

PROPOSED TERMS AND CONDITIONS GOVERNING THE INVESTMENT OF RECEIVER GENERAL CASH BALANCES

1. Format

Receiver General cash balances are invested through an auction process administered by the Bank of Canada and the Department of Finance on behalf of the Minister of Finance. Auction procedures for the tendering of Receiver General balances are administered by the Bank of Canada.

Tenders may be held on any day when clearing exchanges occur. There will typically be two auctions per day. The first auction (the “morning auction”) takes place at 9:15 a.m. Ottawa time. The second auction (the “afternoon auction”) takes place at 4:15 p.m. Ottawa time.

The morning auction will be carried out on both an uncollateralized and collateralized basis under the terms and conditions set out in this document. The afternoon auction will remain uncollateralized under the terms and conditions set out in this document.

2. Eligible Participants

Morning Auction

Expressions of interest are invited from eligible counterparties wishing to participate in the morning auction. Eligible counterparties shall include: agents of the federal government, provincial governments or agents of provincial governments, regulated Canadian deposit-taking institutions, other financial institutions, investment dealers and corporations.

To be eligible to participate in the morning auction, an entity must have a credit rating of at least BBB (as defined in Part 5) or be an eligible participant for the afternoon auction.

Participants should be regular borrowers in wholesale capital markets with experience and expertise in the execution of capital market borrowing transactions.

Afternoon Auction

Participation in the afternoon auction is limited to participants in the Large Value Transfer System (LVTS).

Terms of Participation

Participants must sign a Terms of Participation Agreement with the Government of Canada. Participants may be sanctioned if they violate the terms and conditions of the auction, including the suspension of the participant from one or more auctions or revoking its eligibility.

3. Uncollateralized Access

Morning Auction

Participants which meet minimum credit-rating requirements will be extended an uncollateralized bidding limit based on credit rating:

Uncollateralized bidding limits for regulated Canadian deposit-taking institutions, Crown corporations and provinces are:

- \$250 million for AA or better-rated (as defined in Part 5) counterparties
- \$100 million for A-rated counterparties

Uncollateralized bidding limits for all other participants (non deposit-taking financial institutions, corporations and investment dealers) are:

- \$100 million for AA or better-rated counterparties
- \$50 million for A-rated counterparties

Eligible deposit-taking institutions may receive such balances on an uncollateralized fixed-term deposit basis.

Non-deposit taking institutions shall be allotted such balances under the terms of a debenture. This debenture shall be structured so as to include any uncollateralized auction proceeds held by the participant up to the participant's uncollateralized bidding limit.

BBB-rated participants, or unrated entities designated as eligible participants under Part 2, will not be extended uncollateralized bidding limits but can hold Receiver General balances on a fully collateralized basis through sale and repurchase transactions.

Where related entities with access to uncollateralized balances participate independently, those entities will be subject to one consolidated uncollateralized bidding limit not to exceed the amounts set out in this section. This does not apply to related entities that are agents of the federal government.

Afternoon Auctions

Access to the afternoon auction is on an uncollateralized basis. Bidding limits, per tranche, will be extended to each eligible participant in the afternoon auction based on Canada Payment Association (CPA) ratios as follows: $(2.5 \text{ times (its CPA ratio) times (the amount tendered for the auction, with a minimum tender amount of \$1.5 billion for the purpose of this calculation)})$. Participants without CPA ratios will be extended bidding limits of \$50 million per tranche.

Participants may not bid for amounts in excess of the uncollateralized bidding limits.

4. Receiver General Repurchase Agreements

Morning auction participants may bid for amounts in excess of the morning auction uncollateralized bidding limits. Any holdings in excess of the uncollateralized bidding limit must be fully collateralized with eligible securities through sale and repurchase transactions.

Collateral may be managed by the Bank of Canada or by a third party agent selected by the Government of Canada.

Eligible securities and requirements related to collateral management are described in the attached document *Proposed List of Eligible Securities for Receiver General Repurchase Agreements*.

Participants may deliver eligible securities on the same day that balances are tendered or provide eligible securities on a standing basis. Only eligible securities that are held in the Debt Clearing Service of The Canadian Depository for Securities Limited may be used.

5. Credit Ratings

The Government will use two credit ratings from private sector credit-rating agencies to assign ratings to participants and to eligible securities. Where ratings differ, the lower shall be used.

Long-term ratings are for senior unsecured obligations. Short-term ratings are for commercial paper or deposit instruments.

Private credit ratings are acceptable for participants, provided that the rating agreement provides for the same ongoing monitoring on the part of the credit-rating agency as that agency would normally carry out for its public ratings. The Bank of Canada must be informed immediately by the participant of any change in the private rating, including a change in outlook if applicable. The Bank must also receive a confirmation of the credit rating on at least a semi-annual basis.

