

BANK OF CANADA

RULES GOVERNING ADVANCES TO FINANCIAL INSTITUTIONS

1. GENERAL

These Rules serve as policy guidelines and administrative procedures for financial institutions seeking to borrow funds from the Bank of Canada ("Bank"). The Bank may also from time to time communicate in writing to financial institutions and to the public additional policies regarding specific aspects of advances and security for advances, providing that these additional policies are not inconsistent with these Rules (see, for example, the Bank's Lender of Last Resort Policies on its website at www.bankofcanada.ca/en/financial/llr.html). If there is any conflict between these Rules or any additional policies and those agreements referred to in paragraph 5, the latter will prevail. All references in those agreements to the "Rules" and "Rules Governing Advances to Financial Institutions" are to these Rules only and not to any additional policies communicated by the Bank.

2. DEFINITIONS

In these Rules:

- (a) **"Advance"** means an advance of a loan from the Bank to a financial institution which is among those types of advances described in paragraph 3;
- (b) **"Bank Rate"** means the minimum interest rate which the Bank is prepared to charge in respect of advances, as made public in accordance with the Bank of Canada Act;
- (c) **"Business Day"** means a day on which there is a clearing of payment items pursuant to paragraph 6(1)(a) of the Canadian Payments Act;
- (d) **"CDSX"** means the CDSX clearing and settlement system operated by CDS Clearing and Depository Services Inc. and any of its successors or assigns ("CDS"), and includes any successor to that system.
- (e) **"Credit date"** means, in respect of each type of advance described in paragraph 3:
 - (i) in respect of Discretionary LVTS Advances, the date of the loan application;
 - (ii) in respect of Non-Discretionary LVTS Advances, the date of the LVTS

- cycle in which occurred the default of the LVTS participant creating an obligation of the Bank to lend; and
- (iii) in respect of ELA Advances and Other Advances, a date determined by the Bank and communicated to the financial institution prior to making the Advance.
 - (f) **“Eastern time”** means that time (either eastern standard time or eastern daylight time) which is in effect in the eastern time zone at the time of the matter in question.
 - (g) **“HABS”** means the Bank’s High Availability Banking System.
 - (h) **“Repayment date”** means, in respect of all advances, the date the advance is repayable.
 - (i) **“Term Loan”** means, in respect of a Non-Discretionary LVTS Advance, Other Advance or ELA Advance, having a term to maturity of more than one Business Day but less than six months.

3. **ADVANCES BY THE BANK**

The following are the types of advances that may be made by the Bank to financial institutions:

- (a) SLF Advances under the Bank’s Standing Liquidity Facility or “SLF” (see the Bank policy statement “Bank of Canada Lender of Last Resort Policies” for further information on SLF). SLF Advances are advances made at the Bank’s discretion to an LVTS participant to provide it with a sufficient settlement balance at the Bank to permit settlement of its multilateral net position in the LVTS without the participant defaulting in the LVTS. An SLF Advance is also referred to as a “Discretionary LVTS Advance”.
- (b) an advance that the Bank is obligated by the LVTS By-law to make to an LVTS participant following the default of a participant in the LVTS (Non-Discretionary LVTS Advance);
- (c) ELA Advances for the purpose of addressing a serious and persistent withdrawal of liquidity from a solvent financial institution (“Emergency Lending Assistance” or “ELA”). In such situations, the Bank may provide advances: for such term as is determined by the Bank at the time of making the Advance; secured by a security interest in collateral other than that set out in the list of eligible collateral published from time to time on the Bank’s website (www.bankofcanada.ca/en/financial/securities.pdf); to such financial institutions other than ACSS direct clearers and LVTS participants as are described in

subparagraph 4(b); or in response to applications made after the time prescribed in paragraph 6.

(d) Other Advances including:

(i) an advance made by the Bank at its discretion as a contingency measure in the event that the LVTS system is unavailable or an LVTS participant is unable to connect to the LVTS system, for the purpose of either funding transfers of funds between the settlement accounts at the Bank of participants in a clearing and settlement system and of the clearing house for that system in order to settle payment obligations arising from the system, or for the purpose of enabling a direct clearer in the ACSS to settle its obligations in that system;

(ii) any other advances which may be required, in very unusual circumstances associated with a sudden and large scale liquidity shortage, for any purpose other than those set out in subparagraphs 3(a), 3(b), or 3(c). The recipients of such advances and the collateral required will depend on the exact nature of the exceptional circumstances.

