

EFFECTIVE 31 January 2022

## STANDARD TERMS FOR AUCTIONS OF GOVERNMENT OF CANADA SECURITIES

1. The Minister of Finance hereby gives notice that all tenders (bids) submitted by authorized government securities distributors (“government securities distributors”), on or after the date set out above, for the following marketable Government of Canada securities issued pursuant to the *Financial Administration Act*:
  - a. Government of Canada Domestic Treasury bills (hereafter “treasury bills”);
  - b. Government of Canada Domestic Nominal Bonds (hereafter “nominal bonds”), and
  - c. Government of Canada Domestic Real Return Bonds (hereafter “Real Return Bonds”),(collectively, “Government of Canada securities”), shall be subject to these *Standard Terms for Auctions of Government of Canada Securities*.
2. Each tender:
  - a. shall be unconditional,
  - b. in the case of treasury bills, where multiple maturities are specified in the *Final Call for Tenders*, shall be for one maturity only, and
  - c. must be received by the Bank of Canada, acting on behalf of the Minister of Finance, **not later than the time**, and on the auction day, specified in the *Final Call for Tenders* to which the tender is a response.
3. Customers of government securities distributors are able to participate in Government of Canada securities auctions by bidding through government securities distributor(s). All government securities distributors and customers participating in auctions of Government of Canada securities must comply with the requirements applicable to them set out in the *Terms of Participation in Auctions for Government of Canada Securities Distributors and Customers* attached hereto as Schedule A (the “Terms of Participation”), including but not limited to the non-competitive bidding limits, competitive auction limits and competitive bidding limits.
4. Government securities distributors and customers may bid for Government of Canada securities, subject to their own respective auction limits, as set out in and as further subject to the Terms of Participation. Government securities distributors will also have a separate limit for the aggregate amount of bids they submit on behalf of customers. Where a government securities distributor submits bids both on its own behalf and on the behalf of a customer, the bids on behalf of the customer must be listed separately from the government securities distributor’s own bids.
5. Subject to the bidding limits set out in the summary tables in Section 5 of the Terms of Participation, Government securities distributors may submit competitive tenders or non-competitive tenders, or both. Subject to the conditions set out in (a) and (b) below, non-competitive bids for Government of Canada securities will be accepted in full, and then competitive bids will be accepted in rising order of yield (or in the case of Real Return Bonds, real yield), until the full amount of the issue (or tranche, in the case of treasury bills) is allotted. In the case of nominal bonds and treasury bills, non-

competitive bids will be allotted at the average yield of the accepted competitive bids. In the case of Real Return Bonds, all non-competitive and successful competitive bids will be allotted at the highest real yield of accepted competitive bids.

- a. Bidders may submit up to seven bids per maturity. These bids must be stated in multiples of \$1,000, subject to the condition that each individual bid be for a minimum of \$100,000. Each bid shall state the yield to maturity (or, in the case of Real Return Bonds, the real yield to maturity) to three decimal places. Government securities distributors shall not bid directly or indirectly on behalf of, or in concert with, any other government securities distributor.
  - b. Government securities distributors may submit only one non-competitive bid on their own behalf for each issue of nominal bonds, Real Return Bonds, or tranche of treasury bills, as the case may be (except those government securities distributors that do not act as principal in the purchase and sale of Government of Canada securities directly with customers and other financial intermediaries). Government securities distributors can also bid non-competitively on behalf of customers. Each non-competitive bid must be stated in multiples of \$1,000 subject to a minimum of \$100,000 per bid.
6. The following provisions apply to allotment and pricing of Government of Canada securities:
- a. *Treasury bills*: The calculation of the purchase price for accepted bids will be carried to five decimal places on the basis of price per hundred.
  - b. *Nominal bonds*: In the event a new maturity is offered, the coupon rate will be set to the nearest 1/4 of one per cent, which is below the average yield of the accepted competitive bids. The purchase price and payment required for each accepted competitive bid will be determined on the basis of this coupon rate. If the auction results in an average yield lower than 1/4 of one per cent, the coupon rate will be set at 1/4 of one per cent and the purchase price will be adjusted accordingly. The calculation of the purchase price for accepted bids will be carried to three decimal places on the basis of price per hundred. In the event of a re-opening of an outstanding maturity, successful bidders will be allotted nominal bonds at the price equivalents of the accepted bid yields, plus accrued interest, if applicable.
  - c. *Real Return Bonds*: Successful bidders will be allotted Real Return Bonds at the price equivalent of the highest real yield of accepted competitive bids, plus accrued Inflation Compensation and accrued Coupon Interest, if applicable. The calculation of the purchase price for accepted bids will be carried to three decimal places on the basis of price per hundred.
7. Tenders shall be submitted to the Bank of Canada, acting on behalf of the Minister of Finance, via the *Bank of Canada Auction System* provided by the Bank of Canada. Neither the Minister of Finance nor the Bank of Canada shall bear any liability whatsoever for any errors in tenders received or for delays in the transmission of tenders. If it is not possible for a bidder to submit tenders via the *Bank of Canada Auction System*, the bidder may, with the prior permission of the Bank of Canada, submit its tenders on an official tender form (in the case of treasury bills, a separate form must be used for each maturity).
8. The Minister of Finance reserves the right to accept or reject any or all bids, in whole or in part, including without limitation, the right to accept less than the total amount specified in the *Final Call for Tenders*.

