Effective 19 July 2010

Assets Eligible as Collateral under the Bank of Canada's Standing Liquidity Facility

The Bank of Canada, through its Standing Liquidity Facility (SLF), provides access to liquidity to those institutions that participate directly in the Large Value Transfer System (LVTS). Under the provisions of the Bank of Canada Act, the Bank's LVTS advances (commonly referred to as overdraft loans) are required to be made on a secured basis. The collateral used to secure these advances must be acceptable to the Bank, and an appropriate margin is applied to reflect various risk factors. Notwithstanding the eligibility criteria listed below, the Bank retains the right of refusal for any asset, or for any program from which securities are issued. The list of eligible collateral comprises the following:

- Securities issued by the Government of Canada
- Government of Canada stripped coupons and residuals
- Securities guaranteed by the Government of Canada (including Canada Mortgage Bonds and NHA mortgage-backed securities with a minimum pool size of $25 million)
- Government of Canada guaranteed stripped coupons and residuals
- Securities issued by a provincial government
- Provincial government stripped coupons and residuals
- Securities guaranteed by a provincial government
- Provincial government guaranteed stripped coupons and residuals
- Securities issued by a municipal government with a minimum credit rating of R-1(low) or A(low) by the Dominion Bond Rating Service (DBRS), P-1 or A3 by Moody's Investors Service (Moody's), or A-1(mid) or A- by Standard and Poor's (S&P)
- Bankers' acceptances and promissory notes, including those of foreign issuers (maximum term, 364 days) with a minimum credit rating of R-1(low) by DBRS, P-1 by Moody's or A-1(mid) by S&P
- Commercial paper, including those of foreign issuers (maximum term, 364 days) with a minimum credit rating of R-1(low) by DBRS, P-1 by Moody's, or A-1(mid) by S&P
- Corporate and foreign-issuer bonds with a minimum credit rating of A(low) by DBRS, A3 by Moody's, or A- by S&P
- Special Deposit Accounts held at the Bank of Canada
- Asset-backed commercial paper (ABCP) of eligible programs, with a minimum of two credit ratings, at least two ratings that are either R-1(high) by DBRS, F-1+ by Fitch Ratings, P-1 by Moody's, or A-1+ by S&P
- Marketable securities issued by the United States Treasury (bills, notes, and bonds, including TIPS).
- Assignment of the non-mortgage loan portfolios (NMLPs) of LVTS direct participants. The relevant loan portfolio to be taken as security for SLF collateral is the non-mortgage, Canadian-dollar loan book to Canadian residents. For banks, this would be based on lines 3(a)(vi) and 3(a)(viii) -- non-mortgage loans, less allowance for impairment to individuals for non-business purposes, and to individuals and others for business purposes -- of Section 1 (Assets) of the Office of the Superintendent of Financial

Institutions (OSFI) return *M4, Consolidated Monthly Balance Sheet*. For non-bank LVTS participants, the relevant loan portfolio will be the same, as defined by reference to how those loans are reported to the participant's regulator.

The following conditions will be applied to the use as collateral of the assets listed above:

(i) Only Canadian-dollar assets are eligible to be pledged as collateral, with the exception of securities issued by the United States Treasury in U.S. dollars.

(ii) Securities used as collateral must be pledged using CDSX of CDS Clearing and Depository Services Inc., or be physically delivered to the Bank of Canada in certificated form.

(iii) No more than 20 per cent of the total value of the collateral pledged by an institution may be the obligation of a single corporate, municipal, or foreign private sector issuer, or related party. In the case of ABCP, no more than 20 per cent of the value of the collateral pledged by an institution may be ABCP sponsored by a single institution. This condition does not apply for borrowings of less than $50 million.

(iv) No more than 20% of the total value of the collateral pledged by an institution may be the NMLP.

(v) Securities issued by the pledgor of collateral (or any related party) cannot be used as collateral by the pledgor. For ABCP, the pledgor of collateral may not be the sponsor, nor the financial services agent, administrative agent, or similar service provider for the ABCP program. Nor can the pledgor provide liquidity support to the program.

(vi) The Bank will require two weeks to complete the eligibility review of an ABCP program. At the time of the request for review, the institution must provide all required information for that ABCP program.

