Progressive Money Canada Transition Plan:

Empowering the Bank of Canada to create money for the public good



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Summary

The Progressive Money Canada 4-year Transition Plan (PMCTP) proposes amending the Bank of Canada Act by adding Section 18(l.21) to establish a segregated, two-tiered settlement balance framework that finances Parliament approved federal budget deficits directly through the Bank of Canada at zero interest expense while returning monetary policy to a traditional, scarce-reserve Corridor System.

By ring-fencing newly created Tier 1 settlement balances (0% interest) via ISO 20022 payment tags across Lynx and the Real-Time Rail, draining excess Tier 2 reserves from $70.9 billion down to $250 million through passive quantitative tightening, and maintaining a separate Primary Dealer Tranche to preserve a market-driven benchmark yield curve, the plan eliminates multi-billion-dollar floor-system interest payouts to commercial banks without disrupting financial markets.

Paired with strict statutory deficit ceilings and a Statistics Canada backed Profit Margin Monitor to track price-setter inflation, the PMCTP clears the Bank of Canada's $7,473 million equity deficiency in roughly 2.3 to 2.5 years and generates up to $28.50 billion in public-sector interest relief, equivalent to $28.50 billion in federal tax savings, including $9.48 billion to $10.71 billion in direct seigniorage remittances to the federal treasury, over its first four years.

Contents

1. Summary

2. Contents

4. **Progressive Money Canada Transition Plan: Empowering the Bank of Canada to create money for the public good**

5. **PMCTP Balance Sheet Sequence: Direct Deficit Financing (Bank of Canada Tranche)**

6. Step 1

7. Step 2a & 2b

8. Step 2c

9. Primary Market Tranche

10. Step 1

11. Step 2

12. Step 3

13. **The Corridor System and the Financial Crisis 2008-2009**

15. **The Floor System from Inception to Present-Day Interest Expense**

15. **Returning to the Corridor System**

16. In the pre-2020 LVTS/corridor framework, there was an important difference between LVTS direct participants and Primary Dealers

17. **When Payments Canada replaced LVTS with Lynx in August 2021:**

17. Primary Dealers and Non-Primary Dealers:

17. **Restart Quantitative Tightening (QT)**

18. Letting assets roll off:

18. Projected reduction in settlement balances to ~$250 million:

19. **Financial framework actions before and throughout the COVID-19 pandemic**

19. Chronological breakdown by institution: Bank of Canada (BoC)

20. Department of Finance Canada (DOFC)

20. Office of the Superintendent of Financial Institutions (OSFI)

21. Payments Canada

22. Two changes that strengthen the concept of the PMCTP proposal:

22. **Historical Precedent**

23. DMF in the United States

24. Current precedent for a two-tiered reserve system

24. **The Bank of Canada Act** (R.S.C., 1985, c. B-2) **and Revisions**

25. **Institutional & Regulatory Implementation**

Department of Finance Canada (DOFC) Coordination

Annual Allocation & Tranche Splitting

26. Consolidated Revenue Fund (CRF) Cash Management

26. **Members of Payments Canada Payments Adjustments (Tier 1-to-Tier 1 clearing rules)**

27. **OSFI (capital & liquidity treatment of Tier 1 vs. Tier 2)**

0% Risk Weighting for Both Tiers

Leverage Ratio Implications

28. Liquidity Adequacy Requirements (LAR & NSFR) - Guideline (2026)

Interest Rate Risk in the Banking Book (IRRBB)

Fiscal & Macroeconomic Impacts

Seigniorage (Recycling Interest Back to the Crown)

29. Crowding Out (Why the primary market tranche prevents it)

Foreign Investment & Credit Agencies (S&P, Moody's, Fitch, Morningstar DBRS)

32. **Under the PMCTP, profits increase as time goes forward**

Payoff Timeline Projections Assuming $62.5B/Year Deficit Purchases:

33. Federal tax savings

Reaching the end of the 4-year PMCTP

34. **Examining 7 economic and institutional reasons for not allowing direct monetary financing**

1. Preventing high inflation and currency debasement

36. **Profit Margin Monitor**

39. 2. Protecting the central bank's price-stability mandate

3. Maintaining fiscal discipline

40. 4. Preserving central bank independence and credibility

5. Ensuring fair market pricing of government debt

41. 6. Commercial Banks will claim they will be hurt by holding large amounts of Tier 1 settlement balances at 0% interest.

7. Acceptance by Central Bankers Internationally

42. **Conclusion**

Progressive Money Canada Transition Plan (PMCTP):

Empowering the Bank of Canada to create money for the public good

Progressive Money Canada proposes implementing a two-tiered settlement balance framework that would allow the Bank of Canada to create money to cover the federal government's annual budget deficit. The Federal Government's fiscal year runs from April 1 to March 31. No fixed statutory date or legal requirement governs when the annual federal budget and its projected deficit must be tabled. It is generally tabled in late autumn or early spring. The Parliamentary Financial Cycle: https://lop.parl.ca/en/researchpublications/202510e

The House of Commons Financial Procedures: https://www.ourcommons.ca/procedure/our-procedure/financialProcedures/c_g_financialprocedures-e.html

Once published, the Bank of Canada will have a rough idea of how much new money it will need to create throughout the year to cover budget shortfalls. For example, the Annual Federal Budget tabled on Nov. 5, 2026, projects a deficit of about $62.5 billion, or 1.8% of GDP, for the 2027-2028 fiscal year. The Government of Canada spreads its deficit requirements across the entire fiscal year through a predictable, recurring auction schedule managed by the Bank of Canada. Rather than issuing one lump sum to cover the $62.5 billion deficit, Ottawa raises funds regularly, typically weekly or bi-weekly, using a mix of short-term treasury bills and longer-term marketable bonds. Using simple math, divide $62.5 billion by 52 to find that approximately $1.2 billion would be created every week throughout the fiscal year. Budget in brief: https://budget.canada.ca/2026/report-rapport/brief-bref-en.html

Under the new two-tiered settlement balance framework, the Bank of Canada would create new money in exchange for newly issued government securities.

The following simplified balance sheets, beginning on the next page, illustrate how this works on the balance sheets of the Bank of Canada and a commercial bank

PMCTP Balance Sheet Sequence

Direct Deficit Financing (Bank of Canada Tranche)

Note on Sequencing: Each table below isolates one step of the accounting sequence, temporarily leaving the balance sheet out of balance to better illustrate the sequence for the layman. Full balance sheet equilibrium is restored at the end of each transaction. Newly added or shifted amounts are highlighted in green.

Commercial banks are restricted from acquiring GoC securities designated to cover the budget deficit with Tier 1 settlement balances.

The Bank of Canada holds $1,000 in Government Bonds and $1,000 in Tier 2 interest-bearing deposits

Simplified Bank of Canada balance sheet				**Simplified Commercial bank balance sheet**			
Assets	$	**Liabilities and equity**	$	**Assets**	$	**Liabilities and equity**	$
Government of Canada Bonds	1,000	Canadian dollar deposits		Cash and non-interest-bearing deposits with banks		Private deposits (M3)	1,000
Treasury bills		Government of Canada		Interest-bearing deposits with banks	1,000	Government of Canada deposits	
		Members of Payments Canada	1,000	Securities			

Step 1: The BoC acquires a $1,000.00 bond directly from the government.

Simplified Bank of Canada balance sheet				**Simplified Commercial bank balance sheet**			
Assets	$	**Liabilities and equity**	$	**Assets**	$	**Liabilities and equity**	$
Government of Canada Bonds	1,000 1,000	Canadian dollar deposits		Cash and non-interest-bearing deposits with banks		Private deposits (M3)	1,000
Treasury bills		Government of Canada		Interest-bearing deposits with banks	1,000	Government of Canada deposits	
		Members of Payments Canada	1,000	Securities			

Step 1a: The BoC deposits the newly created money into the Consolidated Revenue Fund. On the balance sheet, it appears under Liabilities and equity as Canadian dollar deposits, Government of Canada.

Simplified Bank of Canada balance sheet				**Simplified Commercial bank balance sheet**			
Assets	$	**Liabilities and equity**	$	**Assets**	$	**Liabilities and equity**	$
Government of Canada Bonds	1,000 1,000	Canadian dollar deposits		Cash and non-interest-bearing deposits with banks		Private deposits (M3)	1,000
Treasury bills		Government of Canada	1,000	Interest-bearing deposits with banks	1,000	Government of Canada deposits	
		Members of Payments Canada	1,000	Securities			

Step 2a:The government spends $1,000, leaves the Government of Canada account and it enters the banking system, becoming Tier 1 settlement balances with a 0% return.

Simplified Bank of Canada balance sheet				**Simplified Commercial bank balance sheet**			
Assets	$	**Liabilities and equity**	$	**Assets**	$	**Liabilities and equity**	$
Government of Canada Bonds	1,000 1,000	Canadian dollar deposits		Cash and non-interest-bearing deposits with banks		Private deposits (M3)	1,000
Treasury bills		Government of Canada		Interest-bearing deposits with banks	1,000	Government of Canada deposits	
		Members of Payments Canada	1,000 1,000	Securities			

Step 2b: Simultaneously, the commercial bank records $1,000 in Cash and non-interest-bearing deposits with banks (Tier 1)

Simplified Bank of Canada balance sheet				**Simplified Commercial bank balance sheet**			
Assets	$	**Liabilities and equity**	$	**Assets**	$	**Liabilities and equity**	$
Government of Canada Bonds	1,000 1,000	Canadian dollar deposits		Cash and non-interest-bearing deposits with banks	1,000	Private deposits (M3)	1,000
Treasury bills		Government of Canada		Interest-bearing deposits with banks	1,000	Government of Canada deposits	
		Members of Payments Canada	1,000 1,000	Securities			

Step 2c: After end-of-day settlement, the money is in private accounts where the public can spend it. This may be even faster with the implementation of the Real-Time-Rail payment system.

Simplified Bank of Canada balance sheet				**Simplified Commercial bank balance sheet**			
Assets	$	**Liabilities and equity**	$	**Assets**	$	**Liabilities and equity**	$
Government of Canada Bonds	1,000 1,000	Canadian dollar deposits		Cash and non-interest-bearing deposits with banks	1,000	Private deposits (M3)	1,000 1,000
Treasury bills		Government of Canada		Interest-bearing deposits with banks	1,000	Government of Canada deposits	
		Members of Payments Canada	1,000 1,000	Securities			

Primary Market Tranche

Commercial banks are restricted from acquiring GoC securities designated to cover the budget deficit using Tier 1 settlement balances. The Primary Market tranche uses Tier 2 settlement balances for Government of Canada securities and is open to bidding by primary dealers (commercial banks) to help fund CPP and OAS, separate from the Bank of Canada tranche.

Continuing from where we left off with the balance sheet position: $1,000 in Tier 1, 0% interest and $1,000 in Tier 2, interest-bearing settlement balances with Members of Payments Canada.

