ANNEX 4

Modernizing Canada's Financial Sector

Canadians expect and deserve a stable financial system that safeguards their savings and investments and delivers the financial services they need at a fair price.

To that end, the Government proposes to modernize Canada's financial sector framework through measures that will support consumers, including new products and services, promote stability and innovation, and enhance the security and integrity of the financial system.

Reviewing the Merits of Open Banking

Open banking has the potential to offer Canadian consumers—including small businesses—a secure way to consent to sharing their financial transaction data with financial service providers, allowing them to benefit from a broader range of financial products and services at more competitive prices. This could better serve consumers and grow businesses and markets, benefitting Canada's economy as a whole.

In Budget 2018, the Government announced that it would undertake a review, and appointed an Advisory Committee on Open Banking last year. A public consultation paper was released in January 2019, and roundtable consultations are currently underway to learn more about how Canadians feel about open banking. The Committee will deliver a report to the Minister of Finance assessing the merits of open banking after the consultations are complete. Subject to its findings, the Government would assess best potential ways to move ahead with open banking, with the highest regard for consumer privacy, security and financial stability.

Supporting an Innovative and Well-Functioning Canadian Payments System

Retail payment services make it possible for Canadians to buy goods and services, pay their bills and transfer funds using cash, debit and credit cards, cheques, and mobile and electronic devices. A range of new innovative service providers and technologies are emerging that are changing how Canadians make payments.

In Budget 2019, the Government proposes to introduce legislation to implement a new retail payments oversight framework, so that retail payment services providers can continue to offer innovation in services, while remaining reliable and safe. The framework would require payment service providers to establish sound operational risk management practices and to protect users' funds against losses. The Bank of Canada would oversee the payment service providers' compliance with operational and financial requirements and maintain a public registry of regulated payment service providers.

Budget 2019 also proposes to introduce technical amendments to the *Canadian Payments Act* to modernize the governance framework of Payments Canada. These proposed amendments follow a legislative review of the *Canadian Payments Act* undertaken by the Government in 2018.

Supporting Sustainable Financing

Given the trajectory of climate change, the way Canadian companies and financial institutions address climate issues and capitalize on clean growth opportunities will ultimately shape long-term economic, environmental and social development. That is why the Minister of Environment and Climate Change and the Minister of Finance jointly launched Canada's Expert Panel on Sustainable Finance. Over the last year, the Panel has been consulting with financial market participants and other stakeholders with the aim of submitting a final report in spring 2019.

Many Canadian companies and federal Crown corporations are now taking steps to implement the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). The Government supports the TCFD's voluntary international disclosure standards and a phased approach to adopting them by major Canadian companies, as appropriate. By supporting these standards, the Government aims to raise firms' awareness of the importance of tracking, managing and disclosing material climate-related risks and opportunities in a consistent and comparable way. The Government will also encourage adoption by federal Crown corporations where appropriate and relevant to their business activities.

Introducing a Financial Consumer Agency of Canada Governance Council

The Government of Canada is committed to protecting financial consumers, and it delivered on this commitment in 2018 by providing new protections to consumers and granting new powers to the Financial Consumer Agency of Canada (FCAC).

This year, the Minister of Finance will appoint a governance council to support the Agency in becoming a world leader in financial consumer protection. The Council will guide FCAC in its expanded mandate and promote the confidence of Canadians in our financial consumer protection system.

Updating Federal Financial Sector Statutes

With the help of Parliament, the Government regularly reviews existing statutes governing federal financial institutions to ensure they have the legal authority to make appropriate adjustments to meet the changing needs of Canadian consumers and businesses.

The Government proposes to introduce amendments to the federal financial institutions statutes (the *Bank Act*, *Insurance Companies Act* and *Trust and Loan Companies Act*) and related legislation such as the *Bank of Canada Act*, *Canada Deposit Insurance Corporation Act* and *Payment Clearing and Settlement Act*.