(vii) The Bank must be notified 24 hours in advance (with a deadline of 15:00 Ottawa time) by the borrowing institution the first time it intends to pledge any corporate, municipal, foreign private sector issuer security, or ABCP of an eligible program for use as collateral the next day. At the time of notice, the institution must also provide the relevant credit ratings of the security.

(viii) The security must not have an embedded option or carry a right of conversion into equity securities, with the exception of a non financial call feature (i.e. 'Canada call').

(ix) The security must not mature the following business day.

(x) For ABCP, only the most senior tranches will be accepted.

(xi) A minimum principal amount of $1 million of an individual security is required.

(xii) LVTS participants will be required to sign the appropriate legal documentation in the Bank of Canada's form, granting security in the assets pledged as collateral. The Bank may also choose to register its security in the personal property security registries of the appropriate jurisdictions. The Bank will also need to be assured that its security is registered in the personal property registry of the participant's home jurisdiction, thereby giving the Bank a first priority security interest.

Effective 19 July 2010

Program Eligibility Criteria for the Use of ABCP as Collateral

- The ABCP program must be sponsored by a deposit-taking institution that is federally or provincially regulated and that has a minimum stand-alone credit rating equivalent to at least A. The credit-rating requirement must be evidenced by the sponsor receiving the equivalent of at least an A- as the second-highest rating in a minimum of two senior, unsecured, long-term credit ratings that do not factor in financial support by a third party.
- The liquidity agreement(s) must obligate the liquidity provider to provide funding in all circumstances except in the event of insolvency of the conduit or against defaulted assets.
- Subject to the restrictions below, the program may hold assets in the form of loans advanced to, or notes or asset-backed securities (ABS) issued by, other securitization programs (to be referred to as second-level assets). However, such second-level assets must not expose the program indirectly to risks that would be unacceptable if the assets were held directly.
- The ABCP conduit must have an unencumbered ownership interest in the assets supporting the ABCP issued by the program such that the assets, and cash flows arising from the assets, are bankruptcy remote from the originators of the assets.
- The program must not contain any actual or potential exposure to:
  - highly structured products such as (i) collateralized debt obligations (CDOs), both synthetic and cash flow, and (ii) ABS that are secured against or represent interests in managed (but not revolving) portfolios of multiple asset classes for which sequentially subordinated tranches of securities are issued, with the lowest tranches absorbing the first dollar of credit losses;
  - securities that are themselves backed by exposures to CDOs or similar highly structured products;
  - securities that have direct or indirect exposure to credit-linked notes, credit default swaps, or similar claims resulting from the transfer of credit risk by means of credit derivatives (except for the purpose of obtaining asset-specific credit protection for the ABCP program).
- To fund the acquisition, origination, or refinancing of its assets, the ABCP program may use financial leverage in the form of debt incurred under ABCP or loans secured against those assets. However, it may not use leverage in the form of partially collateralizing derivative contracts with assets whose value is only a fraction of the actual notional amount of the contract (i.e., leveraged synthetic assets).

The following transparency requirements also apply:

- The Bank of Canada must receive, at the time of a request to review an ABCP program, a single concise document that is provided by and validated by the sponsor, and that includes all relevant investment information.
- This document must be accessible to all investors.
- The sponsor must agree to provide timely disclosure to all investors of any significant change to the information contained in this document.

Effective 19 July 2010

At a minimum, the relevant investment information to be disclosed in this document must include:

- the identity of the sponsor, the financial services agent, administrative agent, or similar service provider, as well as the liquidity provider(s);
- the range of assets that may be held by the program, including maximum or minimum proportion, if applicable;
- the manner in which the ABCP program gains exposure to each of the underlying assets – for example, via a note, loan, or direct purchase;
- for any second-level assets held by the ABCP program: (i) a brief description of such assets and the securitization programs issuing them, and (ii) any other relevant information, such as the identity of the sponsor, the financial services agent, administrative agent, or similar service provider, and the liquidity provider (if applicable), subject to confidentiality agreements;
- a statement that the assets supporting the ABCP do not and will not include, directly or indirectly (including through second-level assets): CDOs or other highly structured products; synthetic assets or similar assets that directly or indirectly involve the transfer of credit risk by means of credit derivatives;
- characteristics of the asset pools, including, at a minimum: composition, foreign-currency exposures, performance measures, credit ratings (if applicable) and credit enhancements, number of sellers and obligors, average remaining term, and hedging methods; (Other information, such as current payment speeds and geographic locations, should be disclosed if relevant to the investor.)
- where the investor can obtain updates of relevant investment information;
- the nature of the liquidity facilities, including the amount of support from each liquidity provider;
- the nature and amount of program-wide credit enhancements;
- asset-performance triggers and their consequences for investors;
- the flow of funds for the ABCP program, including payment allocations, rights, and distribution priorities; and for second-level assets, the ranking of the ABCP program in priority of payments;
- schematic diagrams or flow charts that set out the basic structure of the ABCP program and its cash flows in simplified form.