9. The auction results will be made available on the *Bank of Canada Auction System* on the day of the auction, and those submitting tenders may thereby confirm the acceptance or rejection, in whole or in part, of the submitted tenders.
10. The Bank of Canada is eligible without restriction to participate in each auction.
11. No fees or commissions will be paid by the Government of Canada in connection with the auction of Government of Canada securities conducted in accordance with these terms.
12. Bidders must report their net positions in the auctioned security to the Bank of Canada in accordance with Section 8 of the Terms of Participation.
13. In delivering Government of Canada securities to government securities distributors, the Bank of Canada will, until further notice, utilize CDSX provided by CDS Clearing and Depository Services Inc. (“CDS”). The delivery of Government of Canada securities to a customer shall be settled through the government securities distributor who submitted the bid for the customer. The allocation of Government of Canada securities to each government securities distributor from whom a bid is accepted shall be effected through the settlement of a sale in CDSX, involving the book entry transfer of Government of Canada securities from the Bank of Canada’s CDSX securities account to the CDSX securities account designated by the government securities distributor, in exchange for a CDSX funds transfer of the net new issue amount owing by the government securities distributor. Government securities distributors shall observe all applicable CDS Rules, Procedures, and User Guides for CDSX. Government securities distributors are responsible for the settlement, on the day stipulated in the *Final Call for Tenders*, of any accepted bids that they have submitted on their own behalf or on the behalf of a customer, and shall be liable to the Bank of Canada for any losses incurred as a result of those sales failing to settle in CDSX.
14. Principal and interest on nominal bonds and Real Return Bonds, and Inflation Compensation on Real Return Bonds, will be payable, and treasury bills will be redeemable at maturity, in lawful money of Canada paid to CDS & Co. Government of Canada securities must be purchased, transferred, or sold directly or indirectly through a participant in CDSX. If at any time, the Minister of Finance determines that it is no longer practicable or appropriate to use CDS, the Minister may select another depository for the purpose of registration and settlement of the Government of Canada securities, or may direct that individual certificates be made available to Government Security owners in integral multiples of \$1,000. The Government of Canada securities are authorized pursuant to an Act of Parliament, and all amounts payable under the applicable terms of those securities are a direct charge on, and payable out of, the Consolidated Revenue Fund of Canada.

## Schedule A

### TERMS OF PARTICIPATION IN AUCTIONS FOR GOVERNMENT SECURITIES DISTRIBUTORS AND CUSTOMERS

For an explanation of the terms used in the *Standard Terms for Auctions of Government of Canada Securities* (which includes the Terms of Participation attached thereto as Schedule “A”), refer to **Appendix 1 – Explanation of Terms**.

Sections that apply only to government securities distributors or customers are labelled as such under the appropriate headings.

#### 1. Bidder Definition

- 1.1 The bidder definition covers all government securities distributors and customers and applies to both legal entities (hereafter referred to as “entities”) and individuals. Refer to **Appendix 2 – Affiliated vs. Non-Affiliated Parties** for the definition of legal entities.
- 1.2 All bidders must certify, at such times and in such form as the Bank of Canada may require, that they are not bidding in concert with any other bidder.
- 1.3 A government securities distributor must not be affiliated with another government securities distributor.
- 1.4 Entities that are affiliated are considered one bidder for the purposes of Government of Canada securities auctions. To avoid being considered a single bidder, affiliated entities must certify that they do not exchange with one another information about yields, amounts, positions they hold or plan to hold, or their investment strategies with respect to the securities being auctioned. For the criteria used to determine whether one entity is “affiliated” with another, refer to Appendix 2.
- 1.5 An affiliate must promptly notify the Bank of Canada, in writing, of a change in the circumstances that enable the affiliate to qualify for separate-bidder status, or if their certification is no longer valid.
- 1.6 Any entity that implements the conditions necessary to be considered a separate bidder must direct all bids and purchases through a non-affiliated government securities distributor.
- 1.7 All bidders must notify the Auction Line at the Bank of Canada (613-782-7719) of any changes in auction contact information.