AA or better rating

A credit rating will be considered to be AA if there are at least two credit ratings, one of which must be Moody's or S&P/CBRS if available, meeting the following minimum criteria:

| | Moody's | S&P/CBRS | DBRS | IBCA |
|-----------|---------|----------|---------|------|
| Long-term | Aa3 | AA- | AA(low) | AA- |

A rating

A credit rating will be considered to be A if there are at least two credit ratings, one of which must be Moody's or S&P/CBRS if available, meeting the following minimum criteria:

| | Moody's | S&P/CBRS | DBRS | IBCA |
|-----------|---------|----------|---------|------|
| Long-term | A3 | A- | A (low) | A- |

Where a long-term rating is not available, a credit rating may also be considered to be A if there are at least two credit ratings, one of which must be Moody's or S&P/CBRS if available, meeting the following minimum criteria:

| | Moody's | S&P/CBRS | DBRS | IBCA |
|------------|---------|----------|----------|------|
| Short-term | P1 | A1 | R1 (low) | F1 |

BBB rating

A credit rating will be considered to be BBB if there are two long-term credit ratings, one of which must be Moody's or S&P/CBRS if available, meeting the following minimum criteria:

| | Moody's | S&P/CBRS | DBRS | IBCA |
|-----------|---------|----------|-----------|------|
| Long-term | Baa2 | BBB | BBB (mid) | BBB |

Where a long-term rating is not available, a credit rating shall be considered to be BBB if there are two short-term credit ratings, one of which must be Moody's or S&P/CBRS if available, meeting the following minimum criteria:

| | Moody's | S&P/CBRS | DBRS | IBCA |
|------------|---------|----------|-----------|------|
| Short-term | P2 | A2 | R2 (high) | F2 |

6. Procedures Related to Tendering

Notice of Tender

The amount of deposits to be offered and the issue and maturity dates of the deposits will be communicated via the Communication, Auction and Reporting System by: 1) 5:00 p.m. Ottawa time on the business day immediately preceding the morning tender; and 2) 4:00 p.m. Ottawa time on the day of the afternoon tender.

Date of Contracts

Deposits/debentures and repurchase agreements will be issued and dated effective the business day of the tender.

Nature of Investments

Deposits/debentures and repurchase agreements will be non-callable prior to the maturity date.

Time and Method of Tendering

All bids will be submitted using the Communication, Auction and Reporting System to the Bank

of Canada in the prescribed format by: 1) 9:15 a.m. Ottawa time and 2) 4:15 p.m. Ottawa time, for the morning and afternoon tenders, respectively.

Number of Bids

No more than four bids per tranche may be submitted by each eligible participant.

Maximum Size of Participants' Tender

For the morning auction, participants may bid per tranche for the greater of \$500 million or 50 per cent of the size of the tranche being offered.

For the afternoon auction, each LVTS participant may bid, per tranche, up to the maximum amount of their limit as defined in Part 3: $(2.5 \text{ times (its CPA ratio) times (the amount tendered for the auction, with a minimum tender amount of \$1.5 billion for the purpose of this calculation)})$. Participants without CPA ratios will be extended bidding limits of \$50 million per tranche.

Minimum Size of Bid

Single bids below \$5 million will not be accepted. Acceptable bids will be in even multiples of \$1 million.

Places of Decimals

Bids will be accepted on a yield basis to two (2) places of decimals.

Errors in Tenders

Once submitted, bids may be modified, cancelled, or overwritten by composing and submitting a new tender. Modifications or cancellations of tenders must be received before the tender deadline to be accepted. Note: The Communication, Auction and Reporting System provides a check on bidding limits.

Right of Refusal

The Minister of Finance reserves the right to accept or reject any or all bids, in whole or in part.

Uncovered Tender

In the event that less than the total amount offered in the morning tender is accepted, or the full amount of the morning tender is not covered by participants' bids, the amount not awarded shall be added to the pool of funds available in the afternoon tender.

Notification of Tender Results

On the day of the tender, all participants will be advised via the Communication, Auction and Reporting System of the average, high and low rates paid at the auction and the percentage allotment at the lowest accepted yield (allocation at the low yield will be rounded to the nearest \$1,000). Each allotment and the amount due on the maturity date will be confirmed on the system.

Individual participants will be notified of allotments which will be allocated as fixed-term deposits/debentures and of allotments which will be allocated as sale and repurchase contracts, taking into account the available unused uncollateralized bidding limit.

For participants with uncollateralized bidding limits, allotments will be allocated so as to make use of any unused uncollateralized bidding limit. In the event that more than one tranche is offered, the allotment of any available uncollateralized bidding limit will begin with the tranche with the shortest term to maturity.

