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Statement of Policy
Governing the Acquisition and Management of
Financial Assets for the
Bank of Canada's Balance Sheet

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1. Purpose of Policy

This document sets out the policy governing the acquisition and management of domestic financial assets for the Bank of Canada's (the Bank's) balance sheet. This policy does not apply to the assets of the Bank's pension trust fund and supplementary trust fund.

2. Objectives of Holding Financial Assets on the Bank's Balance Sheet

Generally, the Bank of Canada's holdings of financial assets are driven by its role in issuing bank notes. The issuance of bank notes creates a liability for the Bank, the largest on its balance sheet. Government of Canada deposits, including those supporting the government's prudential liquidity plan, typically represent the second largest liability for the Bank. To offset these liabilities, the Bank needs to hold financial assets. The bank note and deposit liabilities are denominated in Canadian dollars, and as such, the assets offsetting them should also be denominated in Canadian dollars.

Apart from providing a counterpart to the Bank's liabilities, its financial assets support the operational independence of the Bank to carry out its responsibilities. This is accomplished in two ways:

- The financial assets provide a means for the Bank to carry out its responsibilities without being dependent on government appropriations; and
- The Bank avoids investments that infringe upon the process by which the federal government allocates funds or credit to the private sector or other levels of government.

3. Governance

The acquisition and management of financial assets for the Bank of Canada's balance sheet is broadly governed by Section 18 of the [Bank of Canada Act](#) (the Act), Business and Powers of the Bank. The range of securities and financial instruments that the Bank may buy and sell for certain types of transactions, for the purposes of 18(g)(i) of the Act, are further detailed in the [Bank of Canada Policy for Buying and Selling Securities under Subsection 18.1\(1\) of the Bank of Canada Act](#).¹ The Bank of Canada's Governing Council (GC) has the responsibility to establish and approve this Statement of Policy. Operationally, the Chief of the Financial Markets Department (FMD), reporting to the Deputy Governors responsible for the financial system, is accountable for the execution of the policy. The policy will be posted on the Bank's website.

The Bank reports unaudited balance-sheet positions through the *Weekly Financial Statistics*. Monthly unaudited balance sheets are submitted to the Minister of Finance and

¹ Subsection 18.1(1) requires the Governor to establish a policy for buying and selling securities and financial instruments for the purposes of conducting monetary policy or promoting the stability of the Canadian financial system. This policy and amendments to it must be published in the Canada Gazette.

regularly published in the *Canada Gazette*. The Bank publishes interim balance sheets on a quarterly basis which are published on the Bank's website. The audited year-end balance sheet appears in the Bank of Canada's *Annual Report*. Published balance sheets are signed by the Governor and the Chief Accountant in accordance with the Bank of Canada Act.

The *Statement of Policy Governing the Acquisition and Management of Financial Assets* will be reviewed at least annually by the Chief of FMD. Any suggested changes would require the approval of GC.

4. Operational Guidelines

Decisions regarding the acquisition and disposition of financial assets and the management of the Bank's balance sheet are based on the following guidelines:

Neutrality: The Bank limits potential market distortions from its investment activities by acting in as broad and neutral a fashion as possible. The composition of the Bank's balance sheet should be structured such that routine purchases of specific securities should not have a significant impact on the market prices of those assets.

Prudence: The Bank mitigates financial risks to its balance sheet that could arise from valuation losses or credit losses through a risk management framework. The framework includes collateralization, with appropriate haircuts, of any lending or advances and minimum credit quality requirements for securities eligible for collateral, repurchase transactions, or outright purchases.

Transparency: Any purchase or sale of assets by the Bank should be transparent to the public.²

5. Acquisition and Use of Government of Canada Securities in the Normal Course

While the Bank of Canada Act allows the acquisition of a broad range of eligible assets, the objectives and guidelines outlined above effectively restrict the permanent portion of the Bank's financial assets to Government of Canada domestic securities. The Bank typically acquires Government of Canada bonds and treasury bills via non-competitive bids at government securities auctions and holds these securities as investments until maturity. The Bank may also acquire Government of Canada bonds and treasury bills in the secondary market, and the Bank may sell treasury bills in the secondary market to fulfill its responsibilities. Government of Canada bonds are held to maturity.

5.1. Routine Purchases of Government of Canada Securities

The Bank's holdings of Government of Canada nominal bonds and treasury bills are structured to broadly reflect the composition of the federal government's stock of

² This requirement for transparency may be waived under exceptional circumstances (see Section 7).

nominal domestic marketable debt. The Bank does not purchase or hold Government of Canada Real Return Bonds, given the low level of issuance of such bonds and to avoid any perceived conflict with monetary policy.³

Typically, a fixed percentage of Government of Canada bonds is acquired on a non-competitive basis at each bond auction in order to achieve the target structure for asset allocations. The Financial Markets Department will review annually the target percentage participation, and the Chief of FMD will inform GC of any changes.⁴ The public will also be notified of any changes. The Bank's minimum purchase amount is disclosed in the bond auction Call for Tenders, and the actual amount purchased is disclosed in the bond auction results.