Simplified Bank of Canada balance sheet				**Simplified Commercial bank balance sheet**			
Assets	$	**Liabilities and equity**	$	**Assets**	$	**Liabilities and equity**	$
Government of Canada Bonds	1,000 1,000	Canadian dollar deposits		Cash and non-interest-bearing deposits with banks	1,000	Private deposits (M3)	1,000 1,000
Treasury bills		Government of Canada		Interest-bearing deposits with banks	1,000	Government of Canada deposits	
		Members of Payments Canada	1,000 1,000	Securities			

Step 1: A commercial bank acquires a GoC security, creating new money in the process and depositing it in the CRF (Canadian dollar deposits).

Simplified Bank of Canada balance sheet				**Simplified Commercial bank balance sheet**			
Assets	$	**Liabilities and equity**	$	**Assets**	$	**Liabilities and equity**	$
Government of Canada Bonds	1,000 1,000	Canadian dollar deposits		Cash and non-interest-bearing deposits with banks	1,000	Private deposits (M3)	1,000 1,000
Treasury bills		Government of Canada		Interest-bearing deposits with banks	1,000	Government of Canada deposits	1,000
		Members of Payments Canada	1,000 1,000	Securities	1,000		

Step 2: Intermediate Step - Government Transfers $1,000 to the Consolidated Revenue Fund.

The Bank of Canada sweeps its $1,000 deposit from the commercial bank into the Consolidated Revenue Fund at the BoC. Because Tier 1 balances cannot be used for the Private Market Tranche, the commercial bank settles the transfer using its existing $1,000 Tier 2 balance. The commercial Bank wipes out its $1,000 Government of Canada deposits liability and draws down its Interest-bearing deposits with banks (Tier 2) from $1,000 to $0. Tier 1 remains untouched at $1,000. The Bank of Canada shifts $1,000 from Members of Payments Canada (specifically the Tier 2 portion) to the Government of Canada (Consolidated Revenue Fund).

Simplified Bank of Canada balance sheet				**Simplified Commercial bank balance sheet**			
Assets	$	**Liabilities and equity**	$	**Assets**	$	**Liabilities and equity**	$
Government of Canada Bonds	1,000 1,000	Canadian dollar deposits		Cash and non-interest-bearing deposits with banks	1,000	Private deposits (M3)	1,000 1,000
Treasury bills		Government of Canada	1,000	Interest-bearing deposits with banks		Government of Canada deposits	
		Members of Payments Canada	1,000	Securities	1,000		

Step 3: Government Spends the $1,000 into the Economy

The Government of Canada disburses the $1,000 from the Consolidated Revenue Fund to recipients in the economy. The Bank of Canada moves the $1,000 liability back from the Government of Canada to Members of Payments Canada (restoring Tier 2 to $1,000, while Tier 1 remains $1,000). The commercial bank restores its Interest-bearing deposits with banks (Tier 2) to $1,000 and credits $1,000 to Private deposits (M3) (increasing total M3 from $2,000 to $3,000).

Simplified Bank of Canada balance sheet				**Simplified Commercial bank balance sheet**			
Assets	$	**Liabilities and equity**	$	**Assets**	$	**Liabilities and equity**	$
Government of Canada Bonds	1,000 1,000	Canadian dollar deposits		Cash and non-interest-bearing deposits with banks	1,000	Private deposits (M3)	1,000 1,000 1,000
Treasury bills		Government of Canada		Interest-bearing deposits with banks	1,000	Government of Canada deposits	
		Members of Payments Canada	1,000 1,000	Securities	1,000		

Members of Payments Canada on the BoC balance sheet

Some people may wonder why Tier 1 non-interest-bearing and Tier 2 interest-bearing settlement balances are not shown as subheadings under Members of Payments Canada on the BoC balance sheet. The BoC adheres to International Financial Reporting Standards (IFRS) under the PMCTP model. When the government spends newly created funds into the banking system, those funds enter the commercial banks' existing settlement accounts at the BoC.

Even if the BoC's internal ledger applies a 0% interest rate in Tier 1 and a positive rate in Tier 2, both tiers represent the same legal demand-deposit liability to the same counterparty. Under IFRS, splitting a single deposit account into two separate balance sheet lines solely based on an administrative interest-rate threshold is not required (IAS 1 and IFRS 9).

Instead, IFRS 7 (Financial Instruments: Disclosures) provides transparency between the two tiers through the accompanying Notes to the Financial Statements.
It would be a footnote on the BoC balance sheet.

The Primary Market tranche uses Tier 2 settlement balances for Government of Canada securities and is open to bidding by primary dealers (commercial banks) to help fund CPP and OAS, separate from the Bank of Canada tranche.

By splitting the weekly/bi-weekly issuance of GoC securities funding for deficit financing through the Tier 1 settlement balances, which would average around $1.2 billion per week based on budget projections (2027/2028), and by creating a primary dealer tranche in which the Department of Finance Canada issues a separate, dedicated tranche of marketable Government of Canada bonds/T-bills into the primary market, only primary dealers (commercial banks) and institutional participants bid on this tranche.

This action preserves the supply and demand price dynamic because the BoC absorbs the federal deficit tranche directly without bidding against private buyers, direct monetary financing could otherwise remove the benchmark yield curve that financial markets rely on to price risk, mortgages, and corporate debt.

Unlike the BoC tranche, which creates new Tier 1 settlement balances, primary dealers pay for the market tranche using settlement balances held at the BoC, thereby moving funds from commercial banks' settlement accounts back to the Government of Canada's Consolidated Revenue Fund. By competitively auctioning a separate tranche to primary dealers, supply and demand determine clearing yields across maturities, keeping a functioning, market-driven risk-free yield curve intact. Once the government disburses those funds, they re-enter the banking system, maintaining equilibrium without expanding the Tier 1 monetary base beyond the targeted deficit allocation.

Old Age Security (OAS) is a statutory expenditure paid directly from the Consolidated Revenue Fund (rather than a separate investment fund). Proceeds from the primary dealer tranche flow into the Consolidated Revenue Fund to help finance non-deficit or dedicated pension outlays without expanding direct money creation.

Canada Pension Plan (CPP) is funded by worker/employer payroll contributions and invests in assets, including Government of Canada bonds, to generate returns for future payouts. A liquid, competitively bid primary-dealer tranche provides both the safe sovereign debt supply and the market-determined yields that pension funds like CPP need for portfolio matching and fixed-income returns.

The Corridor System and the Financial Crisis 2008-2009

The Bank of Canada first implemented its interest rate corridor system on February 4, 1999**,** coinciding with the launch of the Large Value Transfer System (LVTS). The corridor system era (1999–2019, 21 years) averaged ~$350 million per year. Under the corridor framework, the Bank actively drained or injected cash daily to keep aggregate settlement balances near zero, typically targeting $25 million to $250 million, with a single temporary spike to $3.0 billion during the 2009–2010 global financial crisis, when the BoC temporarily employed the present-day (crisis floor) system.

The Bank of Canada's temporary crisis floor system lasted a little over a year from April 21, 2009, until June 1, 2010, followed by a two-week wind-down completed on June 16, 2010 (421 days total). Interest costs on Settlement Balances earning 0.25% over the 406-day window (excluding the two-week wind-down) totalled $8.3 million, a tiny fraction of the Bank's total interest expense at the time. Despite rapid policy rate cuts during the 2008–2009 global financial crisis, total interest expense hit a decade high of $136.1 million in 2008 and remained elevated at $109.0 million in 2009 because the Bank held substantially larger deposit liabilities to provide emergency liquidity to the financial system.

The dynamic during the financial crisis differed in that the BoC provided temporary liquidity through purchase and resale agreements. Unlike the US Federal Reserve, which purchased distressed mortgage-backed securities outright under TARP and QE1. The Bank of Canada primarily injected liquidity during 2008–2009 through term purchase and resale agreements (PRAs). Essentially, it collateralized short-term loans rather than making permanent, outright purchases of toxic assets.

Because Canadian banks remained solvent and repaid every dollar with interest, the federal government and the Bank of Canada actually earned net profits on these liquidity facilities, allowing officials to frame the measures as routine market stabilization rather than a "bailout." This contrasts with a 2012 study by the Canadian Centre for Policy Alternatives (CCPA) that compiled data from the Bank of Canada, CMHC, and the U.S. Federal Reserve and showed that, at their peak in early 2009, Canada's major banks received roughly $114 billion in combined extraordinary liquidity support.
https://www.policyalternatives.ca/news-research/the-big-banks-big-secret/

The "Bailout" vs. "Liquidity Support" semantics: When the CCPA report was released in April 2012, major outlets (including The Globe and Mail, Financial Post, and CBC) did cover it, though often through a skeptical lens or with pushback from bank economists and the Department of Finance. Mainstream financial reporters largely accepted the government's framing that a "bailout" requires a taxpayer subsidy, an equity injection into an insolvent institution, or a net fiscal loss—whereas Canada's programs were collateralized loans and mortgage purchases that generated a net profit for Ottawa.

Because of the lack of a public disclosure requirement, unlike the U.S. Federal Reserve, which was forced by Congress under the Dodd-Frank Act and Freedom of Information lawsuits to publish bank by bank borrowing records. The Bank of Canada and CMHC did not publish institution level breakdowns. Without individual bank names or dramatic insolvency hearings, the story lacked the visual drama of the U.S. crisis.

In 2012, Confirmation bias around the "Soundest Banks" narrative that Canada's regulatory framework had spared the country from the worst of the global crisis was deeply entrenched across both political parties, Bay Street, and international commentary (such as praise from The Economist and Newsweek).

This narrative helped to keep seller's inflation (Price Setters) at bay. The mild increase in inflation in 2008 was mainly driven by profit gains in industries tied to global commodity and housing booms—specifically finance/insurance (27% margin in 2007), real estate (20%), mining (18%), and oil and gas (17%). Inflation rates in 2007 were 2.1%, 2008 were 2.4%, and 2009 were 0.3%, with an average of about 1.75% over the 11-year period between 2005 and 2015.

From the inception of the corridor system in February 1999 until the transition to the floor system in March 2020, the Bank of Canada's average annual interest expense was approximately $119.9 million across the 20 full calendar years from 2000 to 2019, for a total of $2.398 billion.

