

Terms of Participation in Auctions for Customers

1. Bidder Definition

- 1.1 The new bidder definition covers all government securities distributors and customers, and applies to legal entities.
- 1.2 All bidders must certify that they will not bid in concert with any other bidder.
- 1.3 Entities that do not have a strict arm's length relationship with one another (i.e., affiliates) will be considered one bidder for the purposes of Government of Canada securities auctions. To avoid being considered a single bidder, affiliated entities will have to certify that they do not exchange information about yields, amounts, positions they hold or plan to hold, or their investment strategies with respect to the securities being auctioned.
- 1.4 Entities are affiliates of one another if one is controlled by the other or if both are controlled by the same entity. The specific definition of control includes formal voting control along with direct and indirect controlling influence over management and policies.
- 1.5 Affiliated entities who wish to be treated as separate bidders must certify that they will not act in concert in formulating strategy or auction bids.
- 1.6 Any entity that implements the conditions necessary to be considered a separate bidder must direct all bids and purchases through a non-affiliate.

2. Submission of Bids

- 2.1 Bidding by individual customers will be subject to an auction limit.
- 2.2 Customers will be required to obtain a unique bidder identification number from the Bank of Canada before they can bid competitively. An application form for a unique bidder identification number will be available by facsimile or from the Bank of Canada Web page (<http://www.bank-banque-canada.ca>).
- 2.3 Customers will be able to bid at auction by submitting bids through government securities distributors. Competitive bids must be listed separately from the distributor's own bids and be accompanied by the customer's unique bidder number received from the Bank of Canada.
- 2.4 Customers will not settle directly with the Bank of Canada. Government securities distributors will be responsible for the settlement of customer bids that they have submitted and shall be liable to the Bank of Canada for any losses incurred as a result of those sales failing to settle in the Debt Clearing System.

3. Competitive Auction Limits¹

- 3.1 The amount that any customer can bid on a competitive basis at an auction (its auction limit) will equal its bidding limit less its net long position in excess of the product of its percentage bidding limit and the par value of any outstanding stock of the security being

1. Competitive bids are made at a specific price or yield.

auctioned.

- 3.2 To permit computation of the auction limit, customers must report their net positions prior to auction. For the purposes of the computation of the auction limit, the bidder's net position will include the par amount of (i) cash holdings of a security with the same International Securities Identification Number (ISIN), (ii) when-issued positions, (iii) 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, and (vi) 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.
- 3.3 Customer bids will not be netted against the limits of government securities distributors.

4. Non-competitive Bidding¹

- 4.1 Each customer will be able to submit non-competitive bids for its own account, in addition to any competitive bids, in auctions of Government of Canada bonds and each tranche of treasury bills.
- 4.2 The maximum amount of non-competitive bids for each participant will be \$3 million for Government of Canada bonds and for each tranche of treasury bills.
- 4.3 Customers must submit their non-competitive bids through government securities distributors. The total amount of customer non-competitive bids that each government securities distributor can submit will be limited to \$3 million.
- 4.4 A customer identification number is not required for the submission of non-competitive bids, but distributors will be required to provide the Bank of Canada with information on customer non-competitive bids upon request.

5. Reporting Requirements

Reporting of Net Positions

- 5.1 Customers bidding competitively at auction must report their net position in the auctioned security. If no net position is reported, the bid will be rejected automatically.
- 5.2 Customers can submit that report either directly to the Bank of Canada or through a government securities distributor that is submitting a bid on their behalf. A customer reporting its net position directly to the Bank of Canada may do so up to 30 minutes before the bidding deadline on the day of the auction.
- 5.3 All bidders are required to re-submit their position directly to the Bank of Canada if it changes by more than \$25 million before the auction bidding deadline.
- 5.4 Customers may make non-competitive bids without submitting a net position report.

1. Non-competitive bids are made without specifying a price or yield. Non-competitive allocations are made at the average price or yield of the accepted bids at an auction (in the case of RRB auctions, non-competitive allocations are made at the allotment price).

Bid Certification and Verification

- 5.5 All bidders are required to certify that the information they provide to the Bank of Canada is correct. These certificates are to be forwarded to the Bank of Canada on an annual basis by customers.
- 5.6 The Bank of Canada, at its discretion, will spot check customer bids submitted by distributors.

Market Information - Customers should be aware that:

- 5.7 The Bank of Canada requires regular reporting of distributor activities related to Government of Canada debt, including firm-wide positions. In order to help ensure market integrity, the Bank of Canada may require that government securities distributors provide general information concerning their customers' activities relating to Government of Canada securities. In the event that the Bank of Canada is of the view that there is or has been trading in Government of Canada securities in an unusual manner for a persistent period of time, it may require distributors to disclose the names and activities of customers involved in such trading.
- 5.8 The Bank of Canada maintains the discretion to (i) investigate whether activity outside the auction rules has occurred, (ii) notify the appropriate regulatory authorities if other questionable activities are found, (iii) refer incidents of questionable secondary market activity to the Investment Dealers Association of Canada for investigation of possible violations of its Code of Conduct, and (iv) sell securities from its own portfolio. The Department of Finance maintains the discretion to re-open an issue outside the timetable provided by the Quarterly Bond Schedule and the usual treasury bill issuance cycle.

6. Bidding Limits for Auctions of Canada Bonds

- 6.1 The bidding limit for a customer will be 25 per cent of the amount auctioned.
- 6.2 A customer will be able to bid through government securities distributors. A customer can use as many government securities distributors as it chooses to submit its bids as long as the total amount of its bids does not exceed its auction limit.
- 6.3 It is the responsibility of each customer to ensure that the total of its bids through all government securities distributors does not exceed its auction limit.
- 6.4 A customer's ability to bid through an individual distributor might be constrained by the distributor's limit for customer bids and allocation of its aggregate limit.

BIDDING LIMITS FOR BOND AUCTIONS		
	Competitive Bidding	Non-competitive Bidding
Customers	25 per cent	\$3 million

7. Bidding Limits for Auctions of Treasury Bills

- 7.1 The bidding limit for a customer will be 25 per cent of the amount auctioned.
- 7.2 A customer may use as many distributors as it chooses to submit bids, as long as the total amount of its bids does not exceed its auction limit.
- 7.3 It is the responsibility of each customer to ensure that the total of its bids through all government securities distributors does not exceed its auction limit.
- 7.4 A customer's ability to bid through an individual distributor might be constrained by the distributor's limit for customer bids and allocation of its aggregate limit.

BIDDING LIMITS FOR TREASURY BILL AUCTIONS		
	Competitive Bidding (per tranche)	Non-competitive Bidding (per tranche)
Customers	25 per cent	\$3 million

8. Code of Conduct

- 8.1 All customers must agree to abide by the IDA Policy No. 5, The Code of Conduct.