Debt Management Strategy Consultations

Overview

On July 8, 2020, the Government of Canada published the *Debt Management Strategy 2020-21* that sets out the government's borrowing plans to manage the significant increase in debt in light of the unique situation posed by 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 changes announced in the *Debt Management Strategy 2020-21* have impacted the market and views for the design and operations of the Government of Canada's domestic debt program for the remainder of fiscal year 2020-21 and 2021–22. 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

In the context of COVID-19, the fundamental objectives of debt management 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.

Additionally, in the *Debt Management Strategy 2020-21*, the government added a new objective to issue a historic level of long-term bonds to manage the significant increase in debt resulting from the response to COVID-19 and to lock in historically low interest rates. In light of this, the government will continue to review the Debt Management Strategy for opportunities to borrow at longer maturities, taking into consideration the requirements of other market participants such as the borrowing needs of provincial governments.

The COVID-19 pandemic has significantly shifted the government's issuance in 2020-21. With little notice, the Government had to raise considerable funds in the market and has done so successfully with the support of dealers and investors. The government is now conducting weekly treasury bill auctions and the year-end target for treasury bills is expected to reach a historically high level of $294 billion. Additionally, the government implemented its largest bond program with a planned issuance of $409 billion with significant increases across all the maturities, and up to an unprecedented combined amount of $106 billion in the 10-year and 30-year sectors alone (i.e. roughly five and seven times more than previous years' issuances, respectively).

Feedback received through these consultations, particularly on how debt issuance was managed during the past months, will help federal debt managers design a debt strategy for the remainder of 2020-21 and 2021–22 that will continue to strike a prudent balance between cost and risk, strive to maintain a liquid, well-functioning Government of Canada securities market, and review opportunities to borrow at longer maturities to manage the significant increase in debt resulting from COVID-19.

Exceptionally, due to the circumstances brought by the COVID-19 pandemic, the Debt Management Strategy Consultations will be held through virtual meetings in the fall.

Higher Planned Issuance in 2020-21

The COVID-19 pandemic required significant monetary and fiscal stimulus to support Canadians through these challenging times. As such, the government has issued record amounts of debt over a short period of time, reaching uncharted territories of issuance. This notably required shifting treasury bill issuance to a weekly basis, adding multiple bond auctions per week and adding benchmark maturities.

1. How do you view the government's debt issuance since March 2020? In your view, what were the key elements in successfully raising this record amount of debt? What could be improved?
2. What changes have you seen in the types of investors that are interested in Government of Canada securities and what changes in investor behaviour, preferences and requirements have you noticed?
3. How would you characterize the functioning of the primary and secondary markets for Government of Canada bonds this year and relative to previous years? Please comment on auction and target benchmark sizes, as well as liquidity and trading.
4. Does the Government Bond Purchase Program from the Bank of Canada foster greater demand at auctions and improve market conditions (e.g., liquidity)? Have you noticed any distortions in the primary or secondary markets for Government of Canada securities due to this program?
5. What is the market capacity to absorb additional issuance for treasury bills or per bond sector (e.g., number of auctions per quarter, size of auctions) should debt requirements increase unexpectedly again in the future?
6. What actions could be effective at promoting market capacity and the investor base for Canada's domestic long-term bonds? Would a commitment to regularly issue a certain level or proportion of long term bonds over time help support the liquidity of longer term bonds? Which sectors should be decreased to support any increase in the issuance of long-term bonds?
7. How could the government best attract interest from international investors to invest in Canada's domestic debt, including long-term sectors?
8. Are there particular proposals or international experiences (e.g., issuance structuring, investor relations, UK long bond market) that the government should consider in developing the debt strategy, recognizing the unique market structure in Canada?

Long-Term Bonds

The *Debt Management Strategy for 2020-21* announced a historic level of issuance in long-term bonds (Table 1), and indicated the government will continue to review opportunities to borrow at longer maturities while taking into consideration the requirements of other market participants. The increase in the 10- and 30-year sectors were also proportionally higher than the other sectors.

Table 1: Projected Gross Issuance for bonds and T-bill stock for 2020-21
(billions of dollars, end of fiscal year)

	2019-20 Previous Year	2020-21 Planned	Increase
Treasury bills (Year-end Stock)	**152**	**294**	**113%**
2-year	53	150	183%
3-year	19	65	236%
5-year	33	88	165%
10-year	13	74	465%
30-year	4	32	662%
RRB	1.8	1.4	-22%
Total bonds	**124**	**409**	**229%**
Total gross issuance	**276**	**733**	**166%**

Sources: Bank of Canada; Department of Finance calculations
Note: numbers may not add due to rounding.

