

The Bank of Canada Securities-Lending Program: Terms and Conditions
(Effective 30 September 2002)

Context

The objective of the Bank of Canada securities-lending program is to support the liquidity of Government of Canada securities by providing a secondary and temporary source of securities to the market under the conditions listed below.

Transaction Structure

- The structure of the transactions is securities lending (no cash collateral) pursuant to a securities-lending agreement in the Bank's standard form, which the Bank of Canada will enter into with each eligible counterparty.

Entry by the Bank of Canada

- The Bank will make its Government of Canada securities available through a tender process.
- Securities will be made available when there are indications that they are trading, or are unavailable, around the minimum bid rate or higher (in terms of spread below general collateral).
- The Bank will not conduct an auction for an amount of securities less than \$100 million.
- Auctions of securities with less than two weeks to maturity may be conducted at the discretion of the Bank of Canada.

Minimum Bid Rate

- For bonds, the minimum bid rate is the lower of 150 basis points or 50 per cent of the Bank's target for the overnight rate (i.e., 150 basis points for target rates of 3 per cent or higher).
- For treasury bills, the minimum bid rate is the lower of 100 basis points or 50 per cent of the target rate (i.e., 100 basis points for target rates of 2 per cent or higher).
- The minimum bid rates could be adjusted in extraordinary circumstances and will be reviewed periodically.
- If necessary, the minimum bid rate is rounded to the next lowest 1/4 percentage point (for example, for a target rate of 2.25 per cent, the minimum bid rate would be 100 basis points).
- The minimum bid rate is indicated in the Communication, Auction and Reporting System (CARS).
- The minimum bid rate is also indicated in the *Call for Tenders*.

Bank of Canada Holdings

- The amounts of each Government of Canada issue held by the Bank are provided on the

Bank's Web site at <www.bankofcanada.ca/en/financial_markets/index.htm>.

Term to Maturity

- The term to maturity of each securities-lending transaction is one business day.

Amount to Lend

- The Bank will make up to 50 per cent of its securities available to the market on a given day, provided that the securities meet the entry criteria set out above.
- The Bank will not make available more securities than it holds at the time of the auction.

Eligible Participants

- Participants are limited to Primary Dealers for either Government of Canada bonds or treasury bills.
- If two or more Primary Dealers are related entities, only one of them will be able to participate in the program, unless they certify to the Bank's satisfaction that all policies, decisions, knowledge and information relating to investment and bidding in or for Government of Canada securities are made separately within each of the entities with no exchange or sharing of such policies, decisions, knowledge or information. "Related entities" will be determined in accordance with Appendix A.
- Participation is voluntary and is not used to evaluate dealer performance with respect to access to primary issuance of Government of Canada securities.

Counterparty Limits

- The maximum amount of a security available to a participant is the greater of \$100 million or 25 per cent of the amount being auctioned (for example, \$250 million if the Bank is lending 50 per cent and if \$2 billion is held).
- The maximum amount of a security available to a counterparty will be indicated in the CARS.

Tender Process

- When there are indications that market conditions warrant it, an auction will be held and the deadline for receiving bids will be 11 a.m. (Ottawa time).
- A call for tenders will be provided at 10:30 a.m. (Ottawa time).
- Participants must submit bids via the CARS.
- A multiple price auction is used to allocate securities.
- Dealers may submit up to four bids per issue on (each of) the securities being made available.
- Bids must be submitted in increments of \$1 million.

- Bids must be submitted as a number of basis points with no decimal places (for example, 150).
- Bids must be submitted as a number of basis points greater than or equal to the minimum bid rate for the security.
- The Bank reserves the right to deny access to the tender process at its own discretion.

Eligible Collateral

- The list of eligible collateral to be pledged by counterparties is consistent with the Bank's collateral list for the Large Value Transfer System and advances (1 November 2001).
- The securities eligible as collateral are listed in Appendix B.

Margin Requirements

- The margin requirements for the Bank's securities-lending program are set out in Appendix B.
- The margin requirement is the greater of the margin rate corresponding to the security being lent and the margin rate of the security being provided as collateral.

