Investment Industry Association of Canada Association canadienne du commerce des valeurs mobilières

April 26, 2023

Nicolas Moreau
Associate Assistant Deputy Minister
Department of Finance

Dear Nicolas,

Re: Canada Debt Management Strategy

We are writing you on behalf of the Investment Industry Association of Canada (IIAC) and its members.

The IIAC is the national association representing investment firms that provide products and services to Canadian retail and institutional investors. The IIAC represents financial services firms, and registration categories, of every size and type, operating in Canadian and global capital markets. The IIAC represents members that manufacture and distribute a variety of securities including mutual funds and other managed equity and fixed income funds and provide a diverse array of portfolio management, advisory and non-advisory services. IIAC members trade in and equity on all marketplaces, provide carrying broker services and underwrite issuers in public and private markets.

The IIAC would like to express its concern with the Department of Finance over the methodology and communication regarding recent decisions to materially alter the debt issuance program. The IIAC understands that all decisions regarding the Government of Canada debt program are solely the responsibility of the Department of Finance. The IIAC also understands that the decisions undertaken by the DOF are made in an earnest attempt to create the most cost-effective debt program Possible. The IIAC 's concern is that these decisions are being made absent enough thought of how the down stream consequences will affect secondary market liquidity, specifically of legacy securities. Most recently there was the decision to terminate the issuance of Real Return Bonds on November 3, 2022. This decision has adversely impacted the market functioning and has resulted in additional unintended negative consequences for market participants and domestic and foreign investors.

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We look to offer suggestions that would make any further material changes to the debt framework in Canada be as smooth as possible, with the intended effect of limiting the creation of winners or losers during the change or the creation of unanticipated consequences that negatively affect market liquidity.

Unintended Consequences of the Cancellation of RRBs

The elimination of RRBs took place at a time of high inflation globally and in Canada which is a time when most investors have greater interest and need for inflation protection on their inflation related risk exposures. Unintended consequences of the cancellation of RRBs include:

- Illiquidity and market making concerns on legacy outstanding issues.
- Lack of inflation protection for certain domestic and international investors.
- Reputational risk to Canadian markets and investments held by international investors.
- Canada will now be the only G7 country that is not issuing inflation-linked bonds despite being an early adopter and trailblazer in the product space.

Recommendations for the Canada Debt Management Strategy Consultation Process

- A cost/benefit analysis should be done before any material change to debt issuance is contemplated.
- More fulsome consultations should occur with market stakeholders before major changes to debt issuance is undertaken.
- Consideration of the effect of a major debt issuance change on all domestic and foreign investor classes should explored in detail before a change is undertaken.
- It should be ensured that there are financial instruments available that fill the void created by a product termination when debt issuance change occurs.

The IIAC appreciates your consideration of our recommendations. Should the Department of Finance have any questions regarding this letter, please do not hesitate to contact us.

Sincerely,

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