The Floor System from Inception to Present-Day Interest Expense

From the inception of the floor system in 2020 through Q3 2026, the Bank of Canada's total interest expense reached $25.35 billion, or an annualized average of $3.76 billion per year over the 6.75-year span. **Looking strictly at the six completed calendar years (2020-2025), the average annual interest expense was $4.00 billion more than 33 times higher than the $119.9 million annual average during the (2000-2019 corridor era).**

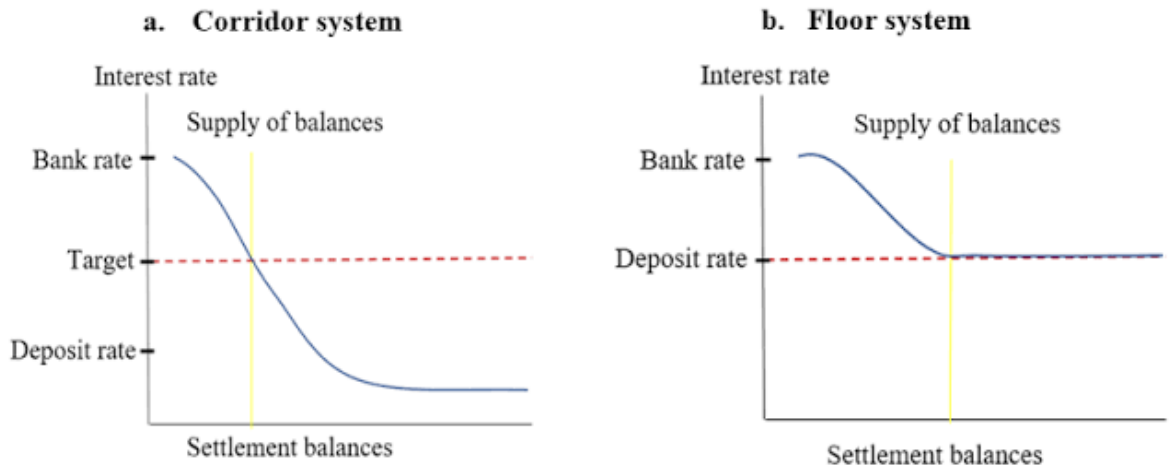
Bank of Canada Annual and Quarterly Reports https://www.bankofcanada.ca/publications/annual-reports-quarterly-financial-reports/?content_type%5B%5D=19359

Returning to the Corridor System

The PMCTP would return monetary policy operations to a traditional corridor system while keeping direct fiscal financing strictly segregated. Under this hybrid framework, the Bank of Canada would maintain a narrow, tightly managed pool of Tier 2 settlement balances (e.g., targeting $250 million across the system, as it did from 2011 to 2019) to govern daily interbank clearing and maintain the overnight policy rate. Whenever a commercial bank faces an end-of-day clearing shortfall in Tier 2, it would be required to pledge eligible collateral to the Bank of Canada in exchange for a short-term loan, creating temporary Tier 2 liquidity that is extinguished upon repayment.

Meanwhile, all Tier 1 settlement balances created through direct deficit financing would remain ring-fenced at 0% interest. To prevent Tier 1 liquidity from spilling over into Tier 2 and recreating an excess-reserve floor system, interbank transfers originating from Tier 1 balances would settle strictly on a Tier 1-to-Tier 1 basis across commercial bank

ledgers at the Bank of Canada. By keeping Tier 1 segregated and Tier 2 scarce, the Bank of Canada retains full operational control over overnight liquidity through collateralized lending while eliminating unnecessary multi-billion-dollar interest payments to commercial banks.



The Bank rate is the amount of interest charged by the BoC for short-term loans issued to commercial banks through the Standing Liquidity Facility (SLF). The deposit rate is the return commercial banks get on overnight deposits held at the BoC.

In the pre-2020 LVTS/corridor framework, there was an important difference between LVTS direct participants and Primary Dealers:

The Bank Rate is the interest rate the Bank of Canada charges on overnight, fully collateralized loans issued through the Standing Liquidity Facility (SLF). Access to the SLF was strictly limited to direct participants in Payments Canada's Large Value Transfer System (LVTS), primarily major commercial banks, to cover negative end-of-day settlement balances.

Primary Dealers (a group of banks and investment dealers) act as market-makers and counterparties for the Bank of Canada's open market operations, such as Special Purchase and Resale Agreements (SPRAs) and Sale and Repurchase Agreements (SRAs), as well as Government of Canada securities auctions.

While the major Canadian commercial banks held both roles, serving as both LVTS direct participants and Primary Dealers, non-bank investment dealers could be Primary Dealers without having direct LVTS settlement accounts or access to overnight SLF loans at the Bank Rate.

In short, the Bank Rate was the ceiling rate charged to LVTS direct participants for end-of-day overnight liquidity loans, while Primary Dealers were the counterparties used to conduct intraday repo operations (SPRAs/SRAs) aimed at keeping the market rate near the middle of the corridor. Canada's high-value payment system https://www.payments.ca/systems-services/payment-systems/high-value-payment-system-lynx

When Payments Canada replaced LVTS with Lynx in August 2021:

The settlement model shifted from end-of-day multilateral netting to Real-Time Gross Settlement (RTGS). Under LVTS, strict risk-sharing rules limited who could join directly, including restrictions on affiliates. Because Lynx uses an RTGS model where every payment is backed 1:1 by liquidity, Payments Canada opened direct participation to a wider range of eligible members.

Standing Liquidity Facility (SLF) access to Lynx direct participants still hold settlement accounts at the Bank of Canada and automatically receive collateralized intraday and overnight advances via the Standing Liquidity Facility at the Bank Rate (policy rate + 25 bps) if they end the day short.

Explicit "No-Stigma" Policy (September 2026): In September 2026, the Bank of Canada and OSFI issued a joint statement clarifying that overnight SLF draws by Lynx participants are a routine, non-discretionary part of daily liquidity management rather than a sign of financial stress.

Deposit Rate Shift: Instead of earning 25 bps below the target rate on excess balances (as in the old corridor), Lynx participants currently earn the Deposit Rate at the bottom of a narrower operating band (historically set at the target rate, or 5 bps below target under recent floor adjustments).

Primary Dealers and Non-Primary Dealers:

Primary Dealers remain the Bank of Canada's primary counterparties in the bond and repo markets, rather than payment-system settlers, and their toolset has expanded:

Overnight Standing Repo Facility: Primary Dealers now have access to their own dedicated ceiling backstop, the Overnight Standing Repo Facility, which allows them to borrow cash overnight from the Bank of Canada at the Bank Rate against Government of Canada collateral, independent of Lynx settlement accounts.

Updated Repo & Securities Lending Tools: The Bank replaced its legacy SPRA/SRA terminology with Overnight Repo (OR) and Overnight Reverse Repo (ORR) operations to keep the Canadian Overnight Repo Rate Average (CORRA) aligned with the policy rate, alongside a revamped Securities Lending Program (SLP).

Expansion Beyond Primary Dealers (October 2026): Effective October 30, 2026, the Bank of Canada expanded eligibility so that non-Primary Dealer Government Securities Distributors (GSDs) can also participate in select market operations (subject to lower limits and tri-party collateral platform membership).

Restart Quantitative Tightening (QT)

Under the PMCTP, and in coordination with restoring the Corridor system, QT is to be restarted until it reaches pre-COVID-19 (2020) levels of ~$250 million in Tier 2 settlement balances. Enough to ensure overnight settlement, backed by the BoC. The

Bank of Canada (BoC) would restart quantitative tightening (QT) primarily by stopping the replacement of maturing assets on its balance sheet, shrinking its balance sheet and draining settlement balances (if the PMCTP was adopted, Tier 2 settlement balances would decrease).

Letting assets roll off:

As Government of Canada (GoC) bonds, treasury bills, or term repos mature, the BoC simply collects the cash and does not reinvest in new securities. This is the standard method the BoC used from April 2022 to early 2025. In theory, the BoC could also sell securities in the secondary market to shrink its balance sheet faster. However, this would contradict the PMCTP. As assets mature without replacement, settlement balances held by Lynx participants (major banks) decline toward the BoC's estimated operating and precautionary floor as it transitions back to the corridor system.

The BoC would then provide robust overnight liquidity, eliminating the need for a settlement-balance floor in the current system. However, this would be coordinated with the transition back to the corridor system.

Projected reduction in settlement balances to ~$250 million:

To reduce settlement balances from $70.9 billion as of November 18, 2026, back to the pre-2020 target of $250 million, a total drain of $70.65 billion would take roughly 12 to 18 months if the Bank of Canada (BoC) halted all replacement operations.

Bank of Canada Balance Sheet & QT Drain Schedule (Nov 2026)

Asset / Operation Category	Current Balance	Maturity Schedule	Cumulative Drain Potential
Term & Overnight Repos Securities purchased under resale agreements	$52.75B	1 to 3 months (through Feb 2027)	$52.75B within 3 months
GoC Treasury Bills	$4.67B	Under 1 year (Dec 2026 – Nov 2027)	$57.42B within 12 months
GoC Bonds (≤ 3 years)	$34.66B	0 to 3 years (through late 2029)	$92.08B within 3 years
GoC Bonds (3 to 5 years)	$42.97B	3 to 5 years (2029 – 2031)	$135.05B within 5 years
GoC Bonds (> 5 years), RRBs & CMBs	$68.07B	5 to 38 years (through Dec 2064)	$203.12B at full maturity

Bank of Canada holdings https://www.bankofcanada.ca/markets/government-securities-auctions/bank-of-canada-holdings/

Financial framework actions before and throughout the COVID-19 pandemic

Rather than go into detail, I will list the important changes to our financial system over the last few years to emphasize that it is under constant revision, and we seem unable to secure a permanent financial framework. The PMCTP would be just another adjustment, only it would benefit the general public rather than financial institutions.

Chronological breakdown by institution:

Bank of Canada (BoC)

Pre-Pandemic (1999-February 2020): Corridor System Framework: Operated an interest rate corridor tied to the Large Value Transfer System (LVTS) since February 1999, actively draining or injecting liquidity daily to keep aggregate settlement balances near zero to $250 million.

Temporary Crisis Floor (April 2009-June 2010): Temporarily suspended the corridor during the Global Financial Crisis before returning to corridor operations in June 2010.

Pandemic Response (March 2020-2021): Permanent Shift to the Floor System: Abandoned corridor targeting in March 2020 as large-scale asset purchases flooded the banking system with excess settlement balances, paying the target policy rate on all settlement deposits.

Emergency Liquidity & Purchase Facilities (March 2020-2021): Launched unprecedented secondary and primary market programs under Section 18 of the Bank of Canada Act, including the Government of Canada Bond Purchase Program (GBPP), Provincial Bond Purchase Program (PBPP), Corporate Bond Purchase Program (CBPP), Commercial Paper Purchase Program (CPPP), Bankers' Acceptance Purchase Facility (BAPF), Provincial Money Market Purchase Program (PMMP), and Standing Term Liquidity Facility (STLF).

Collateral Expansion(2020): Expanded eligible collateral for Term Repo operations and raised the Standing Liquidity Facility (SLF) non-mortgage loan collateral pledge limit to 100%. Financial System Review 2020: https://www.bankofcanada.ca/2020/05/financial-system-review-2020/

Quantitative Tightening (QT) & Permanent Floor Retention (April 2022): Ended asset reinvestment and began balance sheet runoff, while officially announcing that the floor system would remain permanent rather than returning to a corridor system.

