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# Distributing Sovereign Debt in a Rising Debt Environment: Outcomes from Canada's 2024 Debt Distribution Framework Review

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# Abstract

This paper documents Canada's recent review of its sovereign debt distribution framework (DDF). Informed by a context of record-high debt issuance since the previous DDF review, along with comparisons with sovereign peers and insights from market participants, the review identified an important need to broaden Canada's dealer base internationally to support a larger and more diverse set of investors. As a result, reforms to Canada's DDF were recommended in 2024 and implemented in 2025. Key changes included revised dealer requirements to attract new international institutions to the non-Primary Dealer Government Securities Distributor (non-PD GSD) class, as well as simplification of auction rules, an increase in non-competitive bidding limits, and the introduction of a new reopening facility for off-the-run bonds.



*Topics: Debt management ; Financial institutions ; Financial markets*
*JEL codes: G18, G28, H63*

# What is a debt distribution framework (DDF)?

Sovereign debt managers in Canada work towards two main objectives: raising stable, low-cost funding for the government and supporting a well-functioning market for Government of Canada (GoC) securities. Much of this critical and complex responsibility is managed through two core policy functions.

The first is the annual Debt Management Strategy (DMS), which sets the target issuance amounts of each type and maturity of debt instrument Canada will issue.[1] The second is the debt distribution framework (DDF), which establishes **the parameters of Canada's primary sovereign debt market**. This analytical paper focuses on the DDF.

The DDF parameters include the operational mechanisms and rules for debt auctions, as well as the benefits and obligations of dealers eligible to participate in these auctions. Each country's DDF varies according to its market structure, financial systems, and fiscal, economic and political conditions. An effective DDF should be guided by several core principles: facilitating continuous access to funding markets, fostering a competitive primary market for government securities, supporting a well-functioning secondary market, and mitigating execution, settlement and operational risks.

As markets and government borrowing requirements evolve, it is important for a sovereign to review its DDF periodically to ensure its continued effectiveness. The most recent review by the GoC and the Bank of Canada (BoC)—conducted in 2024—took place against the backdrop of rising debt issuance, declining dealer profitability and increased participation from hedge funds in debt auctions. This review incorporated extensive insights from market participants and other sovereign Debt Management Offices (DMOs), all of whom face similar trends. The review's findings led to moderate and targeted changes to Canada's DDF.

# Current challenges

## A lot more debt to issue...

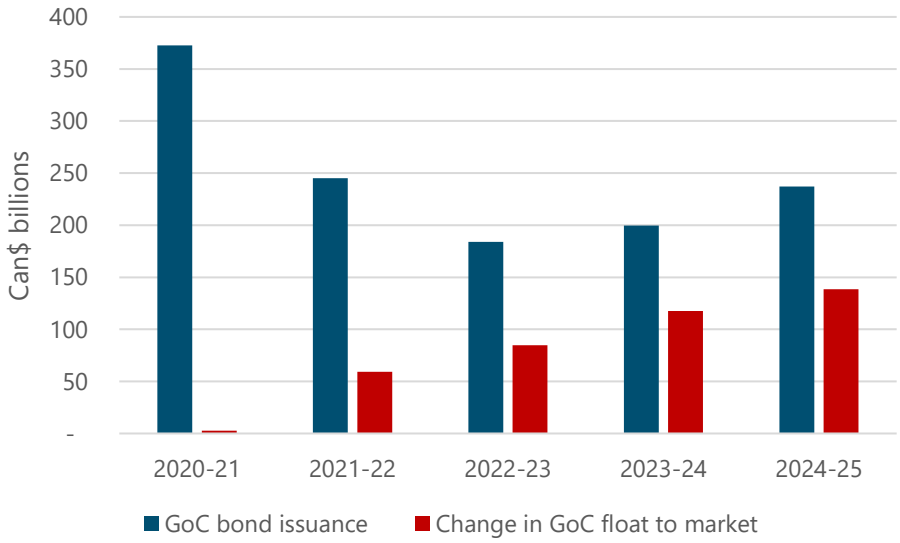
Canada's total marketable debt stock has effectively doubled in the past five years, from $720 billion at the end of 2019 to $1,408 billion at the end of 2024 (Bank of Canada 2026a). In 2022, the BoC initiated a passive Quantitative Tightening policy, allowing its treasury bills and bonds to mature without acquiring replacement assets. As a result,

[1] For more details, see Canada's most recent 2026-27 Debt Management Strategy. Additionally, Audet et al. (2025) provide a primer on how modelling and qualitative analysis are integrated to inform DMS decisions.

market participants must now take on the debt issued by the GoC to refinance those maturing securities, in addition to any incremental debt issued by the GoC.