#### 2. Government Securities Distributors: Status

- 2.1 An entity seeking to apply to the Bank of Canada in order to obtain the status of a government securities distributor must provide the following information to the Bank of Canada:
  - 2.1.1 The motivation for obtaining the status of a government securities distributor;
  - 2.1.2 Detailed records reflecting at least six months of adequate domestic fixed-income trading data;

- 2.1.3 The business plan of the firm with respect to participation at auctions of Government of Canada securities and fixed-income trading and/or money market trading; and
- 2.1.4 Demonstration of the firm's ability to submit bids and settle at auctions.
- 2.2 Every government securities distributor must be a dealer member of the Investment Industry Regulatory Organization of Canada (IIROC). An entity that was a government securities distributor for bonds or treasury bills, or both, on 1 November 2015 may continue to operate as a government securities distributor without becoming a dealer member of IIROC only if it continues to operate in that same capacity.
- 2.3 Every government securities distributor must have its core domestic fixed-income market trading and sales operations for Government of Canada securities residing in Canada.
- 2.4 Every government securities distributor, irrespective of whether it is a dealer member of IIROC, must submit, or cause to be submitted, weekly statistical reports on its domestic fixed-income trading activities (including Repo transactions) in the required format as specified by the Bank of Canada to IIROC and the Bank of Canada via the Market Trade Reporting System (MTRS) operated by the Bank of Canada as agent of the Government of Canada. The Bank of Canada may waive this requirement at any time by publishing a notice on its website stating that weekly statistical reporting via MTRS is no longer required.
- 2.5 Every government securities distributor, irrespective of whether it is a dealer member of IIROC, must submit, or cause to be submitted, reports on its fixed-income trading activities (including Repo transactions), in the required format as specified in IIROC Rule 7200 to IIROC and the Bank of Canada via the Market Trade Reporting System operated by IIROC (MTRS 2.0), subject to the following conditions:
  - 2.5.1 Subject to section 2.5.2, transaction types that are not required to be reported under IIROC Rule 7200 must not be reported;
  - 2.5.2 Notwithstanding and in addition to the reporting requirements and exceptions in IIROC Rule 7200, transactions involving debt securities with an original maturity of greater than one year executed by an entity that is a government securities distributors for treasury bills only must be reported.

### **3. Government Securities Distributors: Primary Dealer Status**

- 3.1 A government securities distributor may be designated a primary dealer when: (i) its calculated bidding limit reaches a threshold level of 10 per cent based on its primary and secondary market shares, and buyback activity; and (ii) it has provided evidence of sufficient resources and the desire to participate actively in the market-making activity of Government of Canada securities to the satisfaction of the Department of Finance and the Bank of Canada.
- 3.2 The Department of Finance and the Bank of Canada may designate a government securities distributor as a primary dealer for either treasury bills or bonds, or both.
- 3.3 Any primary dealer whose performance has caused its calculated bidding limit to fall below 10 per cent will be given six months to improve its performance before its primary dealer designation is removed.

- 3.4 In the event that two or more government securities distributors merge, the bidding limit for the new entity is determined by the combined activity of the pre-merger entities, subject to the 25 per cent maximum bidding limit.

#### **4. Submission of Bids**

##### Government Securities Distributors

- 4.1 Government securities distributors are able to bid on their own behalf subject to an auction limit and bidding limit.
- 4.2 Government securities distributors also have a separate limit for the total amount of bids that they can place on behalf of customers (the customer submission limit). These bids must be listed separately from the government securities distributor's own bids. Government securities distributors are not authorized to submit pre-tender orders from customers under the government securities distributor's own bidding limit.

##### Customers

- 4.3 Bidding by each customer is subject to an auction limit and bidding limit.
- 4.4 Each customer is required to obtain a unique bidder identification number from the Bank of Canada before it can bid. An application form for obtaining a bidder identification number is available on the Bank of Canada's website ([Customer Application for Bidder Identification Number](#)). The Bank of Canada can de-activate the bidder identification number of any customer that has not participated at an auction over a period of one year. Any customer whose bidder identification number has been de-activated must reapply, no earlier than three months following the deactivation, to obtain a new bidder identification number from the Bank of Canada before it can resume bidding.
- 4.5 Customers must submit bids through a government securities distributor.
- 4.6 A customer may submit its bids through more than one government securities distributor, as long as the total amount of its bids does not exceed the customer's auction limit.
- 4.7 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.
- 4.8 A customer's ability to bid through a government securities distributor might be constrained by the government securities distributor's limit for customer bids and allocation of its aggregate limit.
- 4.9 Customer bids are not netted against the limits of government securities distributors.

#### **5. Bidding Limits for Auctions of Government of Canada Securities**

- 5.1 Tables 1 and 2 that can be found starting on the next page set out the bidding limits for auctions of Government of Canada securities.