Deposit Rate Spread Adjustment (2025): Adjusted the settlement deposit rate to sit slightly below the overnight policy target rate (e.g., 5 bps lower) to encourage interbank market activity while maintaining the floor structure. Framework for market operations and liquidity provision: https://www.bankofcanada.ca/markets/market-operations-liquidity-provision/framework-market-operations-liquidity-provision/

Department of Finance Canada (DOFC)

Pre-Pandemic (2017–February 2020): Borrowing Authority Act (BAA) Reinstatement

(2017): Re-enacted statutory parliamentary caps on total federal debt issuance, requiring formal parliamentary approval to raise borrowing ceilings.

Pandemic Response (2020–2021): COVID-19 Emergency Response Act (March 2020): Amended the Financial Administration Act (FAA) and the Borrowing Authority Act (BAA) to grant the Minister of Finance extraordinary borrowing authority without prior parliamentary limits to fund emergency fiscal programs (e.g., CERB, CEWS). Insured Mortgage Purchase Program (IMPP) & BCAP: Expanded the IMPP through CMHC up to $150 billion and launched the Business Credit Availability Program (BCAP) through BDC and EDC. Debt Issuance Restructuring: Sharply pivoted federal debt issuance toward short-term Treasury bills initially, followed by massive long-term bond issuance to lock in low yields. Borrowing Authority: https://www.ourcommons.ca/procedure-and-practice-4/ch18-6-e.html

Post-Pandemic (2022–2026): BAA & FAA Amendments (June 2022): Folded extraordinary pandemic borrowings (undertaken between March and May 2021) back into regular statutory debt limits under Section 4 of the BAA, setting a $1,831 billion maximum borrowing ceiling.

Canadian Payments Act Modernization (2024–2026): Passed legislative amendments expanding Payments Canada membership eligibility to payment service providers (PSPs), credit union centrals, and clearing houses to support Real-Time Rail (RTR) competition.

OSFI Mandate Expansion (Budget 2026): Proposed legislative amendments to the Office of the Superintendent of Financial Institutions Act adding a secondary mandate to promote banking competition alongside prudential safety. Borrowing Authority Act - Report to Parliament 2024: https://www.canada.ca/en/department-finance/services/publications/borrowing-authority-act/2024.html

Office of the Superintendent of Financial Institutions (OSFI)

Pre-Pandemic (2018–February 2020): Domestic Stability Buffer (DSB) Increases, progressively raised the DSB for Domestic Systemically Important Banks (D-SIBs) up to 2.25% of risk-weighted assets by late 2019 to build countercyclical capital cushions.

Pandemic Response (March 2020–2021): DSB Cut & Distribution Freeze (March 2020): Slashed the DSB from 2.25% to 1.00%, unlocking roughly $300 billion in lending capacity, while prohibiting banks from increasing dividends or executing share buybacks.

Leverage Ratio Exclusions (April 2020): Temporarily excluded central bank reserves (Settlement balances) and sovereign-issued High-Quality Liquid Assets (HQLA) from banks' Leverage Ratio exposure calculations so surging Bank of Canada settlement

balances would not penalize bank capital ratios. This is important to the promotion of the PMCTP and its two-tier settlement balance proposal. OSFI adjusts temporary exclusions from leverage ratio exposure measures; to take effect at end of 2021: https://www.osfi-bsif.gc.ca/en/news/osfi-adjusts-temporary-exclusions-leverage-ratio-exposure-measures-take-effect-end-2021

Capital Floor & Deferral Relief: Lowered the Internal Ratings-Based (IRB, where commercial banks themselves determine their own risk) capital floor factor from 75% to 70% and allowed loans under COVID-19 payment deferrals to avoid non-performing status.

Post-Pandemic (2021–2026): Unwind of Pandemic Relief (2021–2023): Lifted the dividend/buyback freeze (late 2021), restored sovereign HQLA to the leverage ratio (January 2022), and ended the central bank reserve exclusion from the leverage ratio effective April 1, 2023.

DSB Increases & Basel III Reforms (2023–2024): Raised the DSB range ceiling and increased the buffer to 3.5% while implementing final Basel III capital and liquidity reforms.

Competitive Prudential Initiative (November 2026): Lowered capital intensity for small and medium-sized banks (SMSBs) across residential mortgages and business lending, and revised covered bond limits to boost banking competition.

Payments Canada

Pre-Pandemic (2016–February 2020): Modernization roadmap launch initiated the multi-year program to replace the legacy Large Value Transfer System (LVTS) with Lynx, upgrade the Automated Clearing Settlement System (ACSS), and build the Real-Time Rail (RTR).

Pandemic Response (2020–2021): Emergency ACSS & LVTS Rule Adjustments: Temporarily relaxed physical paper/cheque exchange rules, extended clearing windows, and enabled remote contingency operations to handle massive federal benefit disbursements (CERB/CEWS) and surging settlement volumes.

Launch of Lynx (August–September 2021): Retired the 22-year-old LVTS and transitioned Canada's high-value wholesale payment system to Lynx, introducing enhanced risk controls and intraday liquidity mechanics.

Post-Pandemic (2023–2026): ISO 20022 Migration & SWIFT MT Retirement (2023–2025) mandated ISO 20022 rich-data messaging across Lynx and retired legacy SWIFT MT message formats in November 2025.

Monetary Policy Alignment Rules (November 2025): Updated ACSS Rule J10 and Lynx Rule 14 to align clearing interest calculations with the Bank of Canada's floor-system deposit rate spread.

Real-Time Rail (RTR) Launch & Compliance Overhaul (2026): Launched Canada's 24/7/365 Real-Time Rail (RTR) payment system, updated ACSS rules to phase out

paper pre-authorized debits (July 2026), and amended By-law No. 6 RTR
https://www.payments.ca/systems-services/rules-documentation

Compliance in November 2026 to quadruple maximum contravention penalties from $250,000 to $1,000,000 across Lynx, ACSS, and RTR.

Two changes that strengthen the concept of the PMCTP proposal:

1. OSFI's April 2020 Leverage Ratio Precedent: OSFI already proved in April 2020 that it can legally exclude central bank reserves from bank leverage ratios, which gives the PMCTP a direct regulatory precedent for how OSFI would accommodate growing Tier 1 balances under the PMCTP.

OSFI Announces Continued Regulatory Flexibility Measures In Response To COVID-19: https://www.legal500.com/intelligence/canada/finance-and-banking/osfi-announces-continued-regulatory-flexibility-measures-in-response-to-covid-19

2. Payments Canada's ISO 20022 & RTR Rollout: Because Lynx and the Real-Time Rail (RTR) now natively run on rich ISO 20022 data standards, tagging government disbursements for Tier 1-to-Tier 1 settlement requires a rule/metadata update rather than building new payment rails from scratch.

Payments Canada: https://www.payments.ca/payments-canada-updates-its-compliance-law-support-secure-payment-ecosystem

Historical Precedent

The Bank of Canada played a key role in financing various projects, including World War II (1939-1945), the Trans-Canada Highway (1949), the St. Lawrence Seaway (1954-1959), Healthcare (1960s), Hospitals (1960s), Universities (1960-1970), and Education (1960-1970). Josh Ryan Collins wrote a paper titled, "Breaking the taboo: a history of monetary financing Canada, 1930-1975." Published in August 2017.
https://onlinelibrary.wiley.com/doi/abs/10.1111/1468-4446.12278

In his abstract, he wrote:

Monetary financing – the funding of state expenditure via the creation of new money rather than through taxation or borrowing – has become a taboo policy instrument in advanced economies. It is generally associated with dangerously high inflation and/or war. Relatedly, a key institutional feature of modern independent central banks is that they are not obligated to support government expenditure via money creation. Since the financial crisis of 2007–2008, however, unorthodox monetary policies, in particular quantitative easing, coupled with stagnant growth and high levels of public and private debt have led to questions

over the monetary financing taboo. Debates on the topic have so far been mainly theoretical with little attention to the social and political dynamics of historical instances of monetary financing. This paper analyses one of the most significant twentieth-century cases: Canada from the period after the Great Depression up until the monetarist revolution of the 1970s. The period was a successful one for the Canadian economy, with high growth and employment and manageable inflation. It offers some interesting insights into the relationship between states and central banks and present-day discussions around the governance of money creation.

DMF in the United States

In the past, the United States also employed direct monetary financing without incident. Kenneth D. Garbade https://www.newyorkfed.org/newsevents/news/aboutthefed/2000/oa000920

Published: Direct Purchases of U.S. Treasury Securities by Federal Reserve Banks in August of 2014. https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr684.pdf

In his abstract, he wrote:

Until 1935, Federal Reserve Banks from time to time purchased short-term securities directly from the United States Treasury to facilitate Treasury cash management operations. The authority to undertake such purchases provided a robust safety net that ensured Treasury could meet its obligations even in the event of an unforeseen depletion of its cash balances. Congress prohibited direct purchases in 1935, but subsequently provided a limited wartime exemption in 1942. The exemption was renewed from time to time following the conclusion of the war but ultimately was allowed to expire in 1981. This paper addresses three questions: 1) Why did Congress prohibit direct purchases in 1935 after they had been utilized without incident for eighteen years, 2) why did Congress provide a limited exemption in 1942 instead of simply removing the prohibition, and 3) why did Congress allow the exemption to expire in 1981?

Current precedent for a two-tiered reserve system

European Central Bank, Swiss National Bank, Central Bank of Iceland, and the Sveriges Riksbank.

The European Central Bank, Swiss National Bank, Central Bank of Iceland, and the Sveriges Riksbank all have two-tiered reserve banking systems. They are currently prohibited by law from financing government expenditure. For example, under Article 11, Paragraph 2 of the National Bank Act (NBA), the SNB cannot grant loans or overdraft facilities to the Swiss Confederation, nor can it purchase newly issued government bonds.

SNB, Federal Act on the Swiss National Bank: https://www.fedlex.admin.ch/eli/cc/2004/221/en#art_11

However, from the early 1960s until the 1990s, the Icelandic Treasury could borrow from the Central Bank of Iceland with few restrictions. An unsupported reason and conservative talking point is that, because the Treasury had unrestricted access to borrowing, monetary instruments like reserve requirements and lending controls were often ineffective at curbing inflation or credit growth. Inflation occurs whether the Treasury has direct monetary financing or not, and it happens with or without reserve requirements. For example, the BoC reduced reserve requirements to zero over a two-year period from 1992 to 1994. During the COVID-19 crisis, annual average inflation was 0.7% in 2020, rising to a peak of 8.1% in June 2022.

