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**Remarks by Tiff Macklem
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Fireside chat at the Global Risk Institute
March 4, 2026
Toronto**

New players, old risks: Financial stability in a changing landscape

Introduction

Good morning. It's a pleasure to be here—and it's great to see such an impressive mix of market participants, policy-makers and practitioners.

I'm looking forward to the fireside chat, so I'll keep my remarks short to leave time for discussion. Conversations like this matter—especially when uncertainty is high and we're all trying to manage the risks.

As we speak, the actions taken against Iran by Israel and the United States have increased volatility in energy and financial markets and there is considerable uncertainty about the duration and fallout of this conflict.

My focus today will be on some longer-term changes we're seeing in the financial system. And I'm here today wearing two hats: as Governor of the Bank of Canada and as Chair of the Financial Stability Board's Standing Committee on Assessment of Vulnerabilities (FSB SCAV). SCAV's role isn't to predict the next financial crisis or prescribe policy. It's to step back and connect the dots across markets and jurisdictions to identify the systemic vulnerabilities. The goal is to understand the pressure points so they don't become fractures.

The global reach of the FSB complements the work of domestic central banks and regulators. It also complements the work of the private sector. Market participants manage the risks they face individually. But systemic risks can build beyond the sight line of any single firm.

We all have a stake in a well-functioning financial system that channels savings into productive investments and helps households and businesses manage their risks. But to work well, the financial system needs a competitive marketplace with clear rules and good information. And because money moves across borders, the perspective needs to be global, with a degree of international coordination.

I'll start with an overview of the broader risk landscape. Then I'll turn to the growth of new players and dig into two areas where SCAV has been working to better understand the risks: leveraged trading by hedge funds in government bond markets and the rapid growth of private credit.

I would like to thank Grahame Johnson for his help in preparing this speech.

My goal is not to alarm, but to shed light on the systemic nature of these risks, to highlight the need to close data gaps and to deepen understanding. The aim is not to impede the private sector but to help it do what it does best—seek return while managing risk.

The broader risk landscape

I'll start with the economic backdrop and the risks to the outlook. Despite trade disruptions and geopolitical risks, global growth has been healthy. The Bank of Canada's latest forecast has global growth continuing at about 3%.¹ But risks to growth are greater than normal—and they're tilted to the downside.

Geopolitical risks are high, with multiple conflicts playing out.

Uncertainty about US trade policy also remains elevated.

Global growth is being supported by the boom in artificial intelligence (AI) and fiscal stimulus, both of which could run into limits. Advances in AI and digital innovation have the potential to boost productivity and growth. But if the impact of AI is less profound or more disruptive than expected, growth could slow. Fiscal flexibility is limited by high levels of sovereign debt, and term premia on government bonds have increased.

In equity and credit markets, we're seeing compressed risk premiums and stretched valuations. That raises the risk of sharp reversals and increased volatility across asset classes.

These risks could also interact with vulnerabilities in the financial system. After the 2008–09 global financial crisis, we strengthened the regulation of banks, which made the system safer. As a result, riskier activities have migrated to non-bank financial intermediaries. This growth in market-based finance has brought clear benefits: diversified risk, improved access to credit and increased efficiency.

But risks have not disappeared—they've migrated. And our global surveillance and regulatory frameworks haven't kept pace with the change. Our oversight was built for banking—non-bank players generally don't have the same reporting requirements or level of monitoring. That gap poses a challenge for global standard-setters, national regulators and central banks.

With that as the backdrop, let me turn to two areas of rapid growth in non-bank finance that have our attention.

Leveraged trading in sovereign debt

I'll start with leveraged trading of hedge funds in sovereign debt markets.

As governments around the world issue more debt, non-bank financial intermediaries—particularly hedge funds—have become very large buyers of sovereign debt in many jurisdictions. They hold a large share of privately held

¹ Bank of Canada, "Global economy," [Monetary Policy Report](#) (January 2026).

government debt across FSB member economies.² In Canada, they purchase up to 50% of Government of Canada bonds sold at auction and account for a big portion of secondary market trading.³ In short, they've become central to how sovereign debt markets function, both globally and in Canada.

Their participation has benefits. Hedge funds help distribute large volumes of issuance to end investors. They support liquidity and price discovery. And, as their name implies, they hedge risks. Bond purchases are often covered by short positions in futures contracts or interest rate swaps, allowing the funds to profit from small pricing inefficiencies. In normal times, hedge fund participation makes the market work more efficiently.

The issue is what happens in times of stress. Hedge fund purchases of sovereign debt are usually highly leveraged. The funding is largely through repurchase agreements—repo markets—and typically very short-term. Globally, about half have an overnight maturity. And haircuts are low—zero or negative more than 80% of the time.⁴

This leverage allows hedge funds to earn an attractive return from small pricing discrepancies, through basis trades and other relative value trades. This improves the efficiency of bond markets. But it also means the system is more sensitive to disruption. Higher funding costs or reduced access can force the positions to be unwound. Leverage can build quietly—and then unwind very quickly—when conditions change.

One scenario we worry about is a shock to markets that leads to a spike in interest rate volatility, which causes lenders to increase haircuts or curtail funding. And because repo funding is very short-term, that adjustment can happen fast. If leveraged investors are forced to reduce their positions, they may need to sell sovereign bonds into already stressed markets. Prices fall. Liquidity deteriorates. And the stress feeds back on itself.