**TABLE 1: BIDDING LIMITS FOR BOND AUCTIONS**

| Bidder Classification <sup>1</sup> |   | Competitive Bidding  | Non-Competitive Bidding <sup>2</sup>   |
|------------------------------------|---|--|--|
| Government Securities Distributors | Primary Dealers                                       | For own account  | \$3 million  |
|                                    |   | For customers  | The sum of customer bids cannot exceed \$3 million for Real Return Bonds and \$10 million for nominal bonds. |
|                                    |   | In aggregate <sup>3</sup>  |  |
|                                    | Other Government Securities Distributors <sup>4</sup> | For own account  | \$0 or \$3 million   |
|                                    |   | For customers  | The sum of customer bids cannot exceed \$3 million for Real Return Bonds and \$10 million for nominal bonds. |
| Customers                          |   | \$3 million for Real Return Bonds and \$5 million for nominal bonds. |  |

<sup>1</sup> Entities that are affiliated will be considered one bidder for purposes of calculating their bidding limit.

<sup>2</sup> 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 auctions of Real Return Bonds, non-competitive allocations are made at the allotment price).

<sup>3</sup> For examples illustrating how to calculate aggregate bidding limits, see Appendix 3.

<sup>4</sup> Government securities distributors that do not act as principal in the purchase and sale of Government of Canada securities directly with customers and other financial intermediaries have a competitive bidding limit of 0 per cent and a non-competitive bidding limit of \$0 for their own account.

**TABLE 2: BIDDING LIMITS FOR TREASURY BILLS**

| Bidder Classification <sup>1</sup> |   | Competitive Bidding       |   |  | Non-Competitive Bidding   |
|------------------------------------|---|---------------------------|---|--|---|
|                                    |   |                           | Regular treasury bills and fungible cash-management bills (per tranche)   | Non-fungible cash-management bills (per tranche) | (per tranche, for all treasury bills and cash-management bills) |
| Government Securities Distributors | Primary Dealers                                       | For own account           | 25 per cent of the tender   | 100 per cent of the tender                       | \$3 million   |
|                                    |   | For customers             | 25 per cent of the tender   | 100 per cent of the tender                       | \$10 million  |
|                                    |   | In aggregate <sup>2</sup> | The sum of the bids submitted by a primary dealer on its own behalf and on behalf of its customers cannot exceed 40 per cent of the auctioned amount less the dealer's excess net long position (up to the dealer's bidding limit). | 100 per cent of the tender                       |   |
|                                    | Other Government Securities Distributors <sup>3</sup> | For own account           | 0 or 10 per cent of the tender  | 0 or 100 per cent of the tender                  | \$0 or \$3 million  |
|                                    |   | For customers             | 10 per cent of the tender   | 100 per cent of the tender                       | \$10 million  |
| Customers                          |   |                           | 25 per cent of the tender   | 100 per cent of the tender                       | \$5 million   |

<sup>1</sup> Entities that are affiliated will be considered one bidder for purposes of calculating their bidding limit.

<sup>2</sup> For examples illustrating how to calculate aggregate bidding limits, see Appendix 3.

<sup>3</sup> Government securities distributors that do not act as principal in the purchase and sale of Government of Canada securities directly with customers and other financial intermediaries have a competitive bidding limit of 0 per cent and a non-competitive bidding limit of \$0 for their own account.



## **6. Calculation of Competitive Bidding Limits (Government Securities Distributors)**

- 6.1 This section applies to the calculation of competitive bidding limits for government securities distributors bidding for their own account and must be read in conjunction with section 5.1.
- 6.2 For bonds, bidding limits are calculated on the basis of a formula calculation (as set out in the table in section 5) that takes into account, over the previous four quarters, each government securities distributor's: (i) winnings on its own behalf at auctions of bonds; (ii) participation at buyback operations; and (iii) activity in the secondary market for bonds.
- 6.3 For regular Government of Canada treasury bills and fungible cash-management bills, bidding limits are calculated on the basis of the formula calculation that takes into account, over the previous four quarters, each government securities distributor's: (i) winnings on its own behalf at auctions of regular treasury bills and fungible cash-management bills; (ii) participation at auctions of non-fungible cash-management bills; and (iii) activity in the secondary market for regular treasury bills and cash-management bills (both fungible and non-fungible).
- 6.4 Since participation in buyback operations for bonds is optional, the formula will not lower the bidding limits of government securities distributors that choose not to participate in these operations.
- 6.5 The formula calculation excludes securities allotted to the Bank of Canada at auctions.
- 6.6 For the purposes of calculating bidding limits, the primary market share of a government securities distributor includes its competitive and non-competitive winning bids, but does not include winning bids on behalf of customers.
- 6.7 Primary market activity has a greater weighting than secondary market activity, which in turn has a greater weighting than participation at buyback operations.
- 6.8 Bidding limits determined by the formula calculation are rounded upward to the nearest percentage point.
- 6.9 Bidding limits are re-calculated every six months and communicated to government securities distributors.
- 6.10 In assessing the application of a new government securities distributor, the Bank of Canada may use data on bids entered on the applicant's behalf by other government securities distributors over a specified period.