In the latest review, stakeholders identified an opportunity to modernize the corporate governance framework for federally regulated financial institutions to keep in step with changes passed by Parliament to the *Canada Business Corporations Act* in May 2018. These legislative amendments will promote, among other things, a more democratic and transparent election process of board members. Some changes will also allow for easier participation in the election of boards. For example, members of federal credit unions would have more options for voting prior to and at annual general meetings, enhancing their participation in decision-making of federal credit unions. The legislative amendments will also afford the opportunity for institutions to reduce their administrative costs and regulatory burden by using technology in their communications with owners.

The new measures will also introduce new requirements for federally regulated financial institutions to disclose policies aimed at promoting greater diversity on boards and in senior management.

Technical amendments will also be proposed to ensure the legislation remains clear and current, and add further clarity on how investors, creditors and other participants may be compensated as a result of actions taken by financial sector authorities to sell, wind down or restore to viability a failing bank or financial market infrastructure.

Modernizing the Unclaimed Assets Framework

The Government of Canada is committed to protecting Canadians' unclaimed deposits, which result when accounts, deposits or other instruments held by financial institutions have been inactive for 10 years. In 2017 and 2018, the Government consulted the public on proposed ways to modernize and improve the unclaimed deposits program and better serve Canadians.

In Budget 2019, the Government proposes to introduce legislative amendments to the *Bank Act*, the *Bank of Canada Act*, the *Trust and Loan Companies Act* and the *Pension Benefits Standards Act, 1985* to expand the scope of the framework to include foreign denominated bank accounts and unclaimed pension balances from terminated federally regulated pension plans. These legislative changes will enable the Government to protect a greater number of people's hard-earned savings and help reunite more Canadians with their lost or forgotten money.

Annex 4 - Modernizing Canada's Financial Sector

millions of dollars

	2018 – 2019	2019-2020	2020–2021	2021-2022	2022-2023	2023-2024	Total
Modernizing Canada's Financial Sector							
Supporting an Innovative and Well-Functioning Canadian Payments System	0	1	4	6	8	9	27
Less: Costs to be Recovered	*0*	*0*	*0*	*-5*	*-8*	*-9*	*-21*
Introducing a FCAC Governance Council	0	0	0	0	0	0	1
Annex 4 - Net Fiscal Impact	**0**	**1**	**4**	**2**	**0**	**0**	**7**

Debt Management Strategy

Introduction

The *Debt Management Strategy* sets out the Government of Canada's objectives, strategy and borrowing plans for its domestic debt program and the management of its official international reserves. Borrowing activities support the ongoing refinancing of government debt coming to maturity, the execution of the budget plan and the financial operations of the Government. The *Debt Management Strategy for 2019–20* reflects Budget 2019 fiscal projections.

The *Financial Administration Act* requires that the Government table in Parliament, prior to the start of the fiscal year, a report on the anticipated borrowing to be undertaken in the year ahead, including the purposes for which the money will be borrowed. The *Debt Management Strategy* fulfills this requirement.

Outlook for Government of Canada Debt

The Government of Canada continues to receive triple-A credit ratings, with a stable outlook, from major rating agencies that evaluate its financial position.

Those rating agencies indicate that Canada's triple-A credit ratings are supported by strong political institutions, economic resilience and economic diversity, well-regulated financial markets, and monetary and fiscal flexibility. They also note that the country's effective, stable and predictable policy-making contributes to stable financing demand from long-term investors.

Canada's general government gross debt and net debt positions also remain favourable. According to the International Monetary Fund (IMF), Canada's net debt-to-GDP (gross domestic product) ratio is the lowest in the Group of Seven (G7), reflecting significant holdings of financial assets.

Planned Borrowing Activities for 2019–20

Borrowing Authority

The authority to manage public debt flows from the *Borrowing Authority Act* and Part IV of the *Financial Administration Act*, which together allow the Minister of Finance to borrow money up to a maximum amount as approved by Parliament.

Parliament granted its approval of a maximum stock of outstanding government and Crown corporation market debt of $1,168 billion via the *Borrowing Authority Act*, which came into force on November 23, 2017. Outstanding government and Crown corporation market debt is projected to reach $1,070 billion by the end of 2019–20, including $754 billion in projected year-end government market debt and an anticipated Crown corporation market debt stock of approximately $316 billion.