*GoC float to market* is the amount of government bonds outstanding after subtracting BoC holdings. The *change in GoC float to market* thus reflects the net new debt that dealers and end investors must absorb on their balance sheets. This measure is calculated as the total annual bond issuance less maturities, adjusted for BoC purchases and maturities.[2] In both 2023-24 and 2024-25, the change in float to market reached record highs of above $100 billion (**Chart 1**). This was caused by rising financial requirements and the BoC's $127 billion in bonds maturing over two years (Bank of Canada 2026b).

### Chart 1: Change in Government of Canada (GoC) float to market has risen relative to issuance and reached historical highs in the past two years




Sources: Department of Finance Canada and Bank of Canada calculations
Last observation: December 2024

The need for market participants to absorb additional issuance has been intensified by global trends of rising debt issuance, especially since many of Canada's largest dealers are also dealers in other jurisdictions. Since 2008, outstanding sovereign debt from OECD countries has grown considerably (OECD 2024). Specifically, from end of 2019 to end of 2024, US Treasury debt outstanding rose from $16.7 trillion to $28.3 trillion (US

[2] Treasury bills are excluded because their short maturity implies minimal duration risk, making them relatively inexpensive to absorb on balance sheets.

Treasury 2026) and UK gilts outstanding rose from £1.6 trillion to £2.6 trillion (UK Debt Management Office 2026).[3]

## ...but Canada's dealer base has not increased

While the GoC and its peers have been issuing significantly more debt, the size of the dealer base has not kept pace. Between 2013 and 2024, the number of Canada's primary dealers (PDs)—the firms committed to purchasing government securities at auctions and providing liquidity in the market—declined from 12 to 10.[4] This reduction is due to several factors. In addition to dealers consolidating the number of jurisdictions in which they operate, banking regulations introduced after the 2008 financial crisis, such as Basel III and its Leverage Ratio, have strained balance sheets of the larger, bank-owned dealers and reduced the profitability of GoC bond trading. This trend is common across many advanced economies (OECD 2025).

It is important to note that profits from trading GoC securities are not the only incentive for PDs to participate in primary and secondary GoC markets. Being a regular GoC dealer and liquidity provider is a prerequisite for members of syndicates for Canadian dollar (CAD) issuers and building ancillary customer relationships, which is how PDs generate most of their profits. Still, the declining returns from direct GoC securities activity have negatively affected the balance of dealer benefits and obligations, while also making it harder for new dealers to enter the market.

All else being equal, the consequence of more debt issuance without a proportional increase in dealer capacity is a higher cost of issuance. This occurs because each dealer would require greater compensation to take on larger volumes of issued bonds. The Greenwood and Vayanos (2014) model illustrates that when risk-averse arbitrageurs absorb the duration risk from bond supply, a one-standard deviation increase in the dollar duration of US Treasury debt raises 20-year yields by 40 basis points (bps). Further supporting this dynamic, Aquilina, Schrimpf, Sushko and Xia (2024) find similar effects globally with the emergence of negative swap spreads.[5] In Canada, 30-year swap spreads fell from positive in mid-2023 to below -40 bps at the start of 2025 (Bank of Canada 2025).

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[3] Four of Canada's largest bond dealers—RBC Dominion Securities Inc. (RBC), The Toronto-Dominion Bank (TD), BMO Nesbitt Burns Inc. (BMO), and Scotia Capital Inc.—have affiliates who are also dealers in the US, and three of them (RBC, TD, BMO) have affiliates who are dealers in the UK.

[4] Deutsche Bank departed as a PD in 2012 and HSBC departed, via acquisition by RBC, in 2024.

[5] The swap spread is the difference between the fixed rate from an interest rate swap (off-balance sheet) and the yield from a sovereign bond of the same term. When other factors like counterparty credit risk are less relevant, a negative swap spread indicates higher compensation is needed to hold the sovereign bond on balance sheets.

## Steady auction performance has been supported by hedge funds

Rising hedge fund participation in sovereign debt markets is a global phenomenon. Epp and Gao (2025) find that, while GoC bond auctions have continued to be well-covered[6] amid the increase to Canada's debt stock, this can mostly be explained by the corresponding rise in hedge fund allocations—from about 5% to 40% over the past 10 years. The increased presence of hedge funds at auctions has heightened competition for government bonds, which in turn has helped keep Canada's cost of funding low even as the volume of debt issuance has grown. With the dealer base experiencing limited growth, hedge funds have also assumed a greater role in secondary market intermediation, thereby contributing to market liquidity in normal periods (Sandhu and Vala 2023).