Discretionary LVTS Advances and Non-Discretionary LVTS Advances are referred to collectively in these Rules as “LVTS Advances”.

4. ELIGIBILITY

- (a) To be eligible for SLF Advances, a financial institution must: (i) be an LVTS participant; and (ii) be able to provide the Bank with valid and enforceable first priority security in collateral of a type acceptable to the Bank for SLF Advances.
- (b) To be eligible for ELA Advances, a financial institution must: (i) be a federally incorporated, deposit-taking institution (including a foreign bank subsidiary) that is a member of the CPA or, in the case of an extraordinary and widespread event that would have significant, adverse consequences for a provincial credit union or caisse populaire system, the Credit Union Central of Canada, a provincial credit union central, the Caisse centrale Desjardins, or the Federation des caisses Desjardins; and (ii) be able to provide the Bank with valid and enforceable first priority security in collateral of a type acceptable to the Bank for ELA Advances.

5. PRESCRIBED DOCUMENTATION

A financial institution seeking an advance from the Bank shall have executed the following documents, in the forms prescribed by the Bank:

- (a) in respect of an LVTS Advance, (i) an Account Agreement for Settlement

Account, (ii) a Loan Facility Agreement, (iii) a Security Agreement for Loan Advances and Advances of Bank Notes, (iv) if the LVTS participant wishes to use funds standing to its credit in a Special Deposit Account as collateral, an Account Agreement for Special Deposit Account, (v) legal opinions satisfactory to the Bank regarding the enforceability of these agreements, (vi) for foreign incorporated institutions, legal opinions satisfactory to the Bank from the institution's home jurisdiction, regarding the applicability of foreign laws to these agreements, and (vii) such other documents as may be required by the Bank from time to time;

- (b) in respect of an Other Advance, any or all of the documents listed above, plus such other documents as may be required by the Bank;
- (c) in respect of an ELA Advance, (i) a General Security Agreement, or, in the case of an institution having its head office in the Province of Quebec, a Deed of Hypothec, (ii) a Loan Facility Agreement for ELA Advances and (iii) legal opinions satisfactory to the Bank regarding the enforceability of these agreements and any other agreements required by the Bank, as well as, at the Bank's discretion, any or all of the documents listed above, plus such other agreements and documents as may be required by the Bank;

The financial institution's accounts with the Bank are established and governed in accordance with the Account Agreement for Settlement Account and, if the financial institution opens a Special Deposit Account, the Account Agreement for Special Deposit Account. Upon application by an institution for a settlement account, the Bank will notify the institution's regulator that the institution intends to open a settlement account.

Each advance shall be subject to the provisions of the applicable loan agreement and recorded on the books of the Bank. Each advance shall be secured by a security interest in collateral acceptable to the Bank, pursuant to the Security Agreement for Loan Advances and Advances of Bank Notes (in the case of LVTS Advances and Other Advances), the General Security Agreement or Deed of Hypothec (in the case of ELA Advances) and such other agreements as the Bank may prescribe. The Loan Facility Agreement and the Security Agreement for Loan Advances and Advances of Bank Notes are available from the Bank on request.

6. APPLICATION FOR ADVANCES

- (a) Discretionary LVTS Advances and Other Advances shall be applied for by the financial institution submitting a loan application in the form prescribed in the Loan Facility Agreement through the HABS. Loan applications for Discretionary LVTS Advances must be submitted within such time period as may be indicated by the Bank at the time that the Bank notifies the LVTS participant pursuant to

the LVTS By-law and any applicable rules thereunder that it has insufficient settlement balance at the Bank to permit settlement of its multilateral net position. All loan applications must be submitted for credit as of the **credit date** applicable to the type of advance.

