context

The fundamental objectives of the debt management strategy remain to raise stable and low-cost funding to meet the financial needs of the Government of Canada and to maintain a well-functioning market for Government of Canada securities. Achieving stable, low-cost funding involves striking a balance between the cost and risk associated with the debt structure as funding needs change and market conditions vary. Having access to a well-functioning government securities market ensures that funds can be raised efficiently over time to meet the government's needs. Moreover, to support a liquid and well-functioning market for Government of Canada securities, the government strives to promote transparency and consistency.

In the *Debt Management Strategy 2022-23* the government announced a reduced borrowing program for 2022-23, relative to 2020-21. This reflects the government's declining borrowing needs generally as we exit the COVID-19 crisis. The debt strategy also announced that the government may adjust issuance in response to shifts in market demand and/or changes to financial requirements. Furthermore, the *Debt Management Strategy 2022-23* noted the success of Canada's inaugural green bond issuance and announced the government's intention for another green bond issuance during the 2022-23 fiscal year.

Feedback received through these consultations will help federal debt managers continue the implementation of the 2022-23 debt strategy and help design the 2023-24 debt strategy – a debt strategy, which seeks to strike a prudent balance between cost and risk, strives to maintain a liquid, well-functioning Government of Canada securities market, and reviews opportunities to maximize the funding of COVID-19-related debt.

This year's Debt Management Strategy Consultations will return to an in-person format and will be held in the early fall.

Current Market Conditions

The current high inflation environment and Bank of Canada hiking cycle has resulted in significant volatility in the market for Government of Canada securities. Assessing significance and permanence of new trends and developments in the market can be difficult giving the rapidly changing environment.

1. Given the increased volatility and declining issuance of Government of Canada (GoC) securities in the first half of 2022, have you noticed:
    a. A change in the type of investors (including international) that are interested in GoC securities?
    b. A change in investor behaviour, preferences and requirements? If so, what are the main changes in behaviour/investments strategy you have observed (E.g. increased usage of futures contracts, smaller trade tickets, etc.)?
2. Please characterize the functioning of the primary and secondary markets for GoC bonds this year relative to last year.
3. What impacts have you noticed in the market resulting from the Bank of Canada concluding its Government Bond Purchase Program (GBPP) (i.e., quantitative tightening (QT))? Are there any lingering impacts from quantitative easing (QE)?

Treasury Bills

The Government plans to continue its bi-weekly issuance of 3-, 6-, and 12-month maturities with auction sizes projected to be in the $14 billion to $26 billion range during the 2022-23 fiscal year. Cash management bills will continue to be used to help manage the Government's cash in an efficient manner.

4. The government relies on treasury bills to act as a shock absorber for changes in financial requirements. Due to higher than expected receipts, the government has had to lower the treasury bill stock from what was announced in the Budget. How has the market responded to this?
5. During last year's consultations, it was noted that demand for treasury bills was very high. Have you noticed any change in market demand for this sector?
    a. From your perspective, what would be an appropriate target level for treasury bills (current level is approximately $190B)?
6. Do you think the current issuance allocation between the 3/6/12 months responds adequately to current and evolving market needs? If not, what would you suggest?
7. Do you think the transition to Canadian Overnight Repo Rate Average (CORRA) away from the Canadian Dollar Offered Rate (CDOR) could impact demand for treasury bills going forward?
8. Given the upcoming discontinuation of the CDOR is expected to result in the disappearance of the Canadian Banker's Acceptance (BA) market, should the government consider introducing a regular short-term instrument such as a 1-month treasury bill?
    a. Would a 1-month treasury bill be useful to money market participants in the new CORRA-based market?
    b. What risks might arise from the introduction of a 1-month treasury bill?

c. What would be an appropriate stock and auction size for 1-month treasury bills and from which bill sector(s) should issuance be taken?

d. Should 1-month auctions be conducted on a weekly or biweekly basis? If weekly, could 3-month treasury bills be auctioned at this frequency as well?

Bonds

The *Debt Management Strategy for 2022-23* continued the historic level of issuance in long-term bonds (Table 1) that began in 2020-21. It also announced a continued decline in bond issuance to $212 billion, down from $255 billion in the previous year. The strategy indicated that the government may adjust issuance in response to shifts in market demand and/or changes to financial requirements.