## **7. Calculation of Competitive Auction Limits**

- 7.1 The maximum that any bidder can bid on a competitive basis at an auction (its auction limit) equals its bidding limit less its excess net long position, which is 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 auctioned (Examples are provided in **Appendix 3 – Illustration of Primary Dealer Aggregate Bidding Limits**).
- 7.2 To permit computation of the auction limit, bidders must report their net positions prior to the auction. For the purposes of the computation of the auction limit, the bidder's net position

includes 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; (vi) option contracts which require delivery of the specific security being auctioned weighted by the estimated probability that the option(s) will be exercised;<sup>1</sup> and (vii) any position in the security not covered by the above types of contracts, including “guaranteed” trades. For Repo transactions, only the entity that sells the security on the first leg of the repo must report the security as part of its position. For securities lending, only the entity that owns the security must report the security as part of its position. All positions are based on trade date rather than delivery date. Bidders are not required to post net positions for securities that share the same maturity date (fungible) as the auctioned security, unless they have been stripped and reconstituted into the auctioned security.

## **8. Reporting Requirements**

### *Reporting of Net Positions*

#### Government Securities Distributors

- 8.1 Government securities distributors must report their aggregate net positions in the auctioned security to the Bank of Canada when submitting their own bids or bids on behalf of their customers. Their net positions must be reported, regardless of whether they are long or short positions. If no net position is reported, the competitive bid will be rejected automatically
- 8.2 Government securities distributors are responsible for informing their customers that customers must report their net positions either indirectly through the government securities distributor or directly to the Bank of Canada before their bids are included in an auction.
- 8.3 Prior to the bidding deadline, each bidder must re-submit its net position if it changes by more than \$25 million. After the bidding deadline, no bidder may re-submit or modify its net position except for government securities distributors who may re-submit or modify their net positions up to 15 minutes after the bidding deadline if: (1) a trade close to the bidding deadline causes their net position to change by more than \$25 million, (2) the change could not reasonably be reported before the bidding deadline, and (3) the change does not modify the auction limit of the government securities distributor. It is the responsibility of the government securities distributor to contact the Auction Manager on the day of the auction and provide reasons in support of its re-submission or modification of its net position after the bidding deadline.
- 8.4 Government securities distributors are required to provide net positions on their own behalf and on behalf of customers when the Bank of Canada conducts a spot verification of net positions after an auction.

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<sup>1</sup> For example, an option with an estimated 50 per cent probability of being exercised on a notional amount of \$100 million would represent a weighted position (long or short) in the auctioned security of \$50 million (\$100 million x 0.5).

### Customers

- 8.5 Customers bidding competitively at auctions must report their net positions in the auctioned security. A competitive bid submitted by a government securities distributor on behalf of a customer will be rejected automatically if the customer has not reported its net positions in the auctioned security.
- 8.6 A customer can submit its net position either directly to the Bank of Canada or through a government securities distributor that is submitting a bid on its 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.
- 8.7 Each bidder is required to re-submit its net position if it changes by more than \$25 million before the bidding deadline.
- 8.8 A customer may make non-competitive bids without submitting a net position

### *Bid Certification and Verification*

- 8.9 Every bidder is required to certify that the information it provides to the Bank of Canada is correct. These certificates are to be forwarded to the Bank of Canada on an annual basis by the internal audit departments of government securities distributors.
- 8.10 In order to maintain market integrity, the Bank of Canada, may verify the accuracy and completeness of customer bids submitted by government securities distributors.

### *Market Information*

#### All Bidders

- 8.11 In the event that the Bank of Canada is of the view that there is or has been unusual trading activity in a Government of Canada security for a persistent period of time, the Bank may require government securities distributors to disclose the names and activities of customers involved in such trading.
- 8.12 The Department of Finance and the Bank of Canada can, at their discretion, investigate whether activity has contravened auction rules. If the Department of Finance or Bank of Canada suspects that there may have been an attempt to manipulate the market for Government of Canada securities, the Department of Finance or the Bank of Canada may: (i) notify the appropriate regulatory authorities; (ii) refer such incidents to IIROC for investigation of possible violations of its Rule 7100, the Code of Conduct for Corporation Dealer Member Firms Trading in Wholesale Domestic Debt Markets; and (iii) sell securities from the Bank of Canada's portfolio. The Government of Canada can, at its discretion, re-open an issue outside the timetable provided by the Quarterly Bond Schedule and the usual cycle for treasury bill issuance.

#### Government Securities Distributors

- 8.13 Government securities distributors are required to make available real-time information on fixed-income prices and yields. Government securities distributors may also, from time to time, be required to (i) report secondary market trading; and (ii) provide detailed issue-specific trading reports to the Bank of Canada. The purpose of such reports will typically be to clarify the reasons for specific securities to trade in the cash and repo markets at prices divergent from issues of similar maturity.
- 8.14 In order to provide assurance that government securities distributors are maintaining a sound financial position, the Bank of Canada may require information regarding their capitalization and profitability from their regulatory authority.