9. As the government reviews opportunities to borrow at longer maturities to lock in historically low rates to manage COVID-19 debt, factoring in potential costs and volume, should the government start a new sector or securities, focus on issuing in existing sectors like the 10-year or 30-year, or further develop the 50-year sector?

10. What is the market capacity to absorb additional issuance in 10-year and 30-year sectors (e.g., size and number of auctions per quarter)?

11. As the government reviews opportunities to borrow at longer maturities, which sector should be considered (e.g., 7-year/15-year/20-year/50-year/100-year, etc.)? How much could the market absorb in this new sector in a year?

12. Should the government introduce a new sector on a temporary basis, given the possibility that such issuances may cease as financial requirements normalize and debt issuance eventually declines with COVID-19 debt being locked away in long-term bonds?

13. What requirements of other issuers (e.g., provinces, municipalities, corporations) should the government take into consideration when issuing this historic level of long-term bonds?

Bond Operational Considerations

The *Debt Management Strategy for 2020-21* plans for a record $409 billion in gross issuance of domestic marketable bonds. After considering scheduled maturities and planned debt repurchases, a forecasted $915 billion stock of Government of Canada bonds outstanding is expected by the end of this fiscal year. The bond issuance pattern for 2020-21 has changed considerably in order to adapt to the much larger financial requirements (Table 2).

This has pushed the government's operational constraints into new territories. With the 3-year sector promoted to its own cycle and an additional maturity date in the 10-year sector, market participants' views on the debt management's operational strategy will help determine which options may be preferable in the future.

Table 2: Maturity Date Patterns and Benchmark Bond Size Ranges per Sector for 2020-21

Tenor	Current Target (C$bln)	Maturity Dates	Number of Auctions[3]
2-year	20-50	Feb, May, Aug, Nov	20-28
3-year[1]	30-50	Apr, Oct	10-20
5-year	35-55	Mar, Sep	10-20
10-year	30-50	Jun, Dec	10-20
30-year	25-45	Dec	8-12
RRB	9-15	Dec[2]	4

[1] The September benchmark for the 3-year sector is a reopening of old 5-year benchmarks. Once that benchmark is complete, the 3-year sector will be switched to its own cycle with April and October maturity dates.

[2] Benchmark size ranges for Real Return Bonds include an estimate for inflation adjustment. The 30-year nominal bond and Real Return Bond typically do not mature in the same year.

[3] The actual number of auctions that occur may be different from the planned number of auctions due to unexpected changes in borrowing requirements.

14. The 3-year sector was promoted to its own cycle with maturity dates on April 1st and October 1st. How do you view/adapt to this change in the 3-year bond sector?

15. An additional maturity date for the 10-year is planned in December for a total of two per year. What are your views on this change?

16. A fourth auction was added in the RRB sector while the annual issuance by $400 million was reduced compared to 2019-20. Have you noticed any impact on market conditions, demand, pricing, or liquidity due to this change?

17. Are there any issues with bond maturity dates on January 2nd and July 2nd?

18. Would you have any concerns with issuing bonds with maturity dates on the 15th of months? Which bond term would be better suited for issuance on the 15th?

19. In the event that a multiple bonds were auctioned on the same day (similar to what is done with treasury bills issuance), which terms would you combine?

Treasury Bills

To support the $294 billion year-end treasury bill target, the Government plans to continue its weekly issuance of 3-, 6-, and 12-month maturities with auction sizes projected to be in the $10 billion to $35 billion range. Cash management bills will continue to be used to help manage the Government's cash in an efficient manner.

20. Please describe how the primary and secondary markets for Government of Canada treasury bills have been functioning this year given the much higher level of treasury bill issuance and the weekly treasury bill issuance (e.g., liquidity, trading, and investor behavior).
21. How does the higher participation of the Bank of Canada impact the treasury bill market? In the absence of the Bank or Canada's participation, how high can the treasury bill stock sustainably reach?
22. Given the government's desire to reduce debt rollover and that it may face lower financial requirements in coming years compared to 2020-21, what would be the minimum treasury-bill stock that would maintain a well-functioning market?
23. How fast could the treasury bill stock be lowered? In such a case, should the Government go back to bi-weekly treasury bill issuance or would it be preferable to keep smaller weekly issuance? What should be the metric to monitor (e.g., maintaining auction size above $8 billion)?
24. Please comment on the issuance allocation among the three tranches (3-month, 6-month and 12-month).