The Government is therefore not expected to exceed the maximum authorized amount of borrowings under the *Borrowing Authority Act* in 2019–20 and will not seek any changes to the current Parliamentary approval. The Government will provide a more fulsome report to Parliament on the borrowing authority by November 2020, as required by the *Borrowing Authority Act*.

The projected sources and uses of borrowings are presented in Table A4.2. Actual borrowings and uses of funds for the upcoming fiscal year compared with the projections will be reported in the *Debt Management Report for 2019–20*, and detailed accounting information on the Government's interest-bearing debt will be provided in the *Public Accounts of Canada 2020*.

Sources of Borrowings

The aggregate principal amount of money to be borrowed by the Government in 2019–20 is projected to be $280 billion. All borrowing will be sourced from domestic and foreign wholesale markets (Table A4.2).

Table A4.2

Planned/Actual Sources and Uses of Borrowings for Fiscal Year 2019–20

billions of dollars

Sources of borrowings	
Payable in Canadian currency	
Treasury bills[1]	151
Bonds[2]	119
Total payable in Canadian currency	270
Payable in foreign currencies	10
Total cash raised through borrowing activities	280
Uses of borrowings	
Refinancing needs	
Payable in Canadian currency	
Treasury bills	131
Bonds	111
Of which:	
Switch bond buybacks	1
Cash management bond buybacks	40
Retail debt	1
Total payable in Canadian currency	243
Payable in foreign currencies	7
Total refinancing needs	250
Financial source/requirement	
Budgetary balance	20
Non-budgetary transactions	
Pension and other accounts	-6
Non-financial assets	3
Loans, investments and advances	8
Of which:	
Loans to enterprise Crown corporations	7
Other	1
Other transactions[3]	8
Total non-budgetary transactions	12
Total financial source/requirement	32
Adjustment for risk[4]	-3
Change in other unmatured debt transactions[5]	1
Net increase or decrease (-) in cash	0
Total uses of borrowings	280

Notes: Numbers may not add due to rounding. A negative sign denotes a financial source.

1 Treasury bills are rolled over, or refinanced, a number of times during the year. This results in a larger number of new issues per year than the stock of outstanding at the end of the fiscal year, which is presented in the table.

2 Includes switch buyback issuance.

3 Other transactions primarily comprise the conversion of accrual transactions to cash inflows and outflows for taxes and other accounts receivable, provincial and territorial tax collection agreements, amounts payable to taxpayers and other liabilities, and foreign exchange accounts.

4 The $3 billion risk adjustment included for prudent fiscal planning purposes is removed to increase the accuracy of borrowing needs. If the risk adjustment is needed, the debt strategy can be adjusted accordingly.

5 Includes cross-currency swap revaluation, unamortized discounts on debt issues, obligations related to capital leases and other unmatured debt.

Uses of Borrowings

The Government's borrowing needs are driven by the Government's refinancing of maturing debt and projected financial requirements.

Financial requirements measure the net cash flow associated with the Government's budgetary and non-budgetary transactions.[4] If the Government has a net cash inflow (financial source), it can use the cash to decrease the total debt stock. However, as is currently the case, if a net cash outflow (financial requirement) is projected, the Government must meet that requirement by increasing the total debt stock or by drawing down cash balances.

In 2019–20, the refinancing of maturing debt is projected to be $250 billion, the financial requirement is projected to be approximately $32 billion, and the Government's cash balances are not projected to change as new borrowings are expected to meet all borrowing requirements.

Actual borrowings for the year may differ due to uncertainty associated with economic and fiscal projections, the timing of cash transactions, and other factors such as changes in foreign reserve needs and Crown corporation borrowings. To adjust for unexpected changes in financial requirements, debt issuance can be altered during the year—typically through changes in the issuance of treasury bills as well as the 3-year sector.

Objectives

The fundamental objectives of debt management 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 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.

Debt Structure Planning

The *Debt Management Strategy for 2019–20* is informed by an analysis of several possible debt structures over a wide range of economic and interest rate scenarios and forecasts over a medium-term horizon. Market participants are also consulted as part of the process of developing the debt management strategy.