## **9. Code of Conduct**

Each bidder must comply with IROC Rule 7100, Code of Conduct for Corporation Dealer Member Firms Trading in Wholesale Domestic Debt Markets, to the extent applicable to such bidder.

## **10. Responsibilities of Government Securities Distributors**

- 10.1 Each government securities distributor must submit at least one winning competitive or non-competitive bid on its own behalf or on behalf of customers, every six months.
- 10.2 Failure to submit one competitive or non-competitive winning bid at least once every six months will result in the revocation of a dealer's government securities distributor status. The dealer may re-submit an application, no earlier than three months after its revocation.
- 10.3 The six-month period will coincide with the revision of bidding limits for government securities distributors (1 April to 30 September and 1 October to 31 March).
- 10.4 Each government securities distributor is solely responsible for ensuring that it meets its minimum winning obligation under Section 10.1.

## **11. Responsibilities of Primary Dealers**

### **11.1 Minimum Bidding**

- 11.1.1 At every auction, a primary dealer's bids, and bids from its customers, must total a minimum of 50 per cent of its auction limit and or 50 per cent of its formula calculation, rounded upward to the nearest percentage point, whichever is less.
- 11.1.2 Minimum bidding requirements do not apply to auctions of non-fungible cash-management bills and buyback operations of bonds.
- 11.1.3 Minimum bidding requirements apply to auctions of: (i) regular treasury bills; (ii) fungible cash-management bills; and (iii) bonds, including Real Return Bonds.
- 11.1.4 The minimum level of bidding must be at no more than 10 basis points above the highest yield accepted by the Bank of Canada for that issue of Government of Canada securities.
- 11.1.5 The minimum level of bidding for Real Return Bonds must be at no more than 10 basis points above the higher of (i) the highest yield accepted by the Bank of Canada for that

issue of Real Return Bonds and (ii) the yield in the secondary market prior to the auction for that Real Return Bond. The secondary market yield will be determined, by the Bank of Canada, on the basis of the secondary market quotes before the auction.

- 11.2 On average, the percentage of accepted bids should be approximately equal to the primary dealer's share in the secondary market over a specified time period.
- 11.3 A primary dealer is expected to make two-sided markets (bid and offer) under normal market conditions. The term "two-sided markets" entails the posting of bid and offer prices at a spread not significantly larger than that of other market participants for a typical trade size.
- 11.4 As noted in Section 8, a primary dealer is obliged to provide market information, including trade activity and position reports, to the Bank of Canada, on request, in a timely and expeditious manner.

## **12. Monitoring and Compliance**

### *Government Securities Distributors*

- 12.1 As noted in Section 6.9 above, the Bank of Canada recalculates bidding limits every six months and informs government securities distributors of their recalculated limits. In the event that a firm's bidding limit changes significantly during a recalculation period, the Bank may contact that firm to discuss the circumstances giving rise to the change in the limit.
- 12.2 The Bank of Canada analyzes bidding after each auction to determine whether primary dealers have complied with the minimum bidding obligations. In the event that a primary dealer has not met its minimum bidding obligations, the Bank of Canada will contact the primary dealer shortly after the auction to discuss the circumstances pertaining to the auction.

### *All Bidders*

- 12.3 The Department of Finance and the Bank of Canada may sanction a bidder if they are of the view that the bidder has: attempted to manipulate the market for Government of Canada securities; made an incorrect representation or certification; failed to provide information required under these Terms, or provided information that was incorrect, inaccurate, or incomplete or participated in any other breach of these Terms or, in the case of government securities distributors, of IIROC Rule 7100, Code of Conduct for Corporation Dealer Member Firms Trading in Wholesale Domestic Debt Markets. In the case of customers, the Department of Finance and the Bank of Canada may also refer the incident to IIROC or any other regulatory authority.
- 12.4 Before imposing a sanction, the Department of Finance and the Bank of Canada will contact the bidder in question to notify the firm of their intention to impose a sanction, and to provide the firm with an opportunity to explain the situation.
- 12.5 The sanctions that the Department of Finance and the Bank of Canada may impose include suspending the bidder from participating in one or more future auctions; and changing, on a temporary or permanent basis, the government securities distributor's bidding limits. In the event of behaviour that the Department of Finance and the Bank of Canada consider to be fundamentally incompatible with a firm continuing to act as a bidder, the Department of Finance and the Bank of Canada may

- 12.5.1 in the case of a government securities distributor, revoke the government securities distributor's status as a government securities distributor; or
- 12.5.2 in the case of a customer, revoke the customer's access to auctions.
- 12.6 Sanctioning of bidders in the case of an infraction related to these Terms is based on a surveillance framework that ensures the fair and consistent treatment of all parties involved.
- 12.7 Any outstanding obligations or liabilities owed by a bidder to the Bank of Canada or the Government as a result of past participation in auctions shall survive the imposition of any sanction on that bidder.