Government of Canada treasury bills and cash-management bills are also acquired on a non-competitive basis, but for a variable amount depending on the Bank's specific needs at the time of each auction. These amounts are determined by the Bank's treasury managers, subject to the approval of the Chief of FMD, based on staff projections of expected future demand for bank notes and other liabilities and the amount of treasury bills and bonds that will mature in the following weeks. The actual amount purchased is disclosed in the results of the treasury bill auctions. The typical practice is to split the total amount purchased by the Bank, so that the Bank's purchases approximate the same proportions of issuance by the government across the three maturity tranches.

5.2. Buyback Transactions Related to Monetary Policy

When, in the opinion of the Chief of FMD, the conditions in the Canadian General Collateral overnight interest rate market so warrant, the Bank of Canada may intervene in the market for overnight funds to either inject intraday liquidity through Special Purchase and Resale Agreements (SPRAs) or to withdraw intraday liquidity through Sale and Repurchase Agreements (SRAs). SPRAs/SRAs appear on the balance sheet as securities purchased/sold under resale/repurchase agreements. Although these transactions are legally purchases/sales, they are treated, for financial reporting purposes, as collateralized lending (SPRA) or borrowing (SRA) transactions that are secured by Government of Canada securities. Under normal circumstances, these operations have a one-business-day term. Both individual counterparty limits and the aggregate limit for total transactions are recalculated every year and approved by the Chief of FMD.

5.3. Securities Lending Program

This program is designed for situations when a specific Government of Canada security is in short supply in the secondary market and is costly to borrow relative to the overnight target rate. In such situations, the Bank may support market liquidity by providing a secondary and temporary source of the security to the market. To this end, the Bank may make up to 50 per cent of its holdings of the specific security available to the repo market

³ The perceived conflict with monetary policy may arise given that the nominal value of Real Return Bonds is indexed to inflation.

⁴ This review may occur more frequently, subject to financial market conditions or changes in the Bank's balance sheet.

on a given day. Details of the program, including the threshold beyond which the Bank would make securities available to the repo market, are specified in the [Terms for Auctions to Primary Dealers Under the Bank of Canada Securities-Lending Program](#). Any operation must be approved by the Chief of FMD after consultation with a Deputy Governor responsible for the financial system.

5.4. Term Repo: Buyback Transactions Related to Balance Sheet Management

On the recommendation of the Bank's treasury managers and subject to the approval of the Chief of FMD, short-term assets may be acquired in the secondary market from time to time through a term repurchase agreement to offset short-term changes in liabilities, which are typically due to seasonal fluctuations in the demand for bank notes. These assets appear on the balance sheet as securities purchased under resale agreements. Although these transactions are legally purchases, they are treated, for financial reporting purposes, as collateralized lending transactions that are secured by Government of Canada securities. Details related to these operations can be found in the *Terms and Conditions for Term Repo for Balance Sheet Management Purposes*.

6. Acquisition and Use of Other Financial Assets

Other assets may be acquired (or sold) from time to time in carrying out the Bank's responsibilities.

6.1. Foreign Deposits

The bank note and deposit liabilities of the Bank of Canada are denominated in Canadian dollars, and as such, the assets held as a counterpart to those liabilities should also be denominated in Canadian dollars. The Bank does, however, hold some foreign currency assets. These foreign assets are primarily composed of some relatively small working balances in foreign currencies held as deposits at other central banks or international financial institutions.

6.2. Advances to Members of the Canadian Payments Association

The final daily positions of payment system participants settle on the books of the Bank of Canada. In this context, the Bank provides collateralized overnight loans to participants of the Large Value Transfer System (LVTS) who are experiencing temporary end-of-day shortfalls in settlement balances that arise in the daily settlement of payments. These routine liquidity loans are made under the Bank's Standing Liquidity Facility (SLF). The collateral eligible to secure credit from the SLF is reviewed on a regular basis and approved by GC. (See [Assets Eligible as Collateral under the Bank of Canada's Standing Liquidity Facility](#).)

6.3. *Other Investments: BIS Shares*

As part of its commitment to support international financial organizations, the Bank of Canada holds shares in the Bank for International Settlements (BIS). Furthermore, from time to time, the Bank may be invited to acquire additional BIS shares. The decision to purchase any newly allotted BIS shares, as well as any subsequent disposition of existing shareholdings, lies with the Bank of Canada's GC.

7. **Exceptional Circumstances**

The Bank has the legislative authority under the Bank of Canada Act to undertake other actions to fulfill its monetary policy and financial system responsibilities. The decision to undertake such actions would need to be approved by GC.