- (b) Non-Discretionary LVTS Advances shall not be applied for but shall be provided unilaterally by the Bank for credit as of the applicable **credit date** in accordance with the terms of the LVTS By-law and the Loan Facility Agreement upon the default in the LVTS of an LVTS participant. A Non-Discretionary LVTS Advance shall be in such amount as is determined, in accordance with the Loan Facility Agreement and the LVTS By-law, to be necessary to permit the financial institution to settle either or both of its multilateral net position or additional settlement obligations in the LVTS. Such advances shall bear such interest and have such terms to maturity as are communicated by the Bank to the financial institution at the time the Advance is made.
- (c) Loan applications for ELA or Other Advances shall be submitted pursuant to the loan agreement governing the advance only after the institution has consulted regarding the need for the advance with either: the Deputy Governor, Monetary Policy and Financial Analysis; the Deputy Governor, Financial Markets; or such other person as the Bank may indicate from time to time as the person to consult in respect of ELA and Other Advances for particular purposes, and has provided that person with such information concerning the ELA or Other Advance as the Bank considers relevant.

The Bank will signify acceptance of a loan application and provide an advance by crediting the proceeds of the advance to the institution's settlement account with the Bank or to an account designated by the borrowing institution. The Bank will notify the institution if a loan application is rejected.

NOTE: While the Bank is conscious of its role as lender of last resort, it expects all financial institutions to adjust their cash positions principally by way of the money markets. The Bank will exercise its discretion to make advances in keeping with that expectation.

7. TERMS OF ADVANCES

The term to maturity of all advances is governed by the provisions of the applicable agreements (see paragraph 5). Advances may either be for a term of one Business Day or for a longer term not to exceed 6 months in the case of a Term Loan. The following briefly describes the term to maturity, interest rate and methods of payment applicable to each type of advance:

- (a) **Term of the advance** -
 - (i) for Discretionary LVTS Advances, one **Business Day**, that is, the **repayment date** is the next **Business Day** after the **credit date**;

(ii) for Non-Discretionary LVTS Advances, Other Advances and ELA Advances, such term as may be determined by the Bank as a condition of the advance and communicated to the financial institution at the time of providing the advance, which term shall not exceed six months. The term of an Other Advance or an ELA Advance shall be set out in the loan application.

(b) **Interest Rate -**

(i) for Discretionary LVTS Advances, the **Bank Rate** as of the **credit date**;

(ii) for Non-Discretionary LVTS Advances, Other Advances and ELA Advances, such rate as is determined by the Bank at the time of making the advance and communicated to the financial institution.

For all advances except Non-Discretionary LVTS Advances, the interest rate shall be set out in the loan application. For all advances, interest accrues on a daily basis from the **credit date** until the **repayment date**, unless the Bank stipulates that interest shall be payable prior to the repayment date. In the event of a default in repayment of the advance, interest shall continue to accrue at the rate applicable to the advance until repayment in full.

(c) **Credit of Funds and Repayment** - The proceeds of an advance are credited to the financial institution's settlement account with the Bank as of the **credit date**. Repayment of principal and interest is made by means of a payment received by the Bank through the LVTS on the **repayment date** for value as of the **repayment date**. Repayment may also be made by such other means as the Bank may specify in special circumstances, including in the event that a financial institution is unable to repay an advance on the repayment date because the LVTS is suspended or inoperative.

8. SECURITY FOR ADVANCES

Depending on the type of advance, security for an advance is governed by either the Security Agreement for Loan Advances and Advances of Bank Notes, the General Security Agreement, the Deed of Hypothec or such other agreements as may be prescribed by the Bank. The Bank will accept as security for all types of advances those types of collateral which are set out in the list of eligible collateral published from time to time on the Bank's website (www.bankofcanada.ca/en/financial/securities.pdf). The Bank may also accept as security for ELA and Other Advances such additional types of collateral, if any, which the Bank may indicate to the institution as acceptable prior to making the ELA or Other Advance. In addition to the terms and conditions governing collateral which are set out in the list of collateral on the Bank's website, the following general terms and conditions shall apply:

