



**BANK OF CANADA**

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**FOR IMMEDIATE RELEASE**

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### **Bank of Canada Welcomes Canada's New Funds Transfer System**

OTTAWA - The Bank of Canada today welcomed the announcement by the Canadian Payments Association that full operation of the Large Value Transfer System (LVTS) will begin on 4 February 1999. The LVTS is a major milestone in the reduction of risk in Canada's payment system and will bring Canada into line with international best practices for handling large-value payments.

The LVTS is a real-time system designed to handle large-value or time-critical payments. It will form the core of the national payment system and will substantially reduce systemic risk. Systemic risk refers to the risk of domino or spillover effects that could arise if one financial institution is unable to fulfil its payment obligations in a timely fashion. This could lead to other financial institutions being unable to fulfil their obligations in the payments system or elsewhere in the financial system.

The Bank of Canada worked closely with the Canadian Payments Association and its members in ensuring that sound risk containment mechanisms were incorporated into the LVTS. The new system provides its participants and their customers with the certainty that once a payment message has passed the system's risk-control tests, the transaction will settle on the books of the Bank of Canada on the same day regardless of what happens to any of the participants subsequently. As a result, LVTS participants will be able to offer to their customers unconditional and irrevocable intra-day access to funds received over the LVTS. This contrasts with the current arrangements where final settlement of payment obligations among financial institutions does not occur until around noon on the following business day and where payment transactions could be unwound if a participant were to fail.

The LVTS will be particularly helpful for settling Canadian-dollar payment obligations arising from securities transactions or foreign exchange transactions. The real-time certainty of settlement of large-value Canadian dollar payment messages provided by the LVTS will minimize settlement risk associated with these types of transactions. The LVTS will also permit the Canadian dollar to be included in cross-border multicurrency clearing and settlement systems.

Under the Payment Clearing and Settlement Act (which came into force in July 1996), the Bank of Canada is responsible for the formal oversight of clearing and settlement systems for the purpose of controlling systemic risk. The LVTS has been designated as being subject to the Act and will be subject to ongoing regulatory oversight by the Bank with regard to its risk-containment arrangements.

The introduction of the LVTS will require changes in the way that the Bank of Canada implements monetary policy, although it will not alter the Bank's basic approach to policy. The key feature of the modified framework will continue to be an operating band of 50 basis points for the overnight interest rate. However, the limits for the band will be enforced differently.

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For information on how the Bank intends to implement monetary policy on a daily basis, see:

*The framework for the implementation of monetary policy in the Large Value Transfer System environment*, Bank of Canada, 28 January 1999

"A primer on the implementation of monetary policy in the LVTS environment," *Bank of Canada Review*, Autumn 1998

For additional information on the LVTS, see:

"The LVTS - Canada's large value transfer system," *Bank of Canada Review*, Autumn 1998