## Appendix 1 – Explanation of Terms

Terms used in the *Standard Terms for Auctions of Government of Canada Securities* (which includes the Terms of Participation attached thereto as Schedule “A”) and defined below have the meanings set out below. Terms not defined herein have the meanings as set out in the [Legal Terms and Conditions for Government of Canada Domestic Marketable Debt Securities](#).

Definitions:

*Aggregate limit* means the maximum amount for which a government securities distributor and its customers can bid in combination.

*Auction limit* means the maximum amount for which a government securities distributor or customer is allowed to bid at a specific auction. The auction limit is equal to the bidding limit adjusted for long positions in the securities being auctioned. An auction limit is equal to or smaller than the bidding limit.

A *bid* is an offer to purchase a stated par amount of securities at an auction, either on a competitive or non-competitive basis. An offer to purchase a stated par amount of securities submitted by a government securities distributor to fulfill a guarantee to sell a specified amount of securities at an agreed-upon price or a price fixed in terms of an agreed-upon standard is a bid of the government securities distributor and not a bid of a customer. The terms “tender” and “bid” are interchangeable and have the same meaning, unless the context requires otherwise.

A *bidder* is a person or an entity that bids either directly or through an entity authorized to submit bids for customers in an auction. In some cases, two or more persons or entities are considered to be one bidder, based on their relationship. The term “bidder” is used collectively to refer to government securities distributors and customers, as the context requires.

*Bidding limit* means the government securities distributor’s or customer’s limit prior to adjusting for long positions. If a government securities distributor or a customer does not have a long position, its auction limit would equal its bidding limit.

*Bonds* mean Real Return Bonds and nominal bonds issued pursuant to the *Financial Administration Act*.

A *customer* is a bidder on whose behalf a government securities distributor has been directed to submit a competitive or non-competitive bid for a specified amount of securities at a specific price.

*Customer submission limit* means the maximum amount of bids a government securities distributor is allowed to submit on behalf of its customers.

*Government of Canada securities* means bonds or treasury bills or both.

A *government securities distributor* is an entity that has been given notice of its status as such by the Bank of Canada and applies to those bidders eligible to participate directly in the tender process at Government of Canada auctions.

A *primary dealer* is a member of the subset of government securities distributors whose participation in the primary and secondary markets for Government of Canada securities is above a

threshold level, and who acts as a principal for customers and other financial intermediaries in the purchase and sale of Government of Canada securities. A government securities distributor may be a primary dealer for bonds, or treasury bills, or for both.

*Repo transaction* means a transaction that involves the simultaneous sale and future repurchase, or simultaneous purchase and future sale (reverse repo), of any debt securities, including transactions arranged as buy sell-backs and sell buy-backs.

A *submitter* is an entity that is permitted to submit bids, either on its own behalf or on behalf of customers, to the Bank of Canada for the auction of Government of Canada securities. Only government securities distributors and the Bank of Canada may be submitters.

*Treasury bills* means Government of Canada treasury bills issued pursuant to the *Financial Administration Act*. Treasury bills can be subdivided into the following categories:

*Regular treasury bills* means Government of Canada treasury bills that are issued with a maturity of three months or more

*Fungible cash-management bills* means Government of Canada treasury bills that are issued with a maturity of less than three months and share a common maturity date with previously issued regular treasury bills

*Non-fungible cash management bills* means Government of Canada treasury bills that are issued with a maturity of less than three months and do not share a common maturity date with previously issued regular treasury bills



## Appendix 2 – Affiliated vs. Non-Affiliated Parties

### 2.1 Definition of Affiliated Party

Legal entities (hereafter referred to as “entities”) may bid at auctions, either directly or indirectly. Various operational components, departments, or divisions within the same entity will not be considered separate bidders at auctions. Only entities that are not affiliated with any other bidder may submit a separate auction bid for Government of Canada securities. Entities that are considered under these rules to be affiliated will be treated collectively as a single bidder unless they can meet, to the satisfaction of the Bank of Canada and the Department of Finance, the criteria set out for treating otherwise affiliated parties as separate bidders. Individuals may only bid indirectly at an auction, i.e., through one or more government securities dealers.

Two persons are affiliated if one is controlled by the other or if both are controlled by the same person.

A person is affiliated with an entity if that person is a director or senior officer of the entity.

A person controls a corporation if:

- Securities of the corporation to which are attached more than 50 per cent of the votes that may 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;
- The aggregate of (i) any securities of the corporation that are beneficially owned by that person and (ii) any securities of the corporation that are beneficially owned by any entity controlled by that person is such that, if that person and all of the entities controlled by it that beneficially own securities of the corporation were one person, that person would control the corporation; or
- That person controls an entity that controls the corporation.

A person controls a limited partnership if:

- (a) That person is a general partner of the limited partnership; or
- (b) That person controls an entity that controls the limited partnership.

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

- (a) 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
- (b) That person controls an entity that controls the unincorporated entity.