Effective 19 July 2010

Margin Requirements

Collateral type	Remaining Maturity[1]					
	up to 1 year	>1-3 years	>3-5 years	>5-10 years	>10-35 years	>35 years
Securities issued by the Government of Canada	0.5%	1.0%	1.5%	2.0%	2.5%	
Government of Canada - stripped coupons and residuals	0.5%	1.0%	1.5%	2.0%	3.0%	
Securities guaranteed by the Government of Canada (including Canada Mortgage Bonds and NHA mortgage-backed securities)	1.0%	1.5%	2.0%	2.5%	3.5%	
Government of Canada guaranteed - stripped coupons and residuals	1.0%	1.5%	2.5%	4.0%	4.5%	
Securities issued by a provincial government	1.5%	2.0%	2.5%	3.0%	4.0%	4.5%
Provincial government – stripped coupons and residuals	1.5%	2.0%	3.0%	4.5%	6.0%	14.5%
Securities guaranteed by a provincial government	2.0%	2.5%	3.0%	3.5%	4.5%	5.0%
Provincial government guaranteed – stripped coupons and residuals	2.0%	2.5%	3.5%	5.0%	6.5%	15.0%
Securities issued by a municipal government rated by DBRS: R-1(mid) or better / AA(low) or better, rated by Moody's: Aa3 or better rated by S&P: A-1(high) / AA- or better	2.5%	3.0%	3.5%	4.0%	5.0%	5.5%
Securities issued by a municipal government rated by DBRS: R-1(low) / A(low) to A(high) rated by Moody's: P-1 / A3 to A1 rated by S&P: A-1(mid) / A- to A+	4.5%	5.0%	5.5%	6.0%	7.0%	7.5%
Bankers' acceptances, promissory notes, commercial paper, including those of foreign issuers rated by DBRS: R-1(mid) or better rated by S&P: A-1(high)	3.0%					
Bankers' acceptances, promissory notes, commercial paper, including those of foreign issuers rated by DBRS: R-1(low) rated by Moody's: P-1 rated by S&P: A-1(mid)	5.0%					
Asset-backed commercial paper (minimum of two ratings: R-1(high) by DBRS, F-1+ by Fitch, P-1 by Moody's, or A-1+ by S&P)	7.5%					

[1] For securities with a remaining maturity of up to one year, margins are adjusted by term divided by 365.

Effective 19 July 2010

Margin Requirements (continued)

Collateral type	Remaining Maturity					
	up to 1 year	>1-3 years	>3-5 years	>5-10 years	>10-35 years	>35 years
Corporate and foreign-issuer bonds rated by DBRS: AA(low) or better, rated by Moody's: Aa3 or better rated by S&P: AA- or better	3.0%	3.5%	4.0%	6.5%	8.5%	9.0%
Corporate and foreign- issuer bonds rated by DBRS: A(low) to A(high) rated by Moody's: A3 to A1 rated by S&P: A- to A+	5.0%	5.5%	6.0%	8.5%	10.5%	11.0%
Securities issued by the United States Treasury*	1.0%	1.0%	1.5%	3.0%	4.5%	

Non-mortgage loan portfolio: The Bank will provide a collateral-to-portfolio value of 60%; i.e., 60% of the reported value of the loan portfolio, implying a haircut of 40%.

* Note: An additional 4% (<u>not</u> adjusted for term divided by 365) will be added to the margin requirements for securities issued by the United States Treasury to account for foreign exchange risk.