We've seen examples of this already: the dash for cash at the start of the pandemic, during the UK gilt crisis in 2022, and during the period of stress in the US Treasury market last spring. The basis trade and other relative value trades are generally low risk for investors. But the scale of these trades and speed at which they can unwind pose a systemic risk. Short-term funding strains could cause severe dislocations in sovereign debt markets—the backbone of our financial system. And the cross-border nature of markets means that stress that begins in one jurisdiction or sector can quickly move to another.

² Financial Stability Board, "[Vulnerabilities in Government Bond-backed Repo Markets](#)" (February 2026).

³ See Bank of Canada, [Financial Stability Report—2025](#) (May 2025) and "[How big is cash-futures basis trading in Canada's government bond market?](#)" Bank of Canada Staff Analytical Note 2024-16 (June 2024).

⁴ See again Financial Stability Board, "[Vulnerabilities in Government Bond-backed Repo Markets](#)" (February 2026).

As hedge funds take on a growing role in government bond markets, it's increasingly important that they have robust funding arrangements and sufficient liquidity to weather periods of stress.

Public authorities also have some work to do. At the FSB, our first goal is to deepen understanding. That means better data on where leverage is building, how funding is structured and how exposures are distributed across institutions and borders. And it means sharing this information across jurisdictions and with the private sector. Market-based finance is inherently cross-border. No single authority has a complete picture, so information must be pooled and shared.

There is also a need to strengthen infrastructure so that repo markets continue to function in periods of market stress—and shocks are absorbed rather than amplified. Central clearing has the potential both to make access to repo funding more stable and to improve efficiency by increasing opportunities for netting.

Major jurisdictions are making important investments. In the United States, the Securities and Exchange Commission has mandated that most US Treasury-collateralized repo transactions be centrally cleared by June 2027. The European Union is also looking to increase the share of centrally cleared repos, and the European Central Bank will centrally clear some of its operations this year. With through-the-cycle margining practices, this should improve repo market stability.

Here in Canada, the TMX is building a domestic tri-party repo solution. The Bank of Canada plans to use this infrastructure for its domestic repo operations by early next year. Additionally, once the TMX makes the necessary investments into its fixed-income clearing infrastructure, we intend to centrally clear our own repo operations.⁵ This will make central clearing more attractive for market participants. These infrastructure improvements should also provide greater confidence that markets will keep working under stress.

Private credit

The second area I want to focus on is private credit.

Private credit is non-bank lending to firms. This includes direct lending by both large institutional investors and investment funds. The market has grown quickly, with a global footprint that now measures in the trillions of dollars. Growth hasn't been quite as fast in Canada. But Canadian pension funds and insurers are active, sophisticated players and have private credit exposures internationally.

Private credit fills real gaps. It provides financing to companies that may not be well served by traditional banks or public markets. It offers faster execution, more tailored structures, longer-term capital commitments and greater flexibility for borrowers with complex or unconventional needs. It has increased competition in credit markets and broadened access to funding. And it's playing an important role in supporting new investment cycles. Private credit is expected to be an important source of the debt funding needed to grow AI infrastructure.

⁵ Bank of Canada, "[Bank of Canada to join the Canadian Collateral Management Services for its repo operations](#)" (market notice, March 4, 2026).

The issue is not private credit itself. It's how private credit will behave under stress—and the risks it poses to the broader financial system.

Gauging those risks isn't easy. We don't have a lot of history. Private credit hasn't been through a full economic downturn. Like public and bank credit, it carries risks involving credit quality, underwriting standards and the amount of total leverage taken on by firms. But private credit is more opaque. Unlike public credit markets, private credit positions are not regularly marked to market. Assessing underwriting standards, covenant quality and the true degree of embedded leverage can be difficult. Liquidity is also more limited. There can be mismatches between investors' desire to exit and funds' ability to accommodate that. Further, it's hard to connect the dots across the system—both within the private credit sector and between private credit and the rest of the system.

The opacity of private credit means investors may not have enough information about the quality of loans held in their funds. A spike in defaults could prompt them to try to exit their positions quickly. This could cause severe strains, including spillovers to public credit markets.

Again, as with hedge funds in sovereign debt, the concern is how stress in private credit could transmit to the core of the financial system. Banks and insurers are linked to private credit through lending, sponsorship, warehousing and risk transfer. That means weakness in private credit could spill back to the regulated sector. And because private credit is increasingly global, those spillovers could travel quickly across borders.

We've recently seen a few signs of strain in private credit markets. Although the recent high-profile defaults were contained, they raised questions about the quality and transparency of underwriting.

At the FSB, we're working to improve understanding and monitoring of private credit. Regulatory authorities need visibility into leverage, liquidity transformation and underwriting practices. And we need to understand the interconnections between private credit and banks.

Surveillance needs to be enhanced so we can monitor how risks evolve as this market grows. That includes tracking cross-border exposures, funding structures and the potential for correlated stress across institutions and jurisdictions.

And once again, global coordination is critical. Private credit sits at the intersection of markets and institutions, so we need cooperation across authorities and across borders.

Conclusion

It's time for me to wrap up.

The rise of non-bank players in global debt markets is not a problem to be solved. The growing participation of hedge funds and private credit in global finance is part of a healthy financial system.

But these new and rapidly growing players do bring vulnerabilities that need more attention. Risks may be growing faster than our ability to understand and mitigate them. Economic uncertainty is already high—we cannot afford to add financial instability to the mix.

We are counting on the private sector to be the first line of defence. As we gain understanding of systemic vulnerabilities, it's critical that we communicate with you. And we need to work hand in hand to strengthen core financial market infrastructure. Together, we can raise awareness and build resilience. When stress comes, we all need to be ready for it.

Thank you.