A person controls a trust if:

- (c) that person is a trustee of the trust, or
- (d) that person controls a trustee of the trust

A person controls any 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.

For the purpose of determining control, the term “Entity” includes the following:

- corporations
- partnerships
- trusts
- funds
- unincorporated associations or organizations
- Her Majesty in Right of Canada or of provincial governments
- agencies of Her Majesty in either of such rights
- governments of foreign countries or any political subdivisions thereof and any agencies thereof
- foreign central banks
- international organizations.

“Person” means an individual or an entity.

## **2.2 Requirements to Establish Non-Affiliated Status within a Corporate Group**

The definition of a bidder permits an otherwise affiliated entity within a corporate group to bid separately if it is prepared to organize itself in such a manner that there is no exchange of information on auction bidding and strategy between it and other affiliated entities. Specifically, two or more entities that are affiliated may submit separate bids provided that each affiliate has certified to the Bank of Canada that it meets certain specified criteria meant to prevent the exchange of information on auction bidding and strategy, and that it has established written policies and procedures designed to ensure continued compliance. The criteria include: (i) the affiliate does not act jointly or in concert with any of the other affiliates with respect to securities; (ii) no director, officer, partner, employee, or agent of the affiliate that purchases Government of Canada securities at auctions or advises with respect to, participates in the formulation of, has influence over, or has knowledge of decisions or information relating to holdings, investment, or bidding strategies in or for Government of Canada securities by or on behalf of that affiliate, also engages in any of the same activities or has any of the same knowledge in respect of Government of Canada securities for or on behalf of any of the other affiliates;<sup>2</sup> (iii) the affiliate does not exchange information related to bidding at auctions with any of the other affiliates; and (iv) each affiliate maintains its records relating to holdings of and investment and bidding strategies for Government of Canada securities separate and apart from the records of any of the other affiliates.

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<sup>2</sup> This criterion does not apply with respect to (i) individuals who are either involved in senior management or engaged solely in clerical or administrative activities and who do not in either case make decisions relating to holding, investing and bidding for Government of Canada securities and (ii) knowledge of information that has been generally and publicly disseminated.

### Appendix 3 – Illustration of Primary Dealer Aggregate Bidding Limits

This appendix provides examples of the **aggregate limit**, which states that the sum of the bids submitted by a primary dealer on its own behalf and on behalf of its customers cannot exceed 40 per cent of the tender less the dealer's excess long position (up to the dealer's bidding limit). This rule affects primary dealers with limits over 15 per cent.

#### Example 1: Assume a new tender of \$2 billion

If the dealer has a 25 per cent bidding limit and no long position:

*Dealer auction limit on own behalf (25 per cent less excess long) = \$500 million*

*Dealer submission limit for customers (25 per cent) = \$500 million*

*Aggregate limit (40 per cent less excess long) = \$800 million*

The dealer must allocate bids between its own account and total customer bids to not exceed \$500 million each and \$800 million combined.

#### Example 2: Assume a tender of \$2 billion (re-opening of a \$2 billion issue)

a) If the dealer has a long position of \$500 million or less, it does not have an excess long position and its limits are the same as in Example 1.

b) If the dealer has a long position of \$750 million, its excess long position is \$250 million.

*Dealer auction limit on own behalf (25 per cent less excess long)*

*= \$500 million - \$250 million = \$250 million*

*Dealer submission limit for customers (25 per cent) = \$500 million*

*Aggregate limit (40 per cent less excess long) = \$800 million - \$250 million = \$550 million*

The dealer must allocate bids between its own account (not over \$250 million) and total customer bids (not over \$500 million) so that combined bidding does not exceed \$550 million.

c) If the dealer has a long position of \$1 billion, its excess long position is \$500 million.

*Dealer auction limit on own behalf (25 per cent less excess long)*

*= \$500 million - \$500 million = \$0*

*Dealer submission limit for customers (25 per cent) = \$500 million*

*Aggregate limit (40 per cent less excess long) = \$800 million - \$500 million = \$300 million*

The dealer cannot bid on its own account, and total customer bids cannot exceed \$300 million.

d) If the dealer has a long position of more than \$1 billion, its excess long position exceeds its bidding limit. Therefore, the 40 per cent aggregate limit is reduced by the bidding limit rather than the excess long position. As a result, the customer limit is still \$300 million.

#### Example 3: Assume a tender of \$2 billion (re-opening of a \$6 billion issue)

a) If the dealer is long \$1,500 million or less, the limits are the same as in Example 1 (there is no excess long position).

b) If the dealer is long \$1,750 million, the limits are the same as in Example 2b.

- c)** If the dealer is long \$2 billion, the limits are the same as in Example 2c (the excess long position equals the bidding limit).
- d)** If the dealer is long more than \$2 billion, the limits are the same as in example 2d (the excess long position exceeds the bidding limit, and the 40 per cent is reduced by the bidding limit).