However, higher hedge fund participation brings certain risks. These firms, particularly international ones, tend to have higher attrition rates and less organic commitment to the Canadian market, making them more likely to exit abruptly. Their strategies often involve significant leverage through the repurchase (repo) market, which could pose financial stability risks (Bank of Canada 2024). During periods of market stress, such as the COVID-19 crisis, their trading activity may exacerbate one-sided markets, amplifying volatility—as observed by Sandhu and Vala (2023). With the share of dealer and real money investor participation at auctions declining, any decline or stagnation in hedge fund activity could quickly lead to noticeable deterioration in auction performance.

# Canada's DDF circa 2024

Below is a summary of Canada's main DDF parameters at the time of the 2024 review. This summary will serve as the foundation for the detailed international comparison and assessment that will be presented in the next section.

- **Auction Format**: The GoC conducts multiple price auctions for both bonds and treasury bills. In this format, each winning competitive bidder pays the price they specified in their bid.[7] Bidders can also make non-competitive bids for a limited

[6] Auction coverage is defined as total bids (in dollar amount) relative to auction size, net of BoC purchases. It has been consistently above 1.9 in all tenors throughout history.

[7] In contrast, in single price auctions, each winning competitive bidder pays the cut-off price, which is either equal to or lower than the price specified in their bid.

amount ($3-5 million) at the average accepted price. The GoC does not have a post-auction facility.[8]

- **Syndications:** Syndicated issuance is reserved exclusively for green bonds, which are financial instruments dedicated to funding environmentally sustainable projects.
- **Bidding Limit:** Each PD has a bidding limit. This limit ranges from 1% for the smallest non-PD Government Securities Distributors (GSDs) to 25% for large PDs. Limits are established based on a "calculated value" (CV—a weighted measure of each dealer's primary and secondary market activity in GoC securities over a rolling six-month period). PDs may also submit bids on behalf of clients, subject to a maximum of 25% of the auctioned amount, with an overall cap of 40% when aggregating their own and their clients' bids.[9]
- **Flexibility of Issuance:** The GoC maintains very low flexibility in its issuance process. It publishes an auction schedule quarterly,[10] and specific auction amounts are announced one week in advance. Deviations from these schedules and amounts are rare. Once a bond series reaches its target "benchmark" size and a new series is introduced in that sector, the original bond is typically not reopened for further issuance.
- **Dealer Base:** Canada's dealer group consists of ten bond PDs (nine domestic and one international) and nine treasury bill PDs (eight domestic and one international). Additionally, there are five non-PD GSDs, all of which are domestic institutions. These non-PD GSDs are a second class of dealers which are less active than PDs in the auctions and secondary market.
- **Dealer Obligations:** To maintain their status, PDs must meet a minimum bidding requirement (MBR—set at 50% of either their auction limit[11] or CV, whichever is less) at all bond and regular treasury bill auctions. PDs are also required to sustain a CV above a specified threshold. In contrast, non-PD GSDs have much lighter obligations: they are not subject to an MBR and need only to win at least once in an auction every six months. All PDs and GSDs must base

[8] Generally, post-auction facilities allow bidders to purchase some amount of the auctioned bond shortly after the auction. These optional purchases are usually made at the auction's average or cut-off prices. The maximum quantity of purchase is usually linked to the amount the bidder secured during the main auction.

[9] For non-PD GSDs, the client limit is 10%. No separate aggregate cap applies; the aggregate limit is simply the sum of own-account limit and client limit.

[10] See quarterly Bond auction schedule on the BoC's website.

[11] The auction limit is the maximum amount a participant can bid at a given auction. It equals the participant's bidding limit less their excess net long position in the bond being issued. This ensures that, by the end of the auction, no participant holds more bonds than their bidding limit permits.

their core fixed-income operations in Canada and be members of the Canadian Investment Regulatory Organization (CIRO—the national self-regulatory body for investment dealers).

- **Dealer Benefits:** Holding PD status (and, to a lesser degree, non-PD GSD status) permits participation in CAD syndicated issues and can attract substantial client business. PDs also benefit from access to the BoC's repo and securities lending facilities, which support their liquidity management, enable efficient funding and enhance their ability to make markets in government securities. Additionally, CIRO ranks dealers by their market activity, influencing their selection for syndications. It is important to note that no direct fees are paid to dealers for participating in GoC auctions.

