

Fall 2025 Debt Management Strategy Consultations Summary

Regular conversations with market participants are an essential component of the government's ongoing commitment to a well-functioning Government of Canada (GoC) securities market and an integral part of the debt management process. In September and October 2025, the Department of Finance Canada and the Bank of Canada held meetings with dealers, investors and other relevant market participants to seek their views on the design and operation of the Government of Canada's domestic debt program for 2026–27.

The Department of Finance Canada and the Bank of Canada value the comments provided by market participants. The views expressed below reflect those provided by market participants and have been taken into consideration in the formulation of the 2026–27 Debt Management Strategy.

Conditions in the Government of Canada securities market

The increase in the issuance of GoC securities has been well absorbed by the market, supported by higher auction participation by non-resident and hedge fund investors. However, the relatively slower growth of balance sheet capacity and lower margins from GoC securities are a longer-term concern for some dealers. Nevertheless, with the ample stock of debt and healthy competition among market makers, the GoC securities market has continued to be liquid and well functioning—even during periods of volatility earlier in the year.

Market participants view hedge funds as increasingly central to the market ecosystem because they have helped to support auctions and diversify the pool of market participants. Many hedge funds have also taken on a greater intermediation role and incorporated longer holding periods into their strategies.

The steepening of the GoC yield curve relative to other developed bond markets has attracted more international buyers, while global trade tensions have led some domestic investors to reinvest more into Canada. However, most real money investors do not participate in GoC securities auctions because they can typically acquire these securities in the secondary market at a timing more aligned with their needs.

Treasury bills

Demand for treasury bills continues to be strong, especially from domestic pensions and treasuries as well as central banks across Europe and Asia. This demand is supported by recent shifts in the spread between the Canadian Overnight Repo Rate Average (CORRA) and the US Secured Overnight Financing Rate (SOFR), which has led to more swapping into US dollars.

The current stock of treasury bills of around \$300 billion seems appropriate for market well-functioning, with the spread between treasury bill yields and the overnight index swap rate sitting within historical ranges. Market participants generally believe that a slight reduction in the issuance of treasury bills could be managed with minimal impact on market functioning. At the same time, a moderate increase could also be well-digested by the market—especially with the Bank expected to soon restart treasury bill purchases to help manage its balance sheet. The current split of 3-month, 6-month and 12-month tenors is broadly appropriate. The removal of the 1-month tenor earlier this year (due to low demand) was well understood.

Bonds

The benchmark sizes in all tenors (2-year, 5-year, 10-year and 30-year) are generally well balanced and support market functioning. The shorter end of the curve (2-year and 5-year) has the most room to increase because investor demand is high relative to supply—as reflected in auction performance there being the strongest. In contrast to previous years, supply and demand dynamics in the 30-year sector are now seen as better balanced. Increased GoC and provincial issuances in the past couple of years have balanced demand in that tenor, suggesting there is little need for further increases in supply.

Repo

The repurchase (repo) agreement market for GoC securities continues to be stable. With the steady growth of repo usage across all types of market participants (especially hedge funds), dealer balance sheet availability is becoming more constrained. Still, clients can regularly access repo funding, with larger borrowers able to do so at relatively lower rates because dealers have increasingly relied on those clients' repo business. Some rationing of repo balance sheets near month- and quarter-ends has resulted in higher yields to take down auctions.

Market participants considered the modestly elevated CORRA settings relative to the Bank's target policy rate in recent months to be a natural result of volatility, clients funding their large positions, and payment flow inefficiencies rather than an indication of a serious, long-term issue. However, some dealers noted that if funding pressures and volatility persist into future months, that could start to cause some market participants to reduce balance sheet commitment to this low-margin overnight repo business. Market participants viewed the possibility of a large spike in funding costs (akin to the September 2019 SOFR spike in US money markets) as being very unlikely given the current suite of Bank facilities.

Some market participants noted that the introduction of mandatory central clearing would alleviate many of these balance sheet limitations. Some dealers have been looking at sponsored repo clearing models, similar to those adopted in the United States, to increase central clearing

of client repo business, which would create more balance sheet efficiency via netting. The introduction of the Canadian Collateral Management Service (CCMS) is expected to increase the efficiency of funding markets. There is strong dealer momentum for joining, and the TMX is developing potential enhancements to CCMS to augment client interest in it. The widespread adoption of CCMS will likely depend on network effects from more participants (including the Bank, whose participation is expected to begin in the fourth quarter of 2026) and on the continued evolution of Canada's repo market. For certain clients, the barriers to joining CCMS and the Canadian Derivatives Clearing Corporation—compared with maintaining bilateral repo arrangements—are the operational resource costs as well as the near-term economic costs from margin calls and haircuts.

Other markets

The futures market has continued to deepen, especially in the 2-year and 5-year tenors. These tenors have become key liquidity tools for market participants from smaller investors to hedge funds. Higher government debt issuance has driven a steep decline in swap spreads over the past few years, in line with global trends and especially in longer tenors. But recent dynamics, such as more foreign issuance by domestic institutions (e.g., provinces), support swap spread stabilization moving forward.

For Canada Mortgage Bonds (CMBs), this swap spread trend, along with the GoC purchases, has led to the continued compression of spreads relative to GoC bonds. Since last year, mortgage originators have adapted somewhat to the lower free float of available CMBs for hedging their activities, and international investors have returned to the program at levels not seen since the introduction of the GoC purchase program. As a result, price volatility at issuance has normalized somewhat, and the diversity of the investor base has improved.

Miscellaneous

The changes to Canada's Debt Distribution Framework were generally well received. Market participants highlighted the new separation between bidders for a dealer and bidders for that dealer's customers in the Bank of Canada Auction System (BCAS) as being in line with global best practices, though a few dealers noted that it raises the risk of input errors. The new facility to reopen off-the-run bonds was seen as a clear net positive for market functioning, and communication around it was effective in setting clear expectations for what bonds would be issued. The consensus among market participants was that the reopenings should be done only on an as-needed basis and for amounts at the low end of the \$0.5 billion to \$1.5 billion range that has been set.

Some investors, largely foreign ones, expressed a preference for single-price auctions and even higher non-competitive limits. A few hedge funds inquired about the possibility of introducing direct investor bidding. Some investors also noted that the current requirements for reporting auction net position posed challenges for providing an accurate and timely aggregate level of positions and constrained their ability to trade before auctions.

Some participants advocated for the reintroduction of real return bonds, with investors pointing to the inefficiency of hedging inflation exposures through the US Treasury Inflation-Protected Securities market or other assets. Among participants, the common view was that any new real return bond should be issued in larger volumes and in multiple tenors to build a liquid curve in that instrument.

The GoC's green bond issuance program is well established with ESG investors—those who consider environmental, social and governance factors in their investment decisions. However, those investors are less inclined than in the past to pay a deep "greenium" at issuance. Similarly, real money investors with no dedicated green investment mandate are reluctant to pay a premium to buy those securities.