Settlement

- The program is managed internally by the Bank. The Bank will conduct securities-lending transactions directly with counterparties, rather than through an agent.
- All collateral securities and securities lent will be delivered through the Debt Clearing Service (DCS) of the Canadian Depository for Securities Limited.
- Collateral securities must be delivered to the Bank by 4 p.m. (Ottawa time) using the DCS pledge function.

Return of Securities

- At maturity, the lent securities must be returned to the Bank by 4 p.m. (Ottawa time) using the DCS pledge function.

Fails

- In the event of a failure to return the Bank's securities on the maturity date, the Bank will, without prejudice to its legal rights under the securities-lending agreement (including the right to realize upon the collateral at any time), have discretion to roll the transaction for an additional business day at a penalty lending fee equal to the target rate.

Lending Fees

- The Bank will charge a lending fee on each transaction, which will be calculated by applying

each winning bid rate to the market value of the security borrowed on an actual over 365 basis.

- Lending fees are payable via LVTS on or before the maturity date of the transaction.
- The following are the instructions for payment of lending fees. The Bank's SWIFT address is BCANCAW2. The payment instruction should be a SWIFT type MT205 or MT103 including the following information:

<i>Field 20:</i>	<i>Transaction Reference Number</i>
<i>Field 21 or 72:</i>	<i>Securities Lending Fees</i>
<i>Field 32A:</i>	<i>Value Date, Currency and Amount</i>
<i>Field 52A or D:</i>	<i>Ordering Institution (BIC)</i>
<i>Field 58A or D:</i>	<i>Beneficiary Institution (BIC)</i>
	<i>177-5</i>
	<i>Bank of Canada</i>
	<i>BCANCAW2</i>
	<i>Bank of Canada</i>
	<i>Ottawa CA</i>

Net Position Reports

- The Bank requires participants who borrow securities lent by the Bank to submit a closing net position report (as of 5 p.m.) for the security auctioned by 5:30 p.m. (Ottawa time) on the day of the auction.
- The net position will include (i) the par amount of cash holdings of a security with the same International Securities Identification Number (ISIN), (ii) the par amount of when-issued positions, (iii) the par amount of futures contracts that require delivery of the specific security being auctioned but not futures contracts for which the security being auctioned is one of several securities that may be delivered, and not futures contracts that are cash-settled, (iv) forward contracts, (v) holdings of the residual component of a stripped bond of the security being auctioned, (vi) the par amount of option contracts which require delivery of the specific security being auctioned weighted by the estimated probability that the option(s) will be exercised, and (vii) the par amount of any position in the security not covered by the above types of contracts, including "guaranteed" trades. For repurchase agreements or securities lending, the entity that owns the security, not the one that has borrowed it, must report the repoed or lent security as part of its position. All positions are based on trade date rather than delivery date.
- Net position reports for the security auctioned can be reported through the CARS or faxed to the Bank of Canada (613-782-7182).
- Should a net position report not be received from a borrowing participant by the deadline, the

participant will not be given access to the next auction.

Counterparty Obligations

- No participant should borrow securities from the Bank and use those securities to exercise control over an issue.
- Participants are not eligible to bid if they hold more than 25 per cent of the issue.
- Bidders must not bid in concert with any other bidder.
- Consistent with the Terms of Participation in Auctions for Government Securities Distributors, all eligible participants are expected to comply with the IDA Policy No. 5, The Code of Conduct.

Program Review

- There will be a review of the securities-lending program within six months of its inception to assess the impact on markets and participant behaviour. Subsequent reviews would be conducted annually.
- The Bank will consult with market participants in this process.

Appendix A

Related Entities

“Entity” means a corporation, trust, partnership, fund, or an unincorporated association or organization.

“Person” means a natural person, an entity or a personal representative.

Where two or more Primary Dealers are related entities with each other, only one of those entities may participate in the Bank’s securities-lending program, unless the related entities meet the criteria and provide the required certification specified in the Terms and Conditions to enable related entities to participate.

Two entities are related if one is controlled by the other or if both are controlled by the same person.