# Assessing Canada's DDF from international comparison and market feedback

*Note: As with the previous section, this section is written from the perspective of 2024, reflecting when the DDF assessment was completed. All references to the 2024 DDF—both for Canada and other sovereigns—are therefore described in the present tense, even though some details have changed by the time of this paper in 2026.*

**Table 1: Cross-country comparison of issuance mechanisms**

| | Auction format | Syndications | Auction minimums and limits | Issuance flexibility |
|---|---|---|---|---|
| **Canada** | Multiple price | Green bonds | Minimums and limits based on "calculated value" (CV); limit adjusted by net position | Very low |

| | | | | |
|---|---|---|---|---|
| **United Kingdom** | Multiple price; single price for inflation-linked bonds; PDs can make non-competitive bids; post-auction option facility[12] | Launches and reopenings of medium and long maturities (including index-linked and green bonds), supporting rapid build up to liquid benchmark size | No minimum; 25% limit for PDs (adjusted higher by net short position) | Low – some portion of annual issuance is initially unallocated to tailor gilt supply at margins to meet market demand[13] |
| **United States** | Single price | None | Pro rata minimum; 35% limit (adjusted by net position) | Very low |
| **Japan** | Multiple price; single price for inflation-linked bonds, 40-year bonds, and Climate Transition bonds; post-auction facility[14] | None | PDs: Pro rata minimum and 50% limit | Low |
| **Germany** | Multiple price | 3-4 per year (30-year and green bonds) | None | Medium – actively sets cut-off price |
| **France** | Multiple price; post-auction facility | Mainly new green bonds and new long bonds | None | Medium – can allocate issuance across bonds |
| **Italy** | Single price for bonds, multiple price for bills; post-auction facility | Launch of new 15-, 20-, 30-, and 50-year nominal; 10-, 15-, 20-, and 30-year inflation linked; and green bonds[15] | Small minimum at each auction (different for bills than bonds) | Medium – flexible sizing and reopening of off-the-run bonds |

[12] Wholesale GEMMs are each entitled to a share of a non-competitive allowance of 15% of the total amount of gilts on offer at an auction. The post-auction option facility gives an option for a successful bidder (GEMM or investor) to purchase additional stock up to 25% of the amount allocated to them at the auction.

[13] Since 2024, the UK DMO has increased flexibility to adapt to market needs, by increasing the unallocated portion of issuance and by introducing programmatic gilt tenders: regularly scheduled issuances whose choice of gilt (typically off-the-run) and size are determined based on market consultation closer to issuance date. See DMO Financing Remit 2025-26 for more information.

[14] Post-auction facility excludes inflation-linked bonds and Climate Transition bonds.

[15] Also very seldomly for launch of new 5- and 10-year fixed and floating nominal bonds.

| | | | | |
|---|---|---|---|---|
| **Australia** | Multiple price | Long bonds (10-year and longer) | None | Low – limited tailoring to market conditions |
| **Netherlands** | Multiple price; post-auction facility | Long bonds (longer than 7-year), issued via in-house system (Dutch Direct Auction[16]) | None | Medium – active cut-off pricing; ranges for auction sizes and bond allocations |
| **Denmark** | Single price | Special labelled bonds: i.e. green, inflation-linked, or long bonds | None | Medium – flexible auction sizes; reopenings possible |
| **Sweden** | Multiple price for nominal bonds; single price for inflation-linked bonds and bills | Sporadically | None | Very low |
| **Norway** | Single price | New bonds and larger reopenings | None | Very low |

Sources: 2024 consultations with major DMOs and central banks, including the UK Debt Management Office, US Treasury Office of Debt Management, Federal Reserve Bank of New York, Ministry of Finance Japan, Deutsche Finanzagentur, Agence France Trésor, MEF Dipartimento del Tesoro, Australian Office of Financial Management, Dutch State Treasury Agency, Swedish National Debt Office and Norges Bank.

## Table 2: Cross-country comparison of dealer frameworks

| | Dealer base | Dealer obligations | Dealer benefits |
|---|---|---|---|
| **Canada** | 10 primary dealers (PDs) for bonds, 9 PDs for bills (1 international for each; Canada residency is required); 5 non-PD government securities distributors (GSDs) | PDs must maintain primary and secondary market activity above a defined "calculated value" (CV); GSDs must win an allocation in at least one auction every six months | PD/GSD designation permits participation in Canadian dollar (CAD) syndications and supports client business; PDs have access to central bank facilities |

[16] Dutch Direct Auction is a single price issuance and has maximum bids.

