Debt Management Strategy Consultations

Overview

On March 28, 2023, the Government of Canada published the *Debt Management Strategy 2023-24* that sets out the government's borrowing plans for the fiscal year. 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 2024–25. 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 are 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 2023-24* the government announced an increased borrowing program for 2023-24, relative to 2022-23. The debt strategy also announced the cancellation of the 3- year bond sector and the government's intention to consult upon the proposal to consolidate Canada Mortgage Bonds within Canada's regular borrowing program[1].

Feedback received through these consultations will help federal debt managers continue the implementation of the 2023-24 debt strategy and help design the 2024-25 debt strategy – a debt strategy, which seeks to strike a prudent balance between cost and risk, and strives to maintain a liquid, well-functioning Government of Canada securities market.

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

Current Market Conditions

While below its peak, Canadian inflation remains above the Bank of Canada's target. Nonetheless, ongoing macroeconomic and monetary policy uncertainty are contributing to the heightened volatility in the market for Government of Canada securities. Additionally, financial markets experienced a state of heightened volatility during the events in the US banking sector and US debt

[1] Focused consultations for this proposal were held with market participants over the summer.

ceiling negotiations. Assessing the significance and permanence of new trends and developments in the market can be difficult given rapidly changing environments.

1. Given increased issuance of Government of Canada (GoC) securities, and treasury bills in particular, thus far in the 2023-24 fiscal year, 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.
    a. How has the market for GoC securities fared during recent volatility events, such as the US banking sector turmoil?
3. What impacts have you noticed in the market resulting from the Bank of Canada's continued non- participation in GoC securities auctions (i.e., the Bank's continued quantitative tightening)?
    a. How have dealers and clients adjusted to the larger supply of GoC securities absent the Bank as a buyer?
    b. Conversely, are there any lingering impacts from quantitative easing?

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 \$30 billion range during the 2023-24 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 unanticipated changes in financial requirements. In the *Debt Management Strategy 2023-24,* the government increased the target stock of treasury bills to \$242 billion by year end. How has the market responded to larger treasury bill issuance sizes and stock?
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, is the current treasury bill target of \$242 billion appropriate?
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. With the discontinuation of the Canadian Dollar Offered Rate (CDOR) next year, how is the transition to Canadian Overnight Repo Rate Average (CORRA) impacting demand for treasury

bills?

a. How do you see the demand for treasury bills evolving with the discontinuation of CDOR and the resultant decline in bankers' acceptance (BA) issuance? Do you envision a structural move by BA investors into treasury bills, or a temporary move into bills before private market replacements to BAs are introduced? How has the larger treasury bill target influenced this transition?

Bonds

The *Debt Management Strategy for 2023-24* continues the transition away from the bias towards longer-term bond issuance (Table 1) that began in 2020-21, with higher benchmark ranges for the shorter-term sectors. It also announced a decline in bond issuance to $172 billion, down from $185 billion in the previous year. Further, the 3-year sector was discontinued.

Table 1

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

	2022-23 (Previous Year)		2023-24 (Planned)	
	Issuance	**Share of Bond Issuance**	**Issuance**	**Share of Bond Issuance**
Short (2, 3, 5-year)	119	64%	122	71%
Long (10, 30-year)	66	36%	50	29%
Green Bonds	-	-	-*	-
Gross Bond Issuance	**185****	100%	**172**	100%

Note: Numbers may not add due to rounding.
* Issuance subject to expenditure availability and market conditions.
** Total issuance includes real-return bonds, ultra-long bonds, and the Ukraine Sovereignty Bond.

1. Please describe the functioning of the primary and secondary markets for Government of Canada bonds this year and relative to previous years. Please comment on auction sizes and placement, as well as any other points you feel are relevant.

    a. Do you have any comments regarding the current benchmark size or liquidity of the 2-, 5-, 10- and 30-year sectors?

    b. What has been the market impact, if any, of the increases to target benchmark sizes for the 2- and 5-year sectors?

Environmental, Social and Governance (ESG) Securities

The Debt Management Strategy 2023-24 restated the government's intention for regular green bond issuances. The government also continues to monitor the developments in green investment taxonomies, market standards and investor preferences. The idea of a Sustainable Bond Framework, which may include green, social, and transition bonds, is an area the government is considering as well.

2. Have you noticed any issues with Canada's inaugural green bond in its 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)?
3. Are there opportunities for Canada to consider introducing bonds linked to other ESG sectors?
    a. Should Canada focus more on the idea of a sustainable bond framework, incorporating all of these bond types (E.g., green, social, transition)? What would be the pros and cons of a sustainable bond framework in the Canadian context?
4. To what extent should Canada consider updates or expansions to its green bond framework to reflect the ongoing development of market standards and issuances? What types of expenditure should Canada consider?

Miscellaneous

5. Do you foresee any impacts or issues with the transition to T+1 in 2024 for treasury bill and bond settlement in Canada? What are the risks the Government should be aware of when adjusting its settlement cycle to match the new market convention?
6. What are your views on the ongoing Cash Management Buyback program? Do you have any suggestions for improvement?
7. Is there any other information you would like to provide?