A person controls a corporation if:

- securities of the corporation to which are attached more than 50 per cent of the votes that can be cast to elect directors of the corporation are beneficially owned by that person and the votes attached to those securities are sufficient, if exercised, to elect a majority of the directors of the corporation; or
- the aggregate of (i) any securities of the corporation which are beneficially owned by that person, and (ii) any securities of the corporation which are beneficially owned by any entity controlled by that person, is such that, if that person and all of the entities controlled by it which beneficially own securities of the corporation were one person, that person would control the corporation; or
- that person controls an entity which controls the corporation.

A person controls a limited partnership if:

- that person is a general partner of the limited partnership; or
- that person controls an entity which controls the limited partnership.

A person controls an unincorporated entity, other than a limited partnership, if:

- more than 50 per cent of the ownership interests, however designated, into which the entity is divided are beneficially owned by that person and that person is able to direct the business and affairs of the entity; or
- that person controls an entity which controls the unincorporated entity.

A person controls an entity if that person has any direct or indirect controlling influence over the management and policies of the entity, whether alone or in combination with one or more other persons and whether through the beneficial ownership of securities through one or more other persons or otherwise.

Appendix B

Eligible Collateral for the Securities-Lending Program

The list of eligible collateral for the Bank's securities-lending program will consist of 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 (MBS) with a minimum pool size of \$75 million).
- Securities issued or guaranteed by a provincial government.
- Bankers' acceptances and promissory notes (maximum term 364 days) with a minimum issuer credit rating of R1 (low) by the Dominion Bond Rating Service (DBRS), A-1 (mid) by Standard and Poor's (S&P) or P1 by Moody's Investors Service (Moody's).
- Commercial paper and short-term municipal paper (maximum term 364 days) with a minimum issuer credit rating of R1 (low) by DBRS, A-1 (mid) by S&P or P1 by Moody's.
- Corporate bonds and municipal bonds with a minimum long-term issuer credit rating of A (low) by DBRS, A- by S&P or A3 by Moody's.

The following conditions will be applied to the use of these securities as collateral:

- Only Canadian-dollar denominated securities are eligible to be pledged as collateral.
- Securities used as collateral must be pledged using the Debt Clearing Service of the Canadian Depository for Securities Limited.
- No more than 20 per cent of the value of the collateral pledged by an institution should be the obligation of a single private sector issuer or related party. This condition does not apply for borrowings of less than \$50 million.
- Securities issued by the pledgor of collateral (or any related party) cannot be used as collateral by the pledgor.
- The security must not have an embedded option or carry a right of conversion into equity securities.
- A minimum principal amount of \$1 million of an individual security is required.

The following minimum margin requirements will be applied to securities loans. The margin requirement is the greater of the margin rate corresponding to the security being lent and the margin rate of the securities being provided as collateral.

Margin Requirements (per cent)

Type of Security	Maturity				
	Up to 1 year	>1-3 years	>3-5 years	>5-10 years	>10 years
Securities issued by the Government of Canada, including stripped coupons and residuals	1.0	1.0	1.5	2.0	2.5
Securities guaranteed by the Government of Canada (including Canada Mortgage Bonds and NHA MBS)	1.5	2.0	2.5	3.0	3.5
Securities issued by a provincial government	2.0	3.0	3.5	4.0	4.5
Securities guaranteed by a province	3.0	4.0	4.5	5.0	5.5
Bankers' acceptances, promissory notes, commercial paper, and short-term municipal paper (rated A-1 (high) by S&P or R-1 (mid) or better by DBRS)	7.5				
Bankers' acceptances, promissory notes, commercial paper, and short-term municipal paper (rated A-1 (mid) by S&P or R-1 (low) by DBRS or P1 by Moody's)	12.0				
Corporate and municipal bonds (AAA rated)	4.0	4.0	5.0	5.5	6.0
Corporate and municipal bonds (AA rated)	7.5	7.5	8.5	9.0	10.0
Corporate and municipal bonds (A rated)	12.0	12.0	13.0	13.5	15.0