The Bank of Canada Act (R.S.C., 1985, c. B-2) and Revisions

The BoC Act permits direct purchases of Government of Canada securities under Powers and Business:

Section 18(c). The Bank may buy and sell securities issued or guaranteed by Canada or any province;

18(i) make loans or advances for periods not exceeding six months to the Government of Canada or the government of a province on taking security in readily marketable securities issued or guaranteed by Canada or any province;

18(j) make loans to the Government of Canada or the government of any province, but such loans outstanding at any one time shall not, in the case of the Government of Canada, exceed one-third of the estimated revenue of the Government of Canada for its fiscal year, and shall not, in the case of a provincial government, exceed one-fourth of that government's estimated revenue for its fiscal year, and such loans shall be repaid before the end of the first quarter after the end of the fiscal year of the government that has contracted the loan;

18(l) accept deposits from the Government of Canada and pay interest on those deposits; (this applies to the Consolidated Revenue Fund located on the BoC balance sheet under Liabilities and equity/ Canadian dollar deposits/ Government of Canada)

18(l.1) accept deposits from any bank, authorized foreign bank that is not subject to the restrictions and requirements referred to in subsection 524(2) of the Bank Act or other member of the Canadian Payments Association;

18(l.2) pay interest on the deposits referred to in paragraph (l.1) if the money deposited is to be used for the purpose of making loans or advances referred to in paragraph (h);

PMCTP suggests codifying the two-tiered settlement balance framework while leaving existing subsections 18(l.2) and 18(l.3) intact, Parliament would insert a new paragraph 18(l.21) into the Bank of Canada Act:

18(l.21) establish two segregated settlement deposit tranches for deposits accepted under paragraph (l.1):

• (i) Tier 1 deposits, originating from direct Bank purchases of Government of Canada securities under paragraph (c) to fund parliamentary appropriations, which shall bear zero percent (0%) interest and settle strictly on a Tier 1-to-Tier 1 basis between members of the Canadian Payments Association; and

• (ii) Tier 2 deposits, maintained for daily payment clearing and overnight monetary policy operations, on which the Bank may pay interest at its target deposit rate;

Bank of Canada Act, Powers and business, section 18 https://laws-lois.justice.gc.ca/eng/acts/B-2/section-18.html

Institutional & Regulatory Implementation

Department of Finance Canada (DOFC) Coordination

Under the PMCTP, the Department of Finance Canada (DOFC) coordinates by splitting federal borrowing into two issuance tranches: one issued directly to the Bank of Canada for the approved deficit and the other auctioned competitively to primary dealers, while managing cash flows through the Consolidated Revenue Fund.

Annual Allocation & Tranche Splitting

After tabling the Annual Federal Budget, the DOFC and the Bank of Canada set the exact ceiling for direct monetary financing based on the projected budget deficit approved by Parliament (e.g., $62.5 billion for 2027–2028). https://budget.canada.ca/2026/report-rapport/brief-bref-en.html

Segregating debt issuance as the fiscal agent for the government, the Bank of Canada manages a recurring (weekly or bi-weekly) auction schedule on behalf of the DOFC, dividing newly issued Treasury bills and marketable bonds into two streams:

In the BoC Tranche, the BoC will deposit newly created money into the CRF in exchange for newly issued Government of Canada securities. Averaging ~$1.2 billion weekly in the above example. When the government spends this newly created money, it enters the banking system through Tier 1 settlement balances.

The Primary Dealer Tranche is a separate, competitively auctioned tranche sold to commercial banks and institutional investors to maintain a market-driven benchmark yield curve and help fund statutory obligations like OAS, without expanding Tier 1 money supply.

Consolidated Revenue Fund (CRF) Cash Management

The DOFC coordinates daily cash sweeps into the Consolidated Revenue Fund at the Bank of Canada. Direct tranche proceeds are credited directly to the CRF, whereas Primary Dealer tranche proceeds are swept from commercial banks' Tier 2 settlement accounts into the CRF. When the DOFC disburses funds for parliamentary appropriations, the Bank of Canada routes direct-tranche spending into Tier 1 settlement accounts (0% interest, strictly segregated) while routing primary-tranche spending back into Tier 2 accounts to preserve corridor liquidity equilibrium.

Under the PMCTP framework, the Bank of Canada is strictly bound by the Parliament approved deficit ceiling. If federal spending exceeds projections mid-year, the DOFC cannot simply demand extra Tier 1 money creation. It must either secure a supplementary parliamentary appropriation or issue additional debt through the competitive Primary Dealer Tranche. As bonds and T-bills held in the Bank of Canada's direct tranche mature, the DOFC and BoC coordinate seamless rollovers rather than paying down principal. While the DOFC continues to pay interest on those securities to cover BoC operating expenses, the Bank remits excess interest back to the Receiver General (DOFC) as seigniorage.

Members of Payments Canada Payments Adjustments (Tier 1-to-Tier 1 clearing rules)

Payments Canada would adjust its clearing systems by tagging Tier 1 funds at the point of government disbursement and enforcing strict ledger segregation across Lynx and the Real-Time Rail (RTR) so that zero-interest settlement balances never mix with interest-bearing Tier 2 reserves.

While the Bank of Canada reports a combined total for "Members of Payments Canada" on its public balance sheet under IFRS, Payments Canada’s clearing engines (Lynx for high-value wires and RTR for retail/instant payments) would track two distinct sub-ledgers for each direct clearer: Tier 1 (0% interest) and Tier 2 (policy-rate interest).

When the Government of Canada disburses funds from the Consolidated Revenue Fund (CRF) via the Receiver General, payment messages using ISO 20022 data fields carry a Tier 1 liquidity tag. As those funds move from Bank A to Bank B, whether

through batch retail clearing (ACSS), instant retail transfers (RTR), or wholesale settlement (Lynx). The payment message forces settlement exclusively against the banks' Tier 1 sub-ledgers. https://www.payments.ca/payment-resources/iso-20022

To prevent Tier spillover, Payments Canada bylaws and clearing rules would prohibit commercial banks from sweeping or converting Tier 1 balances into Tier 2 balances. If a customer at Bank A transfers $1,000 of Tier 1 originated deposits to a customer at Bank B, Bank A's Tier 1 account at the BoC decreases by $1,000 and Bank B's Tier 1 account increases by $1,000.

To protect the Corridor System, because Tier 1 balances cannot cross into Tier 2, Tier 2 remains scarce (e.g., $250 million system-wide). Any interbank clearing shortfall in Tier 2, such as settlements tied to private market transactions or the Primary Dealer tranche, still forces banks to borrow from the BoC against eligible collateral at the bank rate, preserving the BoC's overnight interest rate corridor.

When businesses or citizens pay federal taxes to the Government (Receiver General), Payments Canada rules would prioritize debiting commercial banks' Tier 1 balances first, transferring the funds back to the Consolidated Revenue Fund and reducing aggregate Tier 1 supply. Payments Canada rules would also block Tier 1 balances from being used to settle Primary Dealer tranche auctions, ensuring banks must use Tier 2 liquidity when buying marketable GoC securities.

OSFI (capital & liquidity treatment of Tier 1 vs. Tier 2)

Under the PMCTP, the Office of the Superintendent of Financial Institutions (OSFI) would treat both Tier 1 and Tier 2 settlement balances identically as zero-risk sovereign assets for capital and liquidity ratios, while updating its guidelines to reflect that Tier 1 balances are restricted to payment clearing and cannot be used to settle primary-market government bond purchases.

Capital Adequacy Requirements (CAR) (2028) – Chapter 1 – Overview of Risk-based Capital Requirements https://www.osfi-bsif.gc.ca/en/guidance/guidance-library/capital-adequacy-requirements-car-2028-chapter-1-overview-risk-based-capital-requirements

0% Risk Weighting for Both Tiers

Under OSFI's Capital Adequacy Requirements (CAR), claims on the Bank of Canada carry a 0% credit risk weight. Because both Tier 1 (0% interest) and Tier 2 (policy-rate interest) represent direct demand-deposit liabilities of the Bank of Canada, neither tier requires banks to hold risk-weighted capital against default.

Leverage Ratio Implications

Under OSFI's Leverage Requirements Guideline https://www.osfi-bsif.gc.ca/en/guidance/guidance-library/leverage-requirements-guideline-2023, central bank reserves (Tier 1 and Tier 2 settlement balances) normally count toward a bank's total exposure measure unless explicitly exempted. During the 2020-2021 QE expansion, OSFI temporarily excluded central

bank reserves from the leverage ratio to prevent balance-sheet penalties from constricting credit. Under PMCTP, as Tier 1 balances grow cumulatively from annual deficits, OSFI would either maintain standard leverage calculations (encouraging banks to deploy private credit productively) or establish a dedicated Tier 1 exemption rule if aggregate balances approach leverage ceilings.

Liquidity Adequacy Requirements (LAR & NSFR) - Guideline (2026) https://www.osfi-bsif.gc.ca/en/guidance/guidance-library/liquidity-adequacy-requirements-lar-guideline-2026

Level 1 High-Quality Liquid Assets (HQLA) under OSFI's Liquidity Adequacy Requirements (LAR): Central bank reserves (Tier 1 and Tier 2) qualify as Level 1 HQLA, the highest tier of liquid assets, with a 0% haircut in the Liquidity Coverage Ratio (LCR) and a 0% Required Stable Funding (RSF) factor in the Net Stable Funding Ratio (NSFR). Because Tier 1 balances settle all retail and wholesale payment outflows on a Tier 1-to-Tier 1 basis without restriction, they fully satisfy a bank's 30-day stressed cash outflow requirements under the LCR. However, OSFI would codify a supervisory note confirming that while Tier 1 counts fully toward HQLA, regulatory restrictions bar banks from using Tier 1 balances to settle primary-dealer GoC bond auctions.

Interest Rate Risk in the Banking Book (IRRBB) https://www.osfi-bsif.gc.ca/en/guidance/guidance-library/interest-rate-risk-management-guideline-2027

Because Tier 1 balances permanently earn 0% interest while commercial banks may still pay competitive deposit rates to retain private retail/commercial M3 deposits, OSFI's Interest Rate Risk in the Banking Book (IRRBB) supervision would require banks to model Tier 1 balances as non-interest-bearing, duration-zero assets. This prevents banks from relying on risk-free central bank interest subsidies (the floor system windfall) and pushes them to earn returns through productive private-sector lending instead.

There is no substantial interest rate risk; see the 6th economic and institutional reason given for not allowing direct monetary financing/6. Commercial Banks will claim they will be hurt by holding large amounts of Tier 1 settlement balances at 0% interest.

Fiscal & Macroeconomic Impacts

Under the PMCTP, the fiscal and macroeconomic impacts centre on converting government debt service into public seigniorage, eliminating private-sector crowding out, and preserving sovereign credit ratings through strict statutory caps and a functioning market yield curve.

Seigniorage (Recycling Interest Back to the Crown)

Under the current system, when the federal government runs a deficit, issues bonds to private markets, and pays interest on excess settlement balances under the floor system, which averaged $4.00 billion per year from 2020–2025, billions of taxpayer dollars flow out of the public purse to commercial banks and bondholders. Under the PMCTP, the Department of Finance still pays contractual interest on the securities held

in the Bank of Canada's direct deficit tranche, and the BoC pays 0% interest on the resulting Tier 1 settlement balances. After deducting its own modest operating expenses, the Bank of Canada remits 100% of its net interest income back to the Receiver General as seigniorage.