Other

25. Would a federal government green bond issuance help promote and develop a well-functioning green bonds market in Canada, especially in regards to increasing Canadian green bond issuances and green assets and activities by other Canadian issuers? How is the green bonds market functioning in Canada? Would the federal government issuing green bonds address a market failure or gap faced by businesses to finance green initiatives?

26. Would a federal green bond support the government's debt management objectives: promoting stable and low cost funding for the government, promoting well-functioning Government of Canada securities markets, and helping to manage COVID-19 related debt by locking it in at historically low interest rates?

27. Have you noticed an increase in electronic trading usage since the beginning of the COVID-19 crisis?
28. The Debt Management Strategy is published each year in the federal budget and provides fairly consistent information year-to-year. Is there any additional information that would be useful? Could the existing information be presented in a clearer fashion?

BOND PORTFOLIO					
Term to Maturity (years)	Coupon	Maturity	Issuance Sector	Outstanding Net of Repurchased (CAD Millions)	Repurchased (CAD Millions)
Nominal Bond					
0.0	1.75%	Aug 2020	2Y	9,208	2,792
0.1	0.75%	Sep 2020	3Y/5Y	20,024	5,976
0.3	2%	Nov 2020	2Y	8,576	3,424
0.5	2.25%	Feb 2021	2Y	11,416	584
0.6	0.75%	Mar 2021	3Y/5Y	24,426	1,074
0.6	10.5%	Mar 2021	30Y	567	1,233
0.8	1.75%	May 2021	2Y	10,767	1,233
0.8	3.25%	Jun 2021	10Y	11,175	325
0.8	9.75%	Jun 2021	30Y	286	4,364
1.0	1.5%	Aug 2021	2Y	11,967	33
1.1	0.75%	Sep 2021	3Y/5Y	19,065	135
1.3	1.25%	Nov 2021	2Y	12,000	0
1.5	1.5%	Feb 2022	2Y	12,000	0
1.6	0.5%	Mar 2022	3Y/5Y	19,000	0
1.8	1.5%	May 2022	2Y	20,000	0
1.8	2.75%	Jun 2022	10Y	12,700	0
1.8	9.25%	Jun 2022	30Y	206	0
2.0	0.25%	Aug 2022	2Y	30,000	0
2.1	1%	Sep 2022	3Y/5Y	25,200	0
2.6	1.75%	Mar 2023	3Y/5Y	24,600	0
2.8	1.5%	Jun 2023	10Y	14,200	0
2.8	8%	Jun 2023	30Y	2,359	0
3.1	2%	Sep 2023	3Y/5Y	30,500	0
3.6	2.25%	Mar 2024	5Y	11,908	92
3.8	2.5%	Jun 2024	10Y	13,700	100
4.1	1.5%	Sep 2024	5Y	16,065	135
4.6	1.25%	Mar 2025	5Y	17,300	0
4.8	2.25%	Jun 2025	10Y	13,100	0
4.8	9%	Jun 2025	30Y	2,134	169
5.1	0.5%	Sep 2025	5Y	32,500	0
5.8	1.5%	Jun 2026	10Y	13,472	28
6.8	1%	Jun 2027	10Y	14,740	260
6.8	8%	Jun 2027	30Y	3,621	415
7.8	2%	Jun 2028	10Y	13,500	0
8.8	2.25%	Jun 2029	10Y	12,300	0
8.8	5.75%	Jun 2029	30Y	10,599	284
9.8	1.25%	Jun 2030	10Y	29,200	0
12.8	5.75%	Jun 2033	30Y	11,989	285
16.9	5%	Jun 2037	30Y	11,731	575
20.9	4%	Jun 2041	30Y	13,838	345
25.4	3.5%	Dec 2045	30Y	16,300	100
28.4	2.75%	Dec 2048	30Y	14,900	0
31.4	2%	Dec 2051	30Y	18,817	1,000
44.4	2.75%	Dec 2064	50Y	4,750	0
Real Return Bond					
1.3	4.25%	Dec 2021	RRB	5,175	0
6.3	4.25%	Dec 2026	RRB	5,250	0
11.3	4%	Dec 2031	RRB	5,800	0
16.4	3%	Dec 2036	RRB	5,850	0
21.4	2%	Dec 2041	RRB	6,550	0
24.4	1.5%	Dec 2044	RRB	7,700	0
27.4	1.25%	Dec 2047	RRB	7,700	0
30.4	0.5%	Dec 2050	RRB	6,600	0

Benchmark **Building to Benchmark**

**Source: Bank of Canada as of 31 July 2020.*
**RRB numbers do not include inflation adjustment*