The Government seeks to strike a balance between keeping funding costs low and mitigating risks, as measured by metrics such as debt rollover and the variation in annual debt-service charges.

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[4] Budgetary transactions include government revenues and expenses. Non-budgetary transactions include changes in federal employee pension accounts; changes in non-financial assets; investing activities through loans, investments and advances; and changes in other financial assets, including foreign exchange activities.

Composition of Market Debt

The stock of total market debt is projected to reach $754 billion by the end of 2019–20 (Table A4.3).

Table A4.3
Change in Composition of Market Debt
billions of dollars, end of fiscal year

	2015–16 Actual	2016–17 Actual	2017–18 Actual	2018–19 Estimated	2019–20 Projected
Domestic bonds[1]	504	536	576	574	583
Treasury bills	138	137	111	131	151
Foreign debt	22	18	16	16	19
Retail debt	5	5	3	2	1
Total market debt	670	695	705	723	754

Note: numbers may not add due to rounding.
[1] Includes additional debt that accrues during the fiscal year as a result of the inflation adjustments to Real Return Bonds.

Over the next decade, the share of domestic market debt outstanding with original terms to maturity of 10 years or more is projected to stay at about the current level (i.e., around 40 per cent). Additionally, the average term to maturity of domestic market debt is projected to remain relatively stable at around 5.5 to 6.5 years over the medium term.

The Government of Canada continues to follow prudent debt management practices compared to global peers. Canada's level of federal market debt as a proportion of GDP is the lowest among G7 countries. Despite this, Canada has continued to prudently issue debt across different maturity sectors and has maintained a weighted average term to maturity similar to that of most G7 countries.

2019–20 Treasury Bill Program

Bi-weekly issuance of 3-, 6- and 12-month maturities will be continued in 2019–20, with bi-weekly auction sizes projected to be largely in the $9 billion to $15 billion range. The Government is making changes to increase the projected year-end stock of treasury bills to an expected level of $151 billion. This approach will support a liquid and well-functioning market for Canadian federal government treasury bills.

Cash management bills (i.e., short-dated treasury bills) help manage government cash requirements in an efficient manner. These instruments will also continue to be used in 2019–20.

2019–20 Bond Program

In 2019–20, gross bond issuance is projected to be around $119 billion (Table A4.4). This approach balances liquidity requirements in both the treasury bill and core benchmark bond sectors necessary to promote market well-functioning, while also satisfying the Government's objective of achieving stable, low-cost funding. Along with treasury bills, issuance in the 3-year sector may be adjusted to address unexpected changes in financial requirements.

Table A4.4
Bond Issuance Plan for 2019–20
billions of dollars, end of fiscal year

	2015–16 Actual	2016–17 Actual	2017–18 Actual	2018–19 Estimated	2019–20 Projected
Gross bond issuance[1]	93[3]	135[3]	138	100	119
Bond buybacks on a switch basis	-1	-1	-1	-1	-1
Net issuance	93	134	137	99	118
Maturing bonds and adjustments[2]	-78	-103	-97	-101	-110
Change in bond stock	16	32	40	-2	8

Note: numbers may not add due to rounding.
1 Includes switch buyback issuance and additional debt that accrues during the fiscal year as a result of the inflation adjustments to Real Return Bonds.
2 Includes cash management bond buybacks.
3 Historic bond issuances are accounted for at market value.

Maturity Date Cycles and Benchmark Bond Target Range Sizes

For 2019–20, increases in benchmark bond target ranges are planned relative to fiscal year 2018–19 (Table A4.5).

Table A4.5
Maturity Date Patterns and Benchmark Size Ranges
billions of dollars

	Feb.	Mar.	May	June	Aug.	Sept.	Nov.	Dec.
2-year	9-15		9-15		9-15		9-15	
3-year[1]		6-12				6-12		
5-year		12-18				12-18		
10-year				10-16				
30-year[2]								12-18
Real Return Bonds[2,3]								9-15
Total	9-15	18-30	9-15	10-16	9-15	18-30	9-15	9-18[2]

Note: These amounts do not include coupon payments.
1 Issuance in the 3-year sector will be fungible with the previous 5-year benchmark bonds. The benchmark size range for the 3-year sector presented here is in addition to fungible outstanding previous 5-year benchmark bonds.
2 The 30-year nominal bond and Real Return Bond do not mature each year or in the same year as each other.
3 Includes estimate for inflation adjustment.