Effectively, the interest cost on the direct deficit tranche becomes an internal accounting loop within the public sector, saving taxpayers billions annually while retaining a Tier 2 private-market tranche that preserves interest rates.

Crowding Out (Why the primary market tranche prevents it)

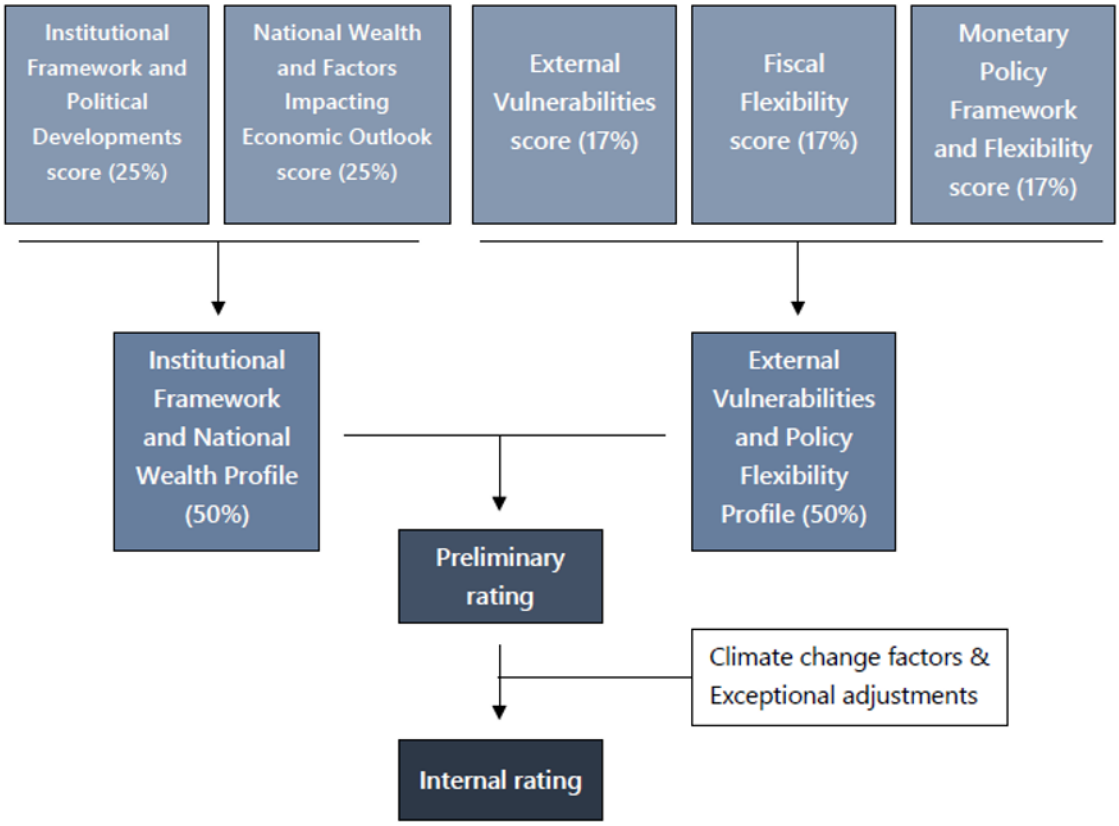
Critics of standard deficit spending argue that heavy government borrowing in open bond markets absorbs private savings, drives up benchmark yields, and "crowds out" private business investment and household mortgages. Conversely, critics of pure direct monetary financing argue that eliminating private bond issuance destroys the risk-free yield curve needed to price private credit.

However, the PMCTP solves both by splitting debt issuance into two streams: it removes the federal deficit from private capital markets entirely, leaving private savings free for productive business and household lending while maintaining a dedicated Primary Dealer Tranche. Competitive bidding on this separate tranche (used to help fund statutory programs like OAS and provide safe sovereign assets for pension funds like the CPP) keeps a liquid, market-determined yield curve intact and preserves borrowing rates.

Foreign Investment & Credit Agencies (S&P, Moody's, Fitch, Morningstar DBRS)

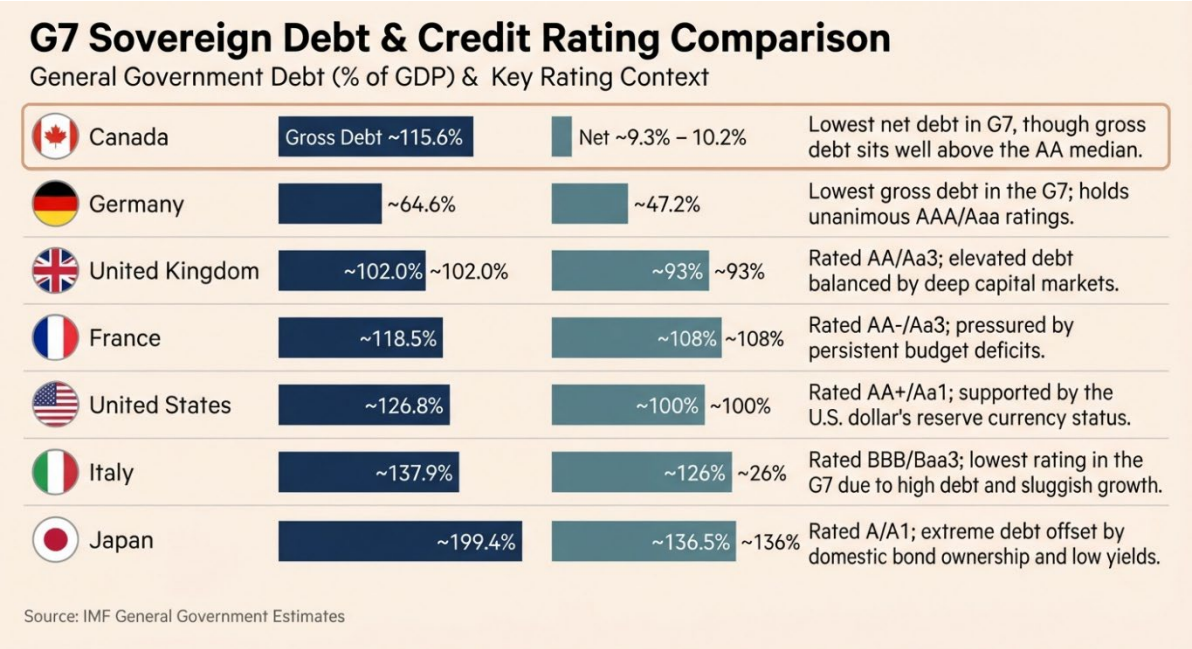
Foreign investment could be affected by adverse ratings from credit rating agencies such as S&P, Moody's, Fitch, and Morningstar DBRS. https://www.bankofcanada.ca/wp-content/uploads/2021/11/sdp2021-16.pdf

Rating agencies evaluate sovereign debt by assessing a government's ability and willingness to repay its financial obligations on time and in full, combining quantitative economic data with qualitative judgment. Unlike corporations, sovereign governments have taxing power and monetary tools, so agencies look closely at macroeconomic resilience, fiscal health, external buffers, and political stability.



The first key risk factor, the Institutional Framework and Political Developments score, captures a country's institutional features and the effectiveness of policy-makers in responding to economic or political events that could affect creditworthiness. This factor assesses the quality of a country's institutions, its social cohesiveness or stability, and the ability and willingness of policy-makers to mobilize the funds necessary to repay its financial obligations while maintaining social cohesiveness. https://www.bankofcanada.ca/wp-content/uploads/2021/11/sdp2021-16.pdf

The debt-to-GDP ratio is a foundational metric, typically accounting for 20% to 35% of an agency's quantitative fiscal score, but it is never evaluated in isolation. While Canada holds the lowest net debt-to-GDP ratio in the G7, around 9% to 10%, its gross debt-to-GDP ratio ranks mid-pack at roughly 115%.



2005-2026 IMF General Government Estimates

This puts Canada in a comfortable fiscal position to implement the PMCTP. Unconstrained money printing triggers downgrades by signaling fiscal chaos and runaway inflation. This risk is mitigated because the PMCTP already has safeguards in place:

1. Statutory Deficit Ceiling: The BoC only finances the exact deficit approved by Parliament—it cannot write blank checks for mid-year overruns.

2. Improved Debt-Service Ratios: Recycling interest via seigniorage and eliminating multi-billion-dollar floor-system payouts strengthens Canada’s net interest-to-revenue ratio, a key metric for credit agencies.

3. Preserved Monetary Control: Returning to a scarce Tier 2 corridor system preserves the BoC’s operational control over overnight rates, alongside active profit-margin and price monitoring to anchor inflation.

4. Foreign Investor Confidence: Foreign institutional investors continue to access competitively priced, liquid Government of Canada bonds through the Primary Dealer Tranche, ensuring Canada remains an attractive, AAA-caliber destination for global capital.

Under the PMCTP, profits increase as time goes forward

As the BoC increases its holdings of GoC securities, it can use the resulting profits to return the bank to positive equity. Under the Progressive Money Canada Transition Plan (PMCTP), it would take approximately 2.0 to 2.5 years to eliminate the Bank of Canada's $7,473 million accumulated deficiency and restore positive equity, more than twice as fast as the ~5.3-year status quo trajectory.

Payoff Timeline Projections Assuming $62.5B/Year Deficit Purchases:

Starting from the Q3 2026 baseline net income run rate ($1,112 million/year based on the 9-month net income of $834 million, or $1,420 million/year based on Q3 net income of $355 million) and adding $62.5 billion/year in new GoC securities across realistic average coupon yields.

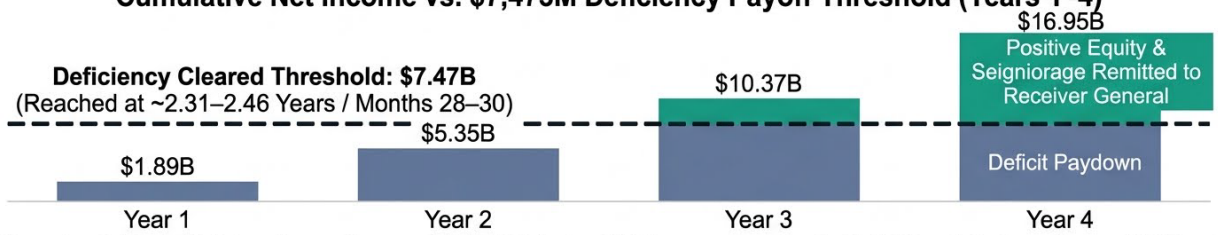
Once the BoC reaches positive equity, it can begin returning surplus balances to the Receiver General (the federal government).