| | | | |
|---|---|---|---|
| **United Kingdom** | 18 PDs[17] (13 international); UK residency is required only in practice since PDs must be domestically regulated; Wholesale PD tier has higher obligations and benefits. Retail PDs have lower[18] | Wholesale PDs must participate at each auction and should maintain 2% rolling six-month average share in both primary and secondary markets; for Retail PDs, acceptable level is pre-agreed with DMO | Preferred counterparty status with DMO; access government syndications (Wholesale PDs only) and repo operations; access to inter-dealer brokers; Wholesale PDs can make non-competitive bids at auction |
| **United States** | 24 PDs (15 international; US residency is required) | Required to make markets and bid at every auction; performance assessed on holistic set of factors | PD designation is highly prestigious and broadly required by clients; access to buyback operations and central bank facilities |
| **Japan** | 19 PDs (10 international; Japan residency is required) | Expected to make markets and bid competitively at every auction | PD rankings are published; access to post-auction facility and buy-back auctions |
| **Germany** | 32 PDs (23 international; Germany residency is not required) | Required to bid for a very small share of total annual issuance | PD rankings are published; access to government syndications |
| **France** | 15 PDs (11 international; France residency is not required) | Required to maintain reasonable primary and secondary market share over time | PD designation is prestigious; PD rankings are published; access to agency and AFT syndications; access to repo facility |
| **Italy** | 21 PDs (17 international; Italy residency is not required) | Required to maintain reasonable primary market share annually[19]; penalties for overly uncompetitive bidding; market-making obligations | PD fees in auctions, syndications and retail bond placements; auction non-competitive reopenings; PD rankings are published |
| **Australia** | 19 PDs (13 international; Australia residency is not required) | No formal activity requirements; PD status determined by institution's business decision | Only PDs may participate in government syndications |

[17] In the UK, PDs for gilts are known as Gilt-edged Market Makers (GEMMs). UK also has 22 Treasury bill primary participants, who bid on behalf of investors and make secondary markets for bills.

[18] In 2025, UK introduced a third Associate GEMM tier with lower obligations and benefits (like Retail GEMMs), as well as more specific requirements on GEMM regulatory authorizations and market making expectations. See GEMM Guidebook for more information.

[19] Minimum threshold of 3% with respect to the overall duration-weighted issuance volume in one year.

| | | | |
|---|---|---|---|
| **Netherlands** | 13 PDs (11 international; Netherlands residency is not required); separate tier for bill-only PDs | Encouraged to make markets and participate in every auction; credit rating requirement | PD designation is prestigious; access to repo facility and government syndications |
| **Denmark** | 8 PDs (6 international; Denmark residency is not required); bill and commercial paper PDs are subsets | PDs must meet minimum quoting criteria to qualify for PD fee pool | Annual PD fees[20]; eligible for syndications; access to central bank facilities |
| **Sweden** | 5 PDs (Sweden residency is not required); separate dealership for each instrument (nominal, inflation-linked and bills) | Required to bid at each auction; at least 5 percent primary market share on an annual basis and reasonable secondary market share expected over time | Annual PD fees; access to repo operations |
| **Norway** | 4 PDs (3 international; Norway residency is not required) | Required to make markets and bid at every auction | Annual PD fees; access to repo operations and government syndications |

Sources: 2024 consultations with major DMOs and central banks, including the UK Debt Management Office, US Treasury Office of Debt Management, Federal Reserve Bank of New York, Ministry of Finance Japan, Deutsche Finanzagentur, Agence France Trésor, MEF Dipartimento del Tesoro, Australian Office of Financial Management, Dutch State Treasury Agency, Swedish National Debt Office and Norges Bank.

## Dealer base

**Canada's dealer base is distinctive in having a very small number of international institutions, reflecting barriers to entry that could be reconsidered.**

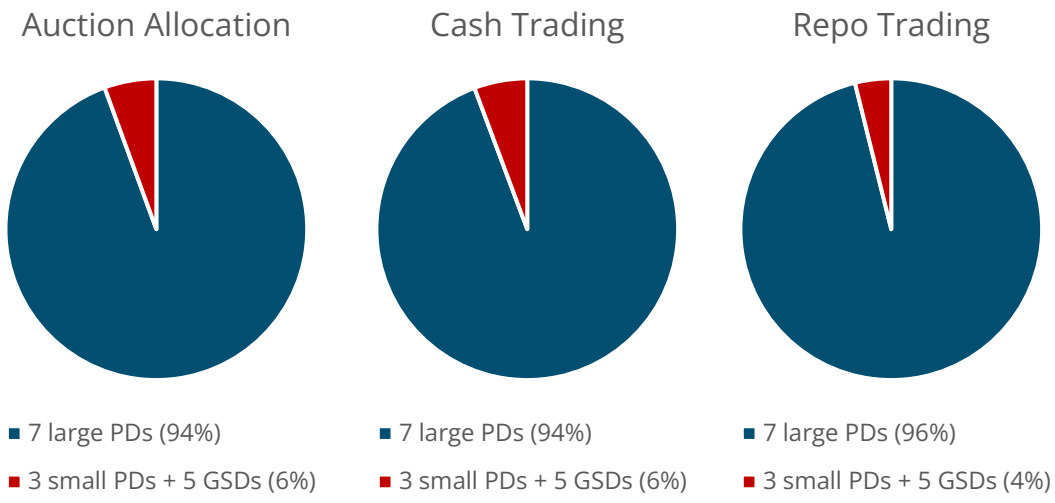
While all other sovereigns consulted have at least half their dealers based internationally, Canada has only one non-domestic dealer. This limited number of international dealers could mean greater exposure to a domestic shock and may constrain the development of Canada's international client base—considerations that have become more important in an environment of higher debt issuance.

