

EFFECTIVE 31 JANUARY 2022

STANDARD TERMS FOR SWITCH OPERATIONS OF GOVERNMENT OF CANADA MARKETABLE BONDS

1. The Minister of Finance hereby gives notice that all tenders submitted by authorized government securities distributors (“government securities distributors”), on or after the date set out above, to exchange Government of Canada marketable bonds issued pursuant to the Financial Administration Act (“repurchase bonds”) for other series of Government of Canada marketable bonds (“replacement bonds”) shall be subject to these *Standard Terms for Switch Operations of Government of Canada Marketable Bonds*.
2. Each tender shall be unconditional and shall be received by the Bank of Canada, acting on behalf of the Department of Finance Canada, **not later than the time**, and on the auction day, specified in the *Switch Operation Call for Tenders*, to which the tender is a response.
3. Government securities distributors and customers may submit competitive tenders only. Offers may be submitted by both government securities distributors and by customers, provided that, in the case of an offer by a customer, the customer has obtained a bidder identification number from the Bank of Canada prior to the tender. Offers by customers must be submitted through a government securities distributor and include the customer’s bidder identification number. Where a government securities distributor submits offers, both on its own behalf and on the behalf of a customer with a bidder identification number, the offers on behalf of the customer must be listed separately from the distributor’s own offers.
4. For each targeted repurchase bond, neither the total amount of bonds offered by a government securities distributor on its own behalf nor the total amount of bonds offered by a customer with a bidder identification number may exceed the least of the total outstanding amount of the targeted repurchase bond and twice the maximum total replacement amount specified in the *Switch Operation Call for Tenders*. For each targeted repurchase bond included in the *Switch Operation Call for Tenders*, government securities distributors may submit up to five offers on their own behalf and up to five offers on behalf of each of their customers with a bidder identification number. Each offer must be stated in multiples of \$1,000 subject to the condition that each individual offer be for a minimum par value of \$1,000,000. Each offer shall state the yield spread, calculated as the yield to maturity of the repurchase bond less the yield to maturity of the replacement bond (the “yield spread”), in basis points to one decimal place. Government securities distributors shall not make an offer directly or indirectly on behalf of, or in concert with, any other government securities distributor.
5. The replacement bond price will be released on the enter tenders page on the *Bank of Canada Auction System* provided by the Bank of Canada prior to the deadline for submitting offers. The repurchase bond price for each accepted offer will be determined on the basis of the accepted yield spread submitted, added to the replacement bond yield to maturity. The calculation of the price for accepted offers will be carried to three decimal places on the basis of price per hundred, plus accrued interest if applicable.

6. The maximum amount of the replacement bond that any government securities distributor or customer can be awarded is the least of the total replacement amount specified in the *Switch Operation Call for Tenders* and 25 per cent of the total outstanding amount of the replacement bond after the switch operation less the bidder's aggregate net position in the replacement bond.
7. Tenders shall be submitted to the Bank of Canada, acting on behalf of the Department of Finance Canada, 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. With the prior permission of the Bank of Canada, tenders may alternatively be submitted on the official tender forms.
8. The Minister of Finance reserves the right to accept or reject any or all offers, in whole or in part, including without limitation, the right to accept less than the maximum replacement amount specified in the *Switch Operation Call for Tenders*.
9. All repurchase bonds delivered pursuant to offers from government securities distributors must be submitted free and clear of all liens, charges, claims, encumbrances, security interests or other restrictions of any kind and a government securities distributor, in delivering repurchase bonds, is deemed to warrant and represent that all bonds delivered by it are so free and clear.
10. The operation 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.
11. The Bank of Canada is eligible without restriction to participate in each switch operation.
12. No fees or commissions will be paid by the Government of Canada in connection with any switches of Government of Canada marketable bonds.
13. Government securities distributors must report their aggregate net position in the replacement bond to the Bank of Canada when submitting their own offers or offers on behalf of customers. Customers bidding at a switch operation must also report their aggregate net position in the replacement bond. If no net position is reported, the offer for the non-reporting entity will be rejected automatically. Customers can submit their aggregate net position either directly to the Bank of Canada or through a government securities distributor that is submitting an offer on their behalf. A customer reporting its net position in the replacement bond directly to the Bank of Canada may do so up to 30 minutes before the bidding deadline. All bidders are required to re-submit their net position in the replacement bond, by the bidding deadline, if it changes by more than \$25 million.
14. In taking delivery of the repurchase bonds from government securities distributors and in delivering the replacement bonds 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 repurchase bonds from a customer and the delivery of replacement bonds to a customer shall be settled through the government securities distributor who submitted the offer for the customer.

- a. The purchase of repurchase bonds from a government securities distributor from whom an offer is accepted shall be effected through the settlement of a purchase in CDSX, involving the book entry transfer of repurchase bonds to the Bank of Canada's CDSX securities account from the CDSX securities account designated by the government securities distributor, in exchange for a CDSX funds transfer of the amount owing by the Government of Canada in connection with the purchase of the repurchase bonds.
 - b. Upon settlement of the repurchase transaction from a government securities distributor, the replacement bond allocation to the successful government securities distributor shall be effected through the settlement of a sale in CDSX, involving the book entry transfer of the replacement bonds 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 amount owing by the government securities distributor in connection with the purchase of the replacement bonds.
 - c. 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 *Switch Operation Call for Tenders*, of any accepted offers 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 transactions failing to settle in CDSX.
15. Principal and interest on the bonds will be paid in lawful money of Canada to CDS & Co. The bonds 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 bonds, or may direct that individual certificates be made available to bond owners in integral multiples of \$1,000. The bonds are authorized pursuant to an Act of Parliament, and both principal and interest are a direct charge on, and payable out of, the Consolidated Revenue Fund of Canada.
16. Government securities distributors and customers must comply with the Schedule A of the *Standard Terms for Auctions of Government of Canada Securities*.