Bank of Canada 4-Year Equity Recovery & Seigniorage Projection

PMCTP Model: 2.50% Assumed GoC Coupon | $62.5B/Year Deficit Tranche | Starting Deficiency: -$7,473M

	Year 1	Year 2	Year 3	Year 4
End-of-Year GoC Tranche Holdings	$62.5B	$125.0B	$187.5B	$250.0B
New Coupon Interest (2.50% Avg)	+$781M	+$2,344M	+$3,906M	+$5,469M
Total Annual Net Income*	$1,893M	$3,456M	$5,018M	$6,581M
Cumulative Earnings	$1,893M	$5,349M	$10,367M	$16,948M
Net Equity / Seigniorage Status	-$5,580M Deficit	-$2,124M Deficit	+$2,894M Seigniorage	+$9,475M Cum. Seigniorage

Cumulative Net Income vs. $7,473M Deficiency Payoff Threshold (Years 1–4)



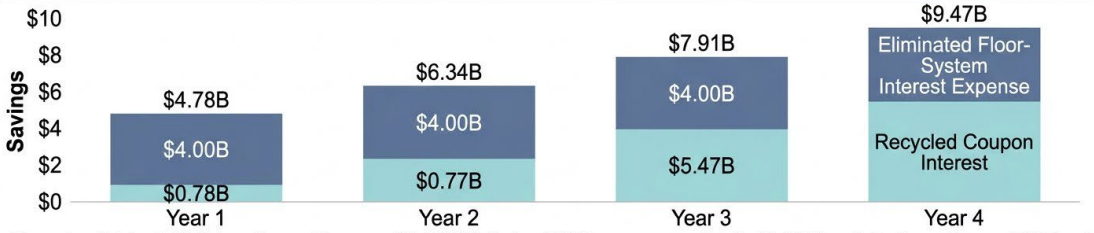
*Based on 9-Month YTD baseline net income ($1,112M/yr) plus 2.50% coupon on steady $1.20B/week GoC purchases (0% Tier 1 interest). Using Q3 run-rate base ($1,420M/yr), payoff occurs at 2.31 years and 4-year cumulative earnings reach $18,180M.

Federal tax savings

Over that 4-year period at a 2.50% average coupon rate and $62.5 billion annual deficit tranche, the realized federal taxpayer savings come out to $9.48 billion in direct cash remittances to the Receiver General, and up to $28.50 billion in total public-sector fiscal relief when accounting for avoided private-market debt interest and floor-system payouts.

4-Year Federal Taxpayer & Public-Sector Interest Savings Under PMCTP
Assuming 2.50% Average GoC Coupon Rate & $62.5B Annual Deficit Tranche

Savings Component	Year 1	Year 2	Year 3	Year 4	4-Year Total
Recycled Coupon Interest on $250B Tranche (2.50%)	$0.78B	$2.34B	$3.91B	$5.47B	$12.50B
Eliminated Floor-System Interest Expense (avg. $4.00B/yr)	$4.00B	$4.00B	$4.00B	$4.00B	$16.00B
Total Gross Interest Retained in Public Sector	**$4.78B**	**$6.34B**	**$7.91B**	**$9.47B**	**$28.50B**
Less: Gross Interest Retained	$4.78B	$6.34B	$7.91B	$9.47B	$28.50B
Less: BoC Equity Deficiency Paydown	*-$1.89B*	*-$3.46B*	*-$2.12B*	*$0.00B*	*-$7.47B*



*Based on 9-Month YTD baseline net income ($1,112M/yr) plus 2.50% coupon on steady $1.20B/week GoC purchases (0% Tier 1 interest). Using Q3 run-rate base ($1,420M/yr), payoff occurs at 2.31 years and 4-year cumulative earnings reach $18,180M.

Reaching the end of the 4-year PMCTP

Based on the PMCTP results, it’s time to reevaluate and explore further options.

Examining 7 economic and institutional reasons for not allowing direct monetary financing

1. Preventing high inflation and currency debasement

When a central bank directly funds government budgets by creating new money (known as monetary financing or debt monetization), it injects unbacked purchasing power into the economy.

Almost all our money is created by privately owned banks through the loan process. When a private citizen enters a loan agreement with a bank, the bank types new digital money into existence in exchange for your promise to repay it, your loan contract. The same is true when the federal government borrows newly created money from commercial banks. This money is not backed by anything other than the government's promise to pay it back to the bank, interest included, with taxpayer money, and in fact, that is what puts the value in money! You need to participate in the economy and provide goods or services to earn money to pay your taxes.

Money creation in the private banking system page 2:

https://img1.wsimg.com/blobby/go/ff93be0f-e4df-4288-8750-c2891b9cb7ea/downloads/BoC%20and%20Commercial%20banks%20create%20money%20for%20the%20.pdf?ver=1794946309315

False: *Historically, relying on the central bank's printing press to pay state bills has repeatedly triggered severe inflation or hyperinflation, eroding the value of the currency and public savings.*

The above statement conveniently omits that the underlying economic collapse, along with corrupt political leadership, triggers the abuse of the printing press and the resulting inflation, rather than the mere act of the government printing money. The Cato Institute, a right-leaning think tank, counters this right-wing talking point. An empirical study authored by Steve H. Hanke and Alex K. F. Kwok titled,"On The Measurement Of Zimbabwe's Hyperinflation." (2009) https://www.cato.org/sites/cato.org/files/serials/files/cato-journal/2009/5/cj29n2-8.pdf

Empirical evidence, both quantitative data and qualitative descriptions of what happens in hyperinflation, shows that hyperinflation results from poorly governed states abusing the money-creation process. Additionally, it can result from the collapse of underlying economic conditions. Part of the Progressive Money Canada Transition Plan is to ensure government spending does not exceed the country's economic capacity and to closely monitor price-level rise alongside profit margins.

The Weimar Republic Hyperinflation (1921-1923)

Because the Treaty of Versailles demanded reparations in gold or foreign currency, the Reichsbank printed massive amounts of unbacked paper marks to buy foreign

exchange on the open market, triggering a total collapse of the currency's international value.

Reichsbank monetization of government war/reparations deficits and massive Reichsbank discounting of private commercial bills played a role. Excessive credit creation, including the Reichsbank discounting private commercial bills amid economic and political collapse.

An equally important contributor to the hyperinflation was the price setter in this story, often overlooked by right-leaning organizations that frown on money creation for government spending.

How the Import-Price Spiral Worked

The loss of purchasing power abroad. Foreign suppliers refused to accept depreciating paper marks and demanded payment in gold, U.S. dollars, or British pounds. As the cost of essentials surged, Germany relied heavily on imports for critical raw materials (like iron ore and cotton) and basic foodstuffs (like grain and fats). As the mark fell, the domestic cost of importing these goods multiplied daily.

Dealers (price setters) quickly realized that if they sold goods based on what they originally paid, the cash they received would not be enough to buy replacement stock the next day. They began indexing domestic retail prices directly to the live U.S. dollar exchange rate. International price setters raised their prices, in turn, dealers raised theirs.

Rising import and food prices forced workers to demand massive wage increases, which in turn increased the German government's operating costs, forcing the Reichsbank to print even more money—further crashing the exchange rate and repeating the cycle.

Farmers and dealers often withheld food and essential goods from the market rather than trade them for rapidly devaluing paper money, worsening urban shortages. By mid-1923, domestic trade increasingly bypassed the mark altogether, with dealers and consumers trading cigarettes, coal, or foreign currency for basic essentials.

What is the actual cause of inflation anyway?

The common talking point that government spending causes inflation is used worldwide, and the actual mention of it is the primary driver of inflation. This is easy to prove, simply compare the rise in the price level with profit margins. This is what happened in Canada soon after Prime Minister Justin Trudeau announced an $82 billion emergency response package for Canadians and businesses in March of 2020.

The rhetoric began with the Conservative leader at the time, Pierre Poilievre, who coined the term "Justinflation." This provided the pretext for both financial and non-

financial industries to begin raising prices. Data from Statistics Canada shows that the financial sector, with the least overhead and other direct costs to produce a product, took the most advantage of this money-making situation.

The numbers are well documented and sourced. See the description box below the video: Price setters caused inflation during the COVID-19 pandemic https://youtu.be/fES8hhZWp9I

Academically, inflation can be characterized in several ways: cost-push, demand-pull, built-in, creeping, walking, running, galloping, or hyperinflation. All of this can be confusing for the average person. **However, at the root of all inflation is the price setter.** Someone somewhere raises prices, triggering a chain reaction in which everyone else follows suit by raising their own.

In many cases, there are legitimate reasons to raise prices without increasing profit margins. If the price rise does not include a rise in profit margins, then you know it is legitimate.

It's human to mask making a profit at others' expense, no one wants to be the bad guy. Has there ever been a case in which a company raises prices and publicly states it wants to increase its profit margins, outside of quarterly reports and investor conferences?

For a more comprehensive understanding of inflation, visit: https://progressivemoney.ca/inflation

Profit Margin Monitor

Because sustained inflation is driven by "price setters" raising prices beyond genuine input costs to expand profit margins, the PMCTP pairs fiscal capacity limits with an active Profit Margin Monitor.

Statistics Canada already tracks profit margins (Net Income margin) of 13 financial and 39 non-financial industries which are classified under the North American Industry Classification System (NAICS). The PMCTP includes placing a Profit Margin Monitor on the BoC website homepage alongside the Policy interest rate, Total CPI inflation, and the Inflation target. https://www.bankofcanada.ca/

Note: Profit margin monitor numbers are for illustration purposes, not actual numbers.