One factor limiting international dealer participation has been the requirement that all dealers be resident in Canada. Together with the requirement for CIRO membership, this has been cited as a significant hurdle for many prospective international dealers. Only two other DMOs consulted—both substantially larger than Canada—also impose an explicit requirement to be resident in their country.

[20] Fee structure includes price competition and secondary turnover components.

At the same time, Canada's dealer base is highly concentrated among a small number of large domestic institutions. The seven largest PDs dominate both primary and secondary market activity, leading the majority of syndications and client business. The gap between these institutions and the remaining dealers in terms of market share (**Chart 2**) and resources is substantial. This reflects the concentrated structure of the Canadian banking sector, where the "Big Six" banks—whose dealer arms correspond to six of the seven largest PDs[21]—hold 98% of domestic bank assets as of the end of 2024 (OSFI 2026).[22]

**Chart 2: Among dealers, Canada's largest PDs had a predominant share of primary and secondary market activity in 2024**




Sources: Department of Finance Canada, Market Trade Reporting System (MTRS) 2.0 and Bank of Canada calculations

Last observations: December 2024

Note: Auction allocation includes winnings on behalf of the dealer or its clients. Cash and repo trading only includes trades with non-affiliated client counterparties.

**Expanding the dealer base to additional institutions with strong international distribution networks would support investor diversity**.

Although non-resident investors collectively hold more than 45% of GoC float to market (Statistics Canada 2025)—with foreign central banks accounting for approximately 12-21% (Aldridge, Sandhu, and Tchamova 2024)—international participation in primary

[21] The seventh large PD is the brokerage arm of the largest financial cooperative in North America.

[22] Canada's 2021 bank concentration metric, which measures the market share of the top three banks, was 60.7 (World Bank 2026). This places Canada in the middle among G7 countries. However, the three G7 countries with higher concentration levels—Germany, France and Italy—have much larger foreign dealer bases, which helps to reduce the associated risks.

bond auctions is much narrower. In 2024, 32% of auction allocations went to international buyers, and nearly all of these were hedge funds.

The limited participation of non-hedge fund international institutions in primary auctions—despite their presence in secondary markets—may be linked to the lack of dealers based in their home regions. Expanding the number of international dealers could better connect these institutions to auctions, thereby broadening and diversifying the investor base, strengthening market outcomes, and potentially lowering the government's cost of funding.

**Canada is somewhat unique in maintaining two dealer classes. While this structure is intended to broaden participation, its objectives have not been fully realized in practice**.

The non-PD GSD dealer class is designed to provide a lower-threshold entry point for mid-sized domestic institutions and larger international institutions and can serve as a stepping stone toward eventual PD status. A strong and diverse GSD base—particularly with international dealers—could enhance the robustness of Canada's predominantly domestic dealer network.

In practice, however, these outcomes have not materialized. Four of the five non-PD GSDs are very small domestic institutions with a very small footprint in the primary or secondary markets. This appears to reflect their extremely low obligations—they are required to obtain auction allocations of GoC securities only once every six months—as well as limited awareness among larger international institutions that the designation exists. The presence of very small institutions in the GSD class may also reduce its perceived value, further discouraging entry by larger and more active dealers.

## Auction minimums and limits

**Canada enforces relatively strict minimum bidding requirements (MBRs) for its dealers. Despite this, PDs report that these requirements are not overly burdensome and believe they serve an important purpose.**

Most other sovereigns do not set MBRs—only three we consulted do so—citing that dealers naturally bid regularly and meaningfully as part of their core business function, making uncovered auctions a rare issue.

PDs in Canada generally consider the MBR—set as high as 12.5% of each auction—to be a reasonable obligation. They view it as part of their responsibility and see the mechanism as an essential safeguard to ensure strong auction outcomes, especially during periods of market stress.