Table 1

Gross Bond Issuances by Maturity
$ Billions, end of fiscal year

	2021-22 Previous Year		2022-23 Planned		10 Year Average[1]
	Issuance	**Share of Bond Issuance**	**Issuance**	**Share of Bond Issuance**	**Share of Bond Issuance**
Short (2, 3, 5-year sectors)	136	53%	132	62%	80%
Long (10-year+)	114	45%	75	35%	20%
Green bonds	5	2%	5[2]	2%	-
Gross Bond Issuance	**255**	**100%**	**212**	**100%**	**100%**

Note: Numbers may not add due to rounding.
[1] The average of the previous 10 fiscal years (2011-12 through 2020-21).
[2] Target issuance, subject to expenditure availability and market conditions.

9. Has investor demand for RRBs changed during the current, high inflation environment? What are the main drivers for any change in demand in this sector?
    a. Are investors seeking other inflation-protected products and, if so, what are these instruments?
10. The 2-year sector displayed signs of tightness towards the end of the 2021-22 fiscal year. Should benchmark sizes be increased from current levels (approximately $16B)?
11. Do you have any comments regarding the current benchmark size or liquidity of the 3- and 5-year sector?
12. The impacts of QE and QT have been uneven across sectors. The end of QE has resulted in an increase to the level of net supply in the 10- and 30-year sectors in recent months. How is the market reacting to this? Would you say that the current supply in the long end is sustainable going forward?

13. During the ramp up in issuance brought on by COVID-19 the government introduced a second 10-year benchmark each year. How is the market adjusting to this? At what level of annual issuance should the government move back to one benchmark per year?

Bond Buybacks

With the conclusion of the Bank of Canada's Government Bond Purchase Program (GBPP) it may now be appropriate to re-introduce Government of Canada bond buyback operations. Depending on the remaining term-to-maturity of the securities being purchased, bond buybacks can be used to manage the government's cash requirements (Cash Management Bond Buyback (CMBB)) or to enhance market liquidity (regular bond buybacks on a Cash or Switch Basis).

14. When considering the re-introduction of the CMBB program, do you have views regarding potential purchase sizes?

15. Should the government consider reintroducing regular Bond Buybacks on a Cash Basis (i.e., further out the curve than CMBB) to help manage declining issuance? What are the potential risks/benefits?

Environmental, Social and Governance (ESG) Securities

This past March, the government published its green bond framework and issued its inaugural green bond. The Debt Management Strategy 2022-23 announced the government's intention for another green bond issuance during the 2022-23 fiscal year. The inaugural green bond was Canada's first bond in the ESG space, which is seeing new market developments in terms of frameworks, labels, and taxonomies such as green and transition taxonomies. Previously, in last year's consultations, Canada began exploring the potential for social bonds.

16. Have you noticed any issues with Canada's inaugural green bond, either during its issuance or in its subsequent secondary market performance?
    a. Do you have any suggestions for how the government manages future green bond issuances (e.g. syndications vs auctions at some point)?
17. How have global events, such as the war in Ukraine, affected investor interest in green/ESG bonds?
18. For future green bond issuances, the government is considering the merits of focusing benchmarks upon a single point on the curve (e.g., 7-years) or building a green curve.
    a. What are the pros and cons of both approaches?
    b. Could you provide views on potential benchmark sizes (per sector) for the Green Bond program?
19. Are there opportunities for Canada to consider introducing bonds linked to other ESG sectors, such as social and/or transition bonds?
    a. Would it be preferable to move towards a sustainable bond framework, incorporating all of these bond types? What would be the pros and cons of a sustainable bond framework in the Canadian context?

20. At this relatively early stage, to what extent should Canada consider updates or expansions to its green bond framework to reflect the ongoing development of market standards and issuances?
    a. Should Canada be focused on changes to taxonomies and standards, or place more weight on ESG-focused investor views?
21. What is international investor interest in Canadian ESG products and how can the Government best attract further interest?

Miscellaneous

22. Do you foresee any impacts or issues with the transition to T+1 in 2024 for bond settlement in Canada?
23. Is there any other information you would like to provide?