

# Debt Management Strategy Consultations

## Overview

On April 16, 2024, the Government of Canada published the [Debt Management Strategy 2024-25](#) 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 (GSDs), 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 2025–26. 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 2024-25* the government announced an increased borrowing program for 2024-25, relative to 2023-24. The debt strategy also announced the introduction of a temporary 1-month treasury bill sector.

Feedback received through these consultations will help federal debt managers continue the implementation of the 2024-25 debt strategy and help design the 2025-26 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. These consultations also coincide with consultation on a review of Canada's domestic Debt Distribution Framework.

## Current Market Conditions

1. How has the increased issuance of Government of Canada (GoC) securities thus far in the 2024-25 fiscal year:
  - a. Impacted the type of investors (including foreign) that are interested in GoC securities?
  - b. Impacted investor behaviour, preferences, investment strategies and requirements (e.g., increased usage of futures contracts, smaller trade tickets, increased usage of electronic trading)?

2. How would you characterize the functioning of the primary and secondary markets for GoC securities this year relative to last year?
3. What have been the impacts from the Bank of Canada's continued non-participation in GoC securities auctions on market functioning?
  - a. How are dealers and clients absorbing the increased supply of GoC securities?
  - b. How do you expect the Bank's eventual return as a buyer of GoC securities to impact auctions and the well-functioning of markets?
4. How would you characterize the functioning of the Canadian repo market over the past year? In an environment where the outstanding stock of Canadian-dollar debt keeps growing (e.g., GoC securities, provincial securities, Canada Mortgage Bonds, and Canadian pension securities), is there sufficient GSD balance sheet availability to support dealers' cash desk activities as well as their clients' needs?
5. What are the most binding constraints that impact your business in GoC securities and dealers' ability to allocate more balance sheet to their clients and cash desk activities (e.g., cost of funding, regulatory changes)?
  - a. In late 2025 and 2026, respectfully, the Securities and Exchange Commission will require cash transactions and repo transactions in the US to be centrally cleared. How would such a requirement in Canada affect the cash and repo markets?
  - b. How has the Canadian Collateral Management Service (CCMS) thus far impacted market participants? What impacts could arise in future?
6. As announced in the [2023 Fall Economic Statement](#), and detailed in a Bank of Canada [market notice](#), Canada has begun regular purchases of fixed-rate Canada Mortgage Bonds (CMBs). How has the government's purchases of CMBs impacted the market for these securities? What has been the effect on price dynamics, the spreads of CMBs over GoC securities, and the types of clients active in these securities?

## 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 \$19 billion to \$24 billion range during the 2024-25 fiscal year. In addition to our traditional treasury bill tenors, Canada has introduced a 1-month bill to assist Canada's money market in the ongoing transition away from Bankers' Acceptances. As noted in Budget 2024, the 1-month treasury bill was introduced on a temporary basis and is subject to ongoing review with respect to market need and its efficiency as a funding tool for the government. Further, Cash Management Bills will continue to be used to help manage the Government's cash in an efficient manner.

7. The government relies on treasury bills to act as a shock absorber for changes in financial requirements. In the *Debt Management Strategy 2024-25*, the government presented a treasury bill target of \$272 billion by year end.
  - a. During recent years' consultations, it was commonly noted that demand for treasury bills was very high. Have you noticed any change in market demand for this sector?

- b. From your perspective, is the current treasury bill target of \$272 billion appropriate? If not, what level would be appropriate?
8. 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?
  9. How has the market responded to the temporary 1-month treasury bill tranche? Do you feel these bills have acted as a suitable substitute for investors transitioning away from Bankers' Acceptances and towards other money market products? Do you have any suggestions regarding this sector?
    - a. How do the periodic issuances of Cash Management Bills impact the bi-weekly auctions for 1-month treasury bills, given they can have similar maturity profiles? Were Cash Management Bill operations to return to their pre-pandemic frequencies of two or three operations a month, how might this impact 1-month treasury bill demand?

## Bonds

The *Debt Management Strategy for 2024-25* features increases to our 2-, 5-, and 10-year bond benchmarks and marginal increases to our issuances in each bond sector. It also announced an increase in bond issuance to \$228 billion, up from \$204 billion in the previous year.

Table 1

### Gross Bond Issuances by Maturity

\$ Billions, end of fiscal year

	2023-24 Previous Year		2024-25 Planned	
	Issuance	Share of Bond Issuance	Issuance	Share of Bond Issuance
Short (2, 3, 5-year sectors)	139	68%	148	65%
Long (10-year+)	61	30%	76	33%
Green bonds	4	2%	4 <sup>1</sup>	2%
<b>Gross Bond Issuance</b>	<b>204</b>	<b>100%</b>	<b>228</b>	<b>100%</b>

Note: Numbers may not add due to rounding.

<sup>1</sup> Target issuance, subject to expenditure availability and market conditions.

10. What comment do you have on bond auction sizes and timing, 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 benchmarks for the 2-, 5- and 10-year sectors?

11. The ranges for bond benchmark sizes are published in Canada's *Debt Management Strategy* sections of its Budgets and Fall Economic Statements. Are these ranges helpful and clear, or are there any improvements Canada can consider in conveying this information to market participants?
12. What are your views on the ongoing growth of the futures market for GoC securities? What impacts do you see this market having upon the liquidity of GoC securities?

## Environmental, Social and Governance (ESG) Securities

In November 2023, the Government of Canada updated its [Green Bond Framework](#), which now includes certain types of nuclear energy expenditures. The government followed this Framework update with its second green bond syndication in February 2024. The government maintains its intention to conduct regular green bond issuances.

13. Do you agree with the government's decision to issue a longer green bond tenor (10-years)? Do you have any comments about the green bond's issuance and the bond's subsequent performance on secondary markets?

## Miscellaneous

14. What are your views on the ongoing Cash Management Buyback program? Do you have any suggestions for improvement?
15. Is there any other information you would like to provide?