Regarding bidding limits, only the largest sovereigns outside Canada impose such constraints. Other countries' DMOs note that it is uncommon for bidders to seek excessively large allocations at auction, so concentration risk is not a primary concern. Most Canadian PDs do not find their auction limits restrictive, with the exception of the 40% aggregate limit, which sometimes results in turning away client business and straining business relationships.

## Auction format and flexibility

**Canada's multiple price auction format is seen as effective. While a single price auction could offer some advantages—such as potentially broadening the client base—the resulting uncertainty and disruptive changes to established bidding behaviours outweigh the prospective gains.**

Multiple price auctions typically reduce costs for the issuer since winning bidders pay their actual bid price rather than the cut-off price. However, the format may deter aggressive bidding or participation from less specialized investors, given the risk of overpaying (the so-called "winner's curse"; Malvey, Archibald and Flynn 1995).

Roughly half the sovereigns consulted use single price auctions, which, in theory, could help Canada diversify its investor base. However, the materiality of this positive impact is unclear, and PDs caution that a major format change—with all the unknown bidding dynamics it would bring—could unsettle the otherwise orderly Canadian auction process.

**Increasing non-competitive bidding limits may capture some of the single price auction's benefits without the associated risks.**

Non-competitive bids make it easier for less informed investors to participate, as they are filled at the auction's average price. Currently, Canada's non-competitive bid limits ($3-5 million) are too low for this to be a meaningful option.

**Canada could introduce more flexibility in its auction practices when justified.**

For example, tactically adjusting issuance amounts could reduce debt costs (Allen, Kastl and Wittwer 2020), though this might undermine the predictability and stability that define Canada's debt management approach.

Nonetheless, reopening off-the-run bonds in high demand relative to supply—evidenced by strong repo pricing—for smaller amounts within the pre-announced bond schedule, as practiced in some other countries, could enhance market functioning with minimal impact on predictability. In particular, bonds acquired by the BoC during COVID-19 Quantitative Easing, which now have low free float, would be prime candidates for such reopenings.

## Dealer benefits

**Canada does not offer certain dealer incentives common in other markets, such as regular syndications of conventional bonds or post-auction facilities. However, this has not posed issues.**

Syndication, where issuers pay dealers to actively market new or less frequently traded bonds, can be valuable for launching new products (e.g., green bonds) or infrequently issued maturities. In Canada, aside from green bonds, all bond sectors are well-established and liquid, so the added distribution reach provided by syndication is not justified by the cost.

Post-auction facilities, which allow dealers to purchase additional bonds after an auction at the average price, are also not offered in Canada. While this feature is beneficial elsewhere, dealers in Canada note that it could increase yield volatility and promote more cautious bidding—both of which would conflict with the government's objectives of low-cost funding and stable markets.

Overall, syndications and post-auction facilities mainly benefit already dominant dealers, offering limited value for attracting new or smaller participants. The core challenge for the GoC is to make the dealer business model more appealing to new entrants and smaller dealers.

## Dealer obligations

**Canada's standards for PDs are considered by many to be unnecessarily complex and prescriptive.**

The reliance on a static CV formula to determine each dealer's bidding limit and continuing eligibility is unique and seen as cumbersome. Administering this approach is time-intensive and reduces the opportunity for issuer-dealer dialogue, qualitative judgment and more nuanced interpretation of performance metrics—practices that are common in other sovereign markets.

# Changes from 2024 DDF review

Following the above assessment, the GoC and BoC announced several updates in a March 2025 Market Notice on Changes to Canada's Debt Distribution Framework, effective from September 2025. Full details are available in the Standard Terms and Conditions of Government of Canada Auctions.

## Enhancing the non-PD GSD class

Two central findings from this review were: (1) the significant potential for expanding the investor base and increasing debt program stability by attracting larger international dealers, and (2) the underused opportunity presented by the non-PD GSD class to draw in such institutions, especially those less established in Canada. Consequently, reforming this class was prioritized.

**GSDs must now win an allocation each month (previously once every six months) and secure a minimum of $50 million per quarter to maintain dealer status.**[23]

This enhanced requirement raises the standards for non-PD GSDs, ensuring more meaningful participation in the GoC primary market. At the same time, it remains accessible for smaller institutions aiming to grow. Additionally, these changes reinforce the prestige associated with the GSD title for current holders and prospective entrants.

**For international non-PD GSDs, the residency and CIRO membership requirements have been removed. However, in the place of CIRO membership, equivalent regulatory oversight in another jurisdiction is mandatory**.