Bond Auction Schedule

In 2019–20, there will be quarterly auctions of 2-, 3-, 5- and 10-year bonds. Some of these bonds may be issued multiple times per quarter. The number of planned auctions in 2019–20 for each bond sector is shown in Table A4.6. The actual number of auctions that occur may be different than the planned number of auctions due to unexpected changes in borrowing requirements.

Table A4.6
Number of Planned Bond Auctions for 2019–20

Sector	Planned Bond Auctions
2-year	16
3-year	8
5-year	8
10-year	4
30-year	3
30-year switch buyback	2
Real Return Bond	3

The dates of each auction will continue to be announced through the *Quarterly Bond Schedule* that is published on the Bank of Canada's website prior to the start of each quarter (www.bankofcanada.ca/stats/cars/results/bd_auction_schedule.html).

Bond Buyback Programs

The Government plans to continue conducting regular bond buybacks on a switch basis as well as cash management bond buybacks.

Two bond buyback operations on a switch basis are planned for 2019–20. These operations would occur for bonds that were originally issued with terms to maturity of 30 years. The dates of each operation will continue to be announced through the *Quarterly Bond Schedule* that is published on the Bank of Canada's website prior to the start of each quarter.

The cash management bond buyback program helps to manage government cash requirements by reducing large bond maturities. Weekly cash management bond buyback operations will be continued in 2019–20. A pilot project to increase the flexibility in the maximum repurchase amount was introduced in January 2017, and this change was made permanent in November 2018.

Management of Canada's Official International Reserves

The Exchange Fund Account (EFA), which is held in the name of the Minister of Finance, represents the largest component of Canada's official international reserves. It is a portfolio of Canada's liquid foreign exchange reserves and special drawing rights (SDRs)[5] used to aid in the control and protection of the external value of the Canadian dollar and to provide a source of liquidity to the Government. In addition to the EFA, Canada's official international reserves include Canada's reserve position held at the IMF.

The Government borrows to invest in liquid reserves, which are maintained at a level at or above 3 per cent of nominal GDP. Net funding requirements for 2019–20 are estimated to be around US$9 billion, but may vary as a result of movements in foreign interest rates and exchange rates.

The mix of funding sources used to finance the liquid reserves in 2019–20 will depend on a number of considerations, including relative cost, market conditions and the objective of maintaining a prudent foreign-currency-denominated debt maturity structure. Potential funding sources include a short-term US-dollar paper program (Canada bills), medium-term notes, cross-currency swaps involving the exchange of Canadian dollars for foreign currency to acquire liquid reserves, and the issuance of global bonds.

Further information on foreign currency funding and the foreign reserve assets is available in the *Report on the Management of Canada's Official International Reserves* (www.fin.gc.ca/purl/efa-eng.asp) and in The Fiscal Monitor (www.fin.gc.ca/pub/fm-rf-index-eng.asp).

Cash Management

The core objective of cash management is to ensure the Government has sufficient cash available at all times to meet its operating requirements.

Cash consists of moneys on deposit with the Bank of Canada, chartered banks and other financial institutions. Cash with the Bank of Canada includes operational balances and balances held for prudential liquidity. Periodic updates on the liquidity position are available in *The Fiscal Monitor* (www.fin.gc.ca/pub/fm-rf-index-eng.asp).

Prudential Liquidity

The Government holds liquid financial assets in the form of domestic cash deposits and foreign exchange reserves to safeguard its ability to meet payment obligations in situations where normal access to funding markets may be disrupted or delayed. The Government's overall liquidity levels cover at least one month of net projected cash flows, including coupon payments and debt refinancing needs.

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[5] SDRs are international reserve assets created by the IMF whose value is based on a basket of international currencies.