In the event that the accepted bids exceed the uncollateralized bidding limit, the allotment will be split into two separate instruments – a fixed-term deposit/debenture and a fixed-term sale and repurchase contract. That is to say, for any individual bid which causes the sum of the total allocated deposit contracts to reach the uncollateralized bidding limit, that portion of the bid in excess of the uncollateralized bidding limit will be treated as a separate fixed-term sale and repurchase agreement.

7. Payment and Settlement

Fixed-Term Deposit or Debenture

Deposit-taking institutions shall be allotted uncollateralized Receiver General balances under the terms and conditions of a fixed-term deposit. No certificates will be provided for fixed-term deposits. The Receiver General shall maintain an account for each participant holding fixed-term deposits, in which account shall be recorded (i) the amount of each deposit made by the Receiver General with that participant and the maturity date thereof, (ii) the amount of interest due and payable or to become due and payable from the participant to the Receiver General, and (iii) the amount of any sum received by the Receiver General from the participant. The entries shall, to the extent permitted by applicable law, be *prima facie* evidence of the existence and amounts of the obligations of the participant.

Non deposit-taking institutions shall be allotted uncollateralized Receiver General balances under the terms and conditions of a debenture issued by the participant. The terms of the debenture will incorporate by reference the terms on which Receiver General balances are allocated to the participant. The Receiver General shall maintain an account for each participant receiving Receiver General balances under a debenture, in which account shall be recorded (i) the amount of each allotment of Receiver General balances made from time to time to that participant and the maturity date thereof, (ii) the amount of interest due and payable or to become due and payable from the participant to the Receiver General, and (iii) the amount of any sum received by the Receiver General from the participant. The entries shall, to the extent permitted by applicable law, be *prima facie* evidence of the existence and amounts of the obligations of the participant under the debenture. The outstanding amounts under each debenture shall be capped at the participant's morning auction uncollateralized bidding limit with the obligation of participants limited to the net amount of uncollateralized balances held.

Settlement of Uncollateralized Receiver General Balances

Payment for deposit winnings or maturities from the morning tender shall be made via the LVTS prior to 1:00 p.m. Ottawa time. Payment for the afternoon tender shall be made via the LVTS prior to 5:00 p.m. Ottawa time. Effective the value date, the amount of each participant's morning tender uncollateralized winnings (if any) will be netted against the amount of its maturing uncollateralized winnings from previous morning uncollateralized tenders (if any), plus interest thereon. Similarly, effective the value date, the amount of each participant's afternoon tender winnings (if any) will be netted against the amount of its maturing term deposits from afternoon tenders (if any), plus interest thereon.

In both cases, if the amount issued exceeds the principal amount maturing plus accrued interest, the participant will receive via the LVTS the amount of the difference from the Bank of Canada as agent for the Receiver General. If the amount issued is less than the amount maturing plus accrued interest, the participant will send via the LVTS the amount of the difference to the Bank of Canada for credit to the Receiver General.

Fixed-Term Receiver General Sale and Repurchase Contracts

Receiver General Sale and Repurchase contracts will settle as delivery versus payment in the Canadian Depository for Securities. The Bank of Canada may act as settlement agent or the Government may appoint a third-party agent to serve as settlement agent on behalf of the Government.

Settlement of the sale of securities by the participant is to occur prior to 3:00 p.m. Ottawa time on the day of the tender. Settlement of the repurchase of securities by the participant is to occur prior to 3:00 p.m. Ottawa time on the value date.

In the event that a participant does not deliver eligible securities of sufficient value to completely settle a transaction as per the *Proposed List of Eligible Securities for Receiver General Repurchase Agreements* (attached), a partial settlement of the transaction will occur for the amount of eligible securities that is delivered. Interest will be charged to the participant on the entire amount of the allotment at the rate specified in the accepted bid regardless of whether settlement occurs for the entire amount.

In the event that any amounts from the morning auction do not settle, the unsettled amounts will be added to the pool of funds available in the afternoon tender.

8. Contractual Requirements

Participants with access to Receiver General balances on a collateralized basis must sign a Master Repurchase Agreement with the Government of Canada. In the event that the government designates an agent other than the Bank of Canada to manage collateral, participants will also be required to sign an agreement with the Government and that agent that will be the substantive equivalent of a Tri-Party Repurchase Service Agreement.

9. Contacts

Participants will provide the Agent with the names and telephone numbers of:

- 1) those individuals in their respective organization who will be available for consultations if required; and
- 2) those individuals responsible for the transmission/receipt of LVTS payments.

The Agent should be informed immediately of any changes to the contact list.

10. Consultation Process

The government welcomes responses on all aspects of these proposals. Comments on the proposed terms and conditions and collateral policy for Receiver General term deposit auctions must be received on or before 7 September 2001.

Address to submit comments: Thomas Hossfeld
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The government proposes to finalize the revisions to the current framework by Fall 2001 and implement the changes in early 2002.