Eliminating these barriers should encourage more international dealers to participate, directly supporting greater diversity and resilience in Canada's dealer and investor bases.

Given the increasing digitization of markets and the more rigorous GSD application process (including assessments of trading history and business plans), Canadian residency is no longer essential to demonstrate commitment. Regulatory standards from major jurisdictions like the United States and many in Europe would likely be deemed sufficient to ensure proper conduct.[24] PDs, due to their central market role, continue to require residency and CIRO membership.

The GoC and BoC are also more proactively promoting the GSD designation to large international institutions. These outreach efforts highlight the heightened attractiveness of international GoC debt dealing, which has been driven by recent DDF changes, increased syndicated CAD issuance, rising international client participation—mainly hedge funds—at auctions, and substantial GoC holdings by international firms (including central banks) that currently have limited auction involvement.

[23] Winnings may be on behalf of themselves or a client.

[24] As a safeguard, the GoC and BoC retain the authority to unilaterally revoke the status of any GSD if they determine that GSD has engaged in improper conduct.

## Maintaining core auction rules and dealer incentives, with targeted improvements

Given the robust performance of GoC auctions and high satisfaction among market participants, no major changes were warranted. Instead, select minor updates were implemented to refine dealer incentives and align practices with international standards.

**Retire the CV mechanism in favour of a more comprehensive approach to PD performance evaluation. PD MBRs are now set *pro rata*, with every PDs' bidding limit established at 25%.**

PD status is now determined using a broader set of criteria—including repo market activity, which is vital for market functioning (Plong and Maru 2024)—and places greater emphasis on bilateral dialogue and qualitative assessment.

New *pro rata* MBRs are set at 10% for bonds (with 10 PDs) and 12.5% for bills (with 8 PDs). Bidding limits remain fixed for clarity and simplicity.

**The Bank of Canada Auction System (BCAS) has been upgraded to clearly separate dealers' own bids from those placed on behalf of clients at auctions.**

This upgrade (see FAQs – Division of BCAS User Types) enhances BCAS compliance with CIRO regulations and international best practices by offering an added layer of protection for client bidding information.

**Increase the aggregate bidding limit for dealers and their clients from 40% to 50%.**

This change streamlines auction operations, reduces the likelihood of rejecting client bids due to aggregate limits, and supports BCAS implementation. Assessment found concentration risk to be minimal, especially in light of higher outstanding debt and the new bond reopening mechanism.

**Raise non-competitive bidding limits to 0.5% of the auction.**

This substantial increase gives smaller and niche investors greater ability to participate in auctions without exposure to the risk of overpaying.

## Other changes

**Introduce a facility to reopen off-the-run GoC bonds.**

These reopenings (see Details on the reopening of off-the-run GoC nominal bonds) have been found to improve market functioning and deter secondary market squeezes. In 2025 Q3, two bonds were reopened for amounts of $500 million and $750 million, yielding positive market effects.

**Remove eligibility for individual persons to apply as auction participants.**

This streamlines onboarding and monitoring, conserving BoC and GoC resources, given the limited expected contribution from individuals compared with institutions.[25]

**Apply MBRs to all Cash Management Bill (CMB) auctions.**

CMBs are treasury bills issued off cycle,[26] maturing in up to three months, and typically smaller than standard treasury bills. They may be stand-alone issues or be fungible with outstanding treasury bills. Previously, MBRs only applied to fungible CMB auctions; now, they apply to all types to ensure consistent rule application.

**Publish new data on customer-dealer and domestic-foreign splits within GoC auction results.**

This supports greater data transparency for institutional stakeholders and provides valuable insights into evolving investor trends in GoC securities. The auction results page with this new data can be accessed in Calls for tenders and results on the BoC website.

# Looking ahead

Despite the challenges posed by recent fiscal, regulatory and investor base trends, Canada's DDF has remained effective at its core. The 2024 review implemented moderate adjustments aimed at mitigating the most substantiated and actionable risks—particularly Canada's limited pool of international dealers within a rapidly expanding debt landscape—while taking care to avoid introducing unnecessary uncertainty.

Nevertheless, should these trends persist over the coming years, or should new market or societal developments arise, the viability of DDFs in many advanced economies—including Canada—could face more fundamental challenges. In such circumstances, more comprehensive changes may need to be considered as part of every sovereign debt policy-maker's ongoing responsibility to safeguard the health of public finances.

[25] The GoC and BoC have complete discretion when bringing on new clients, and no individual persons have been added in recent years.

[26] Regular treasury bills are currently issued on a two-week cycle with maturities of 3, 6 and 12 months.

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