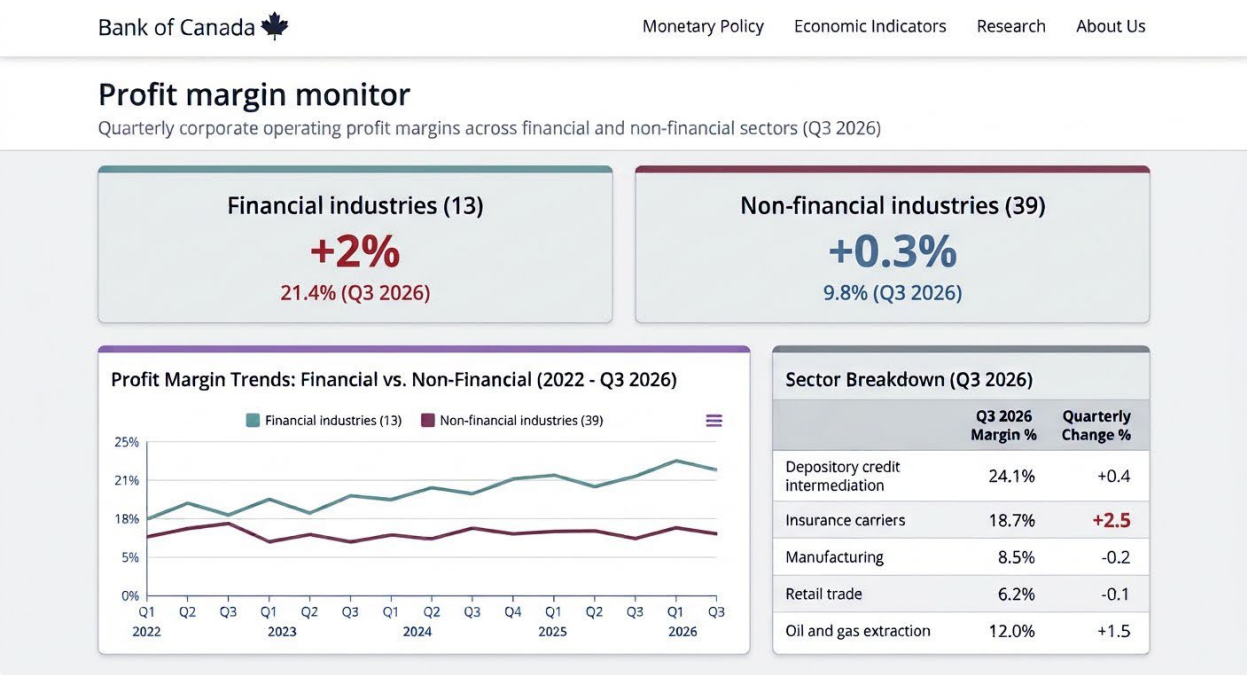
Statistics Canada Profit Margin Ratios

Margin Ratio	Statistics Canada Formula	What It Captures
Operating Profit Margin	$\frac{\text{Operating Profit}}{\text{Total Operating Revenue}} \times 100$	Profitability strictly from core business operations, before interest expense, non-operating investment income, asset write-downs, or income taxes.
Pre-Tax Profit Margin	$\frac{\text{Income Before Income Taxes}}{\text{Total Operating Revenue}} \times 100$	Cents remaining per revenue dollar after all expenses (including interest and non-operating items) except corporate income taxes.
Net Profit Margin (Profit Margin)	$\frac{\text{Net Income or Loss}}{\text{Total Operating Revenue}} \times 100$	Bottom-line earnings remaining for shareholders after every expense, including operating costs, debt interest, asset gains/losses, and income taxes.

On the BoC website homepage, the Net Profit Margin increase or decrease over the last quarter of the average combined financial and non-financial industry components would be displayed. If the combined components indicated an overall increase in profit margins to the inflation target of 2% or more, it would be highlighted in red. Clicking the button takes a person to a page where the financial and non-financial industry components are broken down into individual industries, with the same standard applied to the overall components. Individual industry profit margins can be monitored, and if they reach the target inflation rate of 2% or more, they will be highlighted in red.

Possible layout of the Profit margin monitor page:

Note: Profit margin monitor numbers are for illustration purposes, not actual numbers.



Under the PMCTP, monetary policy and inflation control shift away from reactive policy rate shifts that had minimal to no effect on inflation, as seen during the COVID-19 pandemic (2020-2022) inflationary period, toward more proactive, direct oversight of corporate profit margins. https://progressivemoney.ca/inflation

Reporting Lag

A significant lag exists between when profit margins occur in the economy and when Statistics Canada derives and publishes them. Data is reported quarterly, and it takes a further 50 to 60 days to post, creating a delay of up to six months.

Why Not Report More Frequently?

Increasing the reporting frequency could be an option in the future. However, several practical obstacles would need to be overcome:

Quarter-end accounting adjustments: Banks, insurers, and corporations finalize key profit-determining items, such as loan-loss provisions, actuarial reserves, tax accruals, and physical inventory counts, only at quarter-end to align with securities and regulatory filings.

Administrative burden: Expanding the Quarterly Survey of Financial Statements (QSFS) from 4 to 12 collections per year would impose high administrative costs on thousands of surveyed businesses, conflicting with Statistics Canada's mandate to minimize reporting burdens.

Gaps in administrative tax data: Statistics Canada relies on GST/HST and corporate tax filings to estimate figures for smaller firms without surveying them, but many small and mid-sized businesses remit GST/HST quarterly or annually rather than monthly.

Compressed processing windows: Statisticians currently need 50 to 60 days to follow up with late respondents, clean anomalies, and impute missing data. A monthly turnaround would force heavy reliance on rough estimates and frequent revisions.

Monthly financial volatility: Uneven timing of dividend payouts, insurance claims, and market revaluations would create erratic month-to-month swings, especially in the 13 financial industries, obscuring underlying inflation trends.

Commercial banks OSFI reporting: Quarterly income statements are required to determine profit-and-loss ratios.

2. Protecting the central bank's price-stability mandate

If a central bank is forced to finance government deficits, it loses control over the money supply and interest rates.

The BoC did not finance the government's debt during the COVID-19 years (2020-2022). The commercial banking sector did, with the BoC facilitating the process.

In Canada, during the first half of 2020, commercial banks (primary dealers) created money by exchanging Government of Canada securities for deposits in the Consolidated Revenue Fund, which funded government spending. This was immediately followed by Quantitative Easing, where the Bank of Canada reacquired those securities in exchange for settlement balances.

Money created by the private banking sector was deposited into the Federal Government's account, not by the BoC, and inflation ensued. However, government spending provided the pretext for financial and non-financial industries to raise prices and profit margins, not the actual amount of new money created. Price Setters: The cause of inflation during the COVID-19 pandemic: https://youtu.be/fES8hhZWp9I

Instead of raising rates to cool down an overheating economy, the central bank would be pressured to keep rates artificially low to keep government borrowing cheap—subordinating monetary policy to short-term political needs (fiscal dominance).

During the COVID-19 years (2020-2022), interest rates had little or no effect on the money supply (M3 Gross) or price stability. Money Supply: Money Creation, Destruction, and Inflation: https://youtu.be/PngFO7SiUeU

3. Maintaining fiscal discipline

Requiring governments to borrow on open financial markets forces elected officials to fund spending through taxes or by issuing bonds to private investors. Market interest

rates act as a natural check on unsustainable deficits; if investors view a government's debt load as risky, borrowing costs rise, signaling the need for fiscal restraint.

Money raised for government financing through DMF cannot be considered a debt risk that needs to be repaid, because upon maturity of the bond or treasury bill, it would simply be rolled over. Additionally, the BoC would receive steady interest income from the government to cover its operating costs, and any excess would be returned to the government through seigniorage. Therefore, fiscal restraint should be based on the economy's carrying capacity and inflationary pressures, not private markets. Keep in mind that close monitoring of price-level rises alongside profit margins would be necessary, given the history of rhetoric claiming that government spending causes inflation.

4. Preserving central bank independence and credibility

Citizens, businesses, and global investors trust a currency only when they believe the central bank will prioritize long-term price stability over short-term political cycles. A strict legal wall between the treasury (which taxes and spends) and the central bank (which manages the currency) anchors inflation expectations and prevents political interference.

Under the Progressive Money Canada Transition Plan (PMCTP), central bank independence and credibility will be maintained. The BoC will have a clear mandate to purchase government securities over the fiscal year up to the budget deficit approved by Parliament. If the government exceeds the projected deficit mid-year, any additional borrowing would require either a supplementary parliamentary appropriation or issuance through the competitive primary dealer tranche.

Under the PMCTP, with Statistics Canada's support and the implementation of the Profit Margin Monitor, the BoC will have a more concrete tool to judge inflation trends. *Central banks argue that regardless of what starts an inflation spike* (there are many veiled terms, but it always starts with the price setter, and if the price level rise does not increase profit margins, then the cost is justified), *sustained inflation requires accommodating monetary conditions and rising inflation expectations. Their goal is to prevent a temporary price shock from turning into a permanent wage-price spiral.*

5. Ensuring fair market pricing of government debt

If a central bank buys newly issued government bonds directly on the primary market, it bypasses real supply-and-demand price discovery. Restricting central bank bond purchases to the secondary market (when conducted purely for monetary policy purposes) ensures that private market participants set the true risk premium and yield on public debt.

The PMCTP would introduce a separate tranche of Government of Canada securities, open to bidding by primary dealers (commercial banks), to help fund CPP and OAS, thereby preserving supply and demand price discovery mechanisms. See Primary Market Tranche page

6. Commercial Banks will claim they will be hurt by holding large amounts of Tier 1 settlement balances at 0% interest.

This is largely an unfounded concern, most of the money created to fund the government's budget deficit will go to productive programs like health care, education, and infrastructure. Much of this money will be deposited directly into businesses and personal chequing accounts for immediate use. The average return on a standard chequing account at a major Canadian bank is 0.00% to 0.05%, meaning most Canadians earn effectively zero nominal interest and end up with a negative net return after accounting for monthly account fees and inflation. This means that commercial banks will still earn money from service fees. Also, Tier 1 settlement balances would be considered a High Quality Liquid Asset (HQLA), which would help Canadian commercial banks meet federal regulatory requirements and withstand sudden financial stress without selling off core assets at a loss. However, the OSFI may have to make other regulatory adjustments.

During the COVID-19 emergency response programs, more than a dozen major emergency and recovery programs for individuals, students, and businesses were launched between 2020 and 2022. Over 85% to 90% of individual benefit payments were deposited directly into personal chequing accounts through the Canada Revenue Agency (CRA) or Service Canada. In spring 2020, the CRA partnered directly with major Canadian banks and credit unions so Canadians could enroll in CRA Direct Deposit through their online banking portals in minutes. https://www.canada.ca/en/auditor-general/our-work/audit-reports/parl-oag-202212-10-e.html

7. Acceptance by Central Bankers Internationally

Building on established two-tier precedents, a two-tiered reserve architecture is neither experimental nor radical; major central banks, including the European Central Bank (ECB), Swiss National Bank (SNB), Central Bank of Iceland, and Sveriges Riksbank, already operate two-tiered reserve systems to manage liquidity and control interest costs.

While those central banks currently operate under statutory bans on direct deficit financing, the PMCTP builds directly on their proven operational mechanics, showing international peers and markets that two-tiered settlement segregation lets a central bank execute sovereign fiscal mandates cleanly without losing control of its overnight corridor.

Conclusion

The Progressive Money Canada Transition Plan (PMCTP) is neither radical nor without precedent. By pairing a modern, ISO 20022-segregated two-tier settlement architecture with a return to the Bank of Canada's proven pre-2020 Corridor System, the plan resolves the fiscal drain of the current floor framework without disrupting financial markets. Strict statutory deficit ceilings, a competitive Primary Dealer Tranche, and Statistics Canada-backed profit margin monitoring ensure that monetary control, market price discovery, and inflation discipline remain intact. Over its initial four-year rollout, the PMCTP eliminates multi-billion-dollar interest payouts to commercial banks, restores the Bank of Canada to positive equity in roughly two and a half years, and redirects up to $28.50 billion in interest relief back to the Canadian public.