Any actions that entail the provision of liquidity (7.1 - 7.4) would be financed by one or more of the following approaches:

- Secondary market sales of treasury bills;
- Sale and repurchase agreements (SRAs);
- An increase in liabilities.

7.1. *Operations to Provide Extraordinary Liquidity*

The Bank can undertake various extraordinary liquidity operations in support of financial system stability and monetary policy including:

- i) conducting exceptional buyback transactions, to a maximum term of 380 days, using an expanded range of securities and instruments provided that certain criteria are met.
- ii) engaging in outright purchases of an expanded range of securities and instruments provided that certain criteria are met and subject to amending the *Bank of Canada Policy for Buying and Selling Securities under Subsection 18.1(1) of the Bank of Canada Act*.

The terms and conditions for these operations, including eligible counterparties and duration, would be recommended by the Chief of FMD and approved by GC. Terms and conditions would be published in advance of any operations.

- iii) lending to a broader range of financial institutions than participants of the LVTS and for terms longer than overnight. Collateralized loans may be provided to members of the Canadian Payments Association, subject to a maximum term of six months.

7.2. Other Sales or Purchases

Under subparagraph 18(g)(ii) of the Bank of Canada Act, if the Governor is of the opinion that there is a severe or unusual stress on a financial market or the financial system, the Bank may buy or sell any other securities, including equity securities, to the extent determined necessary by the Governor for the purpose of conducting monetary policy or promoting the stability of the Canadian financial system. While the Act permits the sale of any securities held by the Bank, the Bank's policy is that holdings of Government of Canada bonds will not be sold in the secondary market.

7.3. Emergency Lending Assistance

The Bank can provide Emergency Lending Assistance (ELA) to any solvent member of the Canadian Payments Association that is facing serious and persistent liquidity problems. Lending may be against a range of collateral that is broader than it is for typical operations, and is subject to a maximum term-to-maturity of six months. These loans can be renewed as often as the Bank deems appropriate. Details of the Bank's ELA policy are available in [*The Bank of Canada Lender-of-Last-Resort Policies*](#).

7.4. Forced LVTS Loans

In the event that a participant defaults in the LVTS, the Bank can be obliged (under the LVTS bylaw) to lend to an insolvent institution against previously pledged collateral to settle that member's obligations to other participants in the LVTS, and so protect against systemic risk. In the extremely unlikely event of the failure of more than one LVTS participant on the same day during LVTS operating hours, the Bank can lend to a defaulting institution on a partially unsecured basis to ensure settlement, and so protect against systemic risk.

7.5. Loans or Advances to the Government

The authority granted under Sections 18(i) and 18(j) of the Bank of Canada Act to make loans or advances to the Government would only be used to make a one-business-day advance to the Government of Canada. This would only be done, as appropriate, to prevent the level of government deposits held at the Bank from falling below zero. Any such advances would be publicly disclosed.

8. Administration Authorizations

Any purchase or sale of securities pursuant to the Bank's balance-sheet management must be approved by an officer authorized to sign on behalf of the Bank of Canada and

whose signature is in Class IA,⁵ according to the Bank's document on signing authorizations.

9. Performance Assessment

The Bank operates to meet public policy objectives, not for the purpose of maximizing profit. As such, the Bank's financial statements and the financial indicators contained within them are not the appropriate measure upon which to gauge the Bank's performance. This is more properly reflected in the Bank's success in meeting its public policy goals, as outlined in various Bank publications, including the *Monetary Policy Report*, the *Financial System Review*, and the *Annual Report*.

Given that the structure of the Bank's domestic currency assets broadly mirrors the structure of the federal government's domestic marketable debt, the Bank is provided with a stream of interest income that is intended to be broadly correlated with the government's overall debt-service costs. A small portion of the Bank's income is used to fund the Bank's operations. The remainder, after making provisions that the Bank's Board of Directors judges appropriate, is remitted to the federal government.

The performance assessment should monitor how consistent the Bank's portfolio remains with the overall stock of the federal government's domestic marketable debt, and highlight the need for any adjustments should they become necessary. Such a review will be conducted within the Financial Markets Department at a minimum on an annual basis.

10. Transfer of Securities

Securities that are sold to the Bank or granted as collateral must be transferred to the Bank as follows:

- i) for securities represented by bearer certificates that are not held in a securities clearing system, the Bank takes physical delivery and possession of such certificates;
- ii) for security certificates delivered in physical form for which registration is possible, the registration must be in the name of the "Bank of Canada" on the books of the issuer of the security;
- iii) for securities held in book-based form with CDS Clearing and Depository Services or with another clearing system or institution, securities must be effected by the making of appropriate book entries to credit the securities to the Bank of Canada's account with the clearing system or institution.

⁵ As maintained by the Funds Management and Banking Department