

## **The Bank of Canada Securities-Lending Program: Frequently Asked Questions**

(20 September 2002)

How are securities being made available?

- The Bank will make its Government of Canada securities available through a tender process.
- When the Bank believes there are indications that market conditions warrant it, an auction will be held at 11 a.m. (Ottawa time).
- A call for tenders will be provided at 10:30 a.m. (Ottawa time).

Why is the Bank using an auction process?

- The Bank is using an auction process (through the Communication, Auction, and Reporting System) to allocate its securities. An auction process has the advantages of being transparent and equitable.

When will the Bank make securities available?

- Securities will be made available when there are indications that they are trading, or are unavailable, at the minimum bid rate or higher.
- Bids are expressed as a spread below general collateral rates (i.e. 175 basis points below general collateral).
- 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).

How will the Bank know when to enter?

- The Bank will monitor market conditions and be in contact with market participants.

Do other central banks have similar programs?

- A number of other central banks or debt agencies have similar programs, and lend or repo securities from their balance sheet. For example, in April 1999, the U.S. Federal Reserve initiated a revised securities lending program.

Who can participate in this program?

- Participants are limited to primary dealers for either Government of Canada bonds or treasury bills.
- Participation is voluntary and is not used to evaluate dealer performance with respect to access to primary issuance of Government of Canada securities.

What is the term of the transactions?

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

Why is the term only one business day?

- The main reasons are operational simplicity and being able to offer consistent amounts from day to day. Other similar programs (such as the Fed's) are done in this way.

How much of the Bank's securities will be made available?

- 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.
- The Bank will not make available more securities than it holds at the time of the auction.

Why won't the Bank lend all of its securities instead of only 50 per cent?

- The Bank will only auction securities it knows are in its possession. Since lent securities are returned after the auction, lending 100% of its securities would expose the Bank to fails.

What are the limits for participants?

- By security, the maximum amount 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).

Why can't a counterparty borrow all of the Bank's securities?

- Some counterparty limits are appropriate to allocate the special securities among a number of counterparties (to diversify risk and fairly spread access). If one party is still short, other winners may be in a position to lend after the auction.

What securities are eligible as collateral?

- The securities eligible as collateral are listed in Appendix B of the Terms and Conditions.
- They include a range of government and private sector securities.

What is the policy in the event of a failure to return securities?

- In the event of a failure to return the Bank's securities on the maturity date, the Bank will have discretion to roll the transaction for an additional business day at a lending fee equal to the target for the overnight rate.

Will the program be reviewed?

- There will be a review of the securities-lending program within 6 months of its inception to assess the impact on markets and participant behaviour. Subsequent reviews would be conducted annually.

How much of these securities does the Bank hold and how will the market know?

- The Bank has significant (\$500 million to \$1 billion or more) holdings of many issues, particularly benchmark issues. The amounts of each Government of Canada issue held by the Bank will be provided on the Bank's Web site.