- (a) While the special deposit account (SDA) which an institution has with the Bank is generally acceptable as security for advances to that institution, the Bank reserves the right to no longer accept SDAs as security for advances from any particular financial institution or class of financial institutions provided that the Bank gives such financial institution or class of financial institutions prior notice of at least one Business Day that it will no longer accept their SDAs as security for advances.
- (b) Securities pledged as collateral for advances and that are settled in the CDSX must be transferred to the Bank through CDSX. Securities that are settled in a foreign clearing and settlement system must be transferred to the Bank by the securities being credited to a securities account of the Bank or its agent in that system. Securities which are in certificated form and not settled in a clearing and settlement system must be delivered to the Bank at its operations centre in Mississauga, Ontario, its operations centre in Verdun, Quebec, its head office in Ottawa or to such other premises as the Bank may agree to in writing, between the hours of 8:30 a.m. and 4:00 p.m., eastern time, on a Business Day and prior to or concurrent with submission of the loan application.
- (c) All collateral pledged to the Bank by an LVTS participant as security for LVTS Advances or Other Advances shall be recorded by the Bank as a pool of collateral available to secure LVTS Advances and Other Advances as well as to support the participant's intra-day multilateral net position in the LVTS. LVTS participants who pledge collateral to the Bank must allocate, using the HABS, amounts of the total value of the collateral pool for specific purposes (including LVTS and Other Advances).

Notwithstanding 8 (c) above, the Bank, at its sole discretion, may announce to participants in LVTS that certain types of collateral shall not be included in the collateral pool or that collateral granted as security for certain types of Advances shall be outside of the pool of collateral.

The market value of securities pledged to the Bank as collateral security for advances shall equal not less than the principal amount of the loan, plus any interest payable over the term of the loan, plus any margin requirement for that collateral which may be stipulated by the Bank at its sole discretion.

9. SAFEKEEPING OF SECURITIES

Financial institutions eligible to apply for advances from the Bank may lodge securities at the Bank for use as collateral to secure borrowings from the Bank. Securities held in safekeeping which are not subject to a security interest in favour of the Bank may be withdrawn at any time on reasonable notice. There is currently no charge for this safekeeping service.

10. RELEASE OF COLLATERAL

A financial institution which has granted collateral security to the Bank in the form of

securities, SDA or other collateral and which is entitled by the Loan Facility Agreement, the Security Agreement for Loan Advances and Advances of Bank Notes, the General Security Agreement, the Deed of Hypothec or any other agreement governing collateral for the advance to a release of the collateral, may request a release of the collateral:

- (a) in respect of collateral which is securities in CDSX, by initiating in CDSX a trade of the securities at any time that CDSX is available to complete a transfer of the securities back to the financial institution;
- (b) in respect of collateral which is securities not in CDSX, by submitting a request for release to the Bank by fax on any Business Day between the hours of 8:30 a.m. and 4:00 p.m., eastern time;
- (c) in respect of collateral which is the financial institution's SDA, by submitting a request for release to the Bank by fax on any Business Day prior to completion of the LVTS cycle for that day; or
- (d) in respect of other collateral, as determined by the Bank at the time the collateral is no longer required and by the Bank making an entry in its records indicating that an amount of collateral equal to the amount released back to the Borrower is no longer granted as security against a particular Advance.

The Bank's release of collateral in response to a request for release is subject to the applicable terms and conditions of the Security Agreement for Loan Advances and Advances of Bank Notes, Loan Facility Agreement, Loan Facility Agreement for ELA Advances, General Security Agreement, Deed of Hypothec or any other agreement governing the pledging of the collateral to the Bank.

11. REQUIREMENTS FOR PARTICIPATION IN THE LVTS AND ACSS

- (a) The entering by the Bank into a Loan Facility Agreement and a Security Agreement for Loan Advances and Advances Notes with a financial institution satisfies any requirement: (i) in the CPA by-laws or rules governing the LVTS that the institution, in order to become a participant in the LVTS, must enter into agreements with the Bank governing the provision of advances for LVTS purposes and the pledging of collateral to secure those advances; (ii) in the CPA by-laws or rules governing the ACSS that the institution, in order to become a direct clearer in the ACSS, must enter into agreements with the Bank governing the provision of advances for ACSS purposes and the pledging of collateral to secure those advances.
- (b) The decision as to whether to enter into any of the above-mentioned agreements with a financial institution shall be at the sole discretion of the Bank.

12. EFFECTIVE DATE AND AMENDMENTS

This version of the Rules is effective from the date first noted above. Upon the day that these Rules become effective, the version of the Rules Governing Advances to Financial Institutions which became effective on October 27, 2008, and any subsequent revisions thereto, shall cease to have effect except in respect of any advances which were made pursuant to those Rules and which remain outstanding. The Bank may amend or replace these Rules at any time, but will give financial institutions as much notice as possible.