BANK OF CANADA
BANQUE DU CANADA

Staff analytical paper / Document analytique du personnel—2026-26

Last updated: June 11, 2026

Everything You Want to Know About the Bank's Standing Liquidity Facility… But were too afraid to ask!

Kaetlynd McRae
Markets and Banking Department
Bank of Canada
kmcrae@bank-banque-canada.ca

Jessie Chen
Markets and Banking Department
Bank of Canada
zchen@bank-banque-canada.ca

DOI: https://doi.org/10.34989/sap-2026-26 | ISSN 3110-9195

Acknowledgements

The authors would like to thank Toni Gravelle, Stéphane Lavoie, Scott Kinnear, Max Esser, and David Charles for their valuable guidance and thoughtful contributions throughout the development of this paper.

Abstract

The Standing Liquidity Facility (SLF) is one of the Bank of Canada's least discussed tools—and one of its most important. Embedded directly in Canada's high-value payment system, Lynx, the SLF operates quietly in the background every business day, ensuring the smooth settlement of payments and reinforcing the implementation of monetary policy. This Staff Discussion Paper demystifies the SLF by answering the questions that are most often overlooked: how intraday and overnight advances work, what their use does (and does not) signal about liquidity conditions, how collateral eligibility and haircuts are determined, and how the facility supports both monetary policy implementation and financial system resilience. By shedding light on this "business-as-usual" facility, the paper shows why the SLF is the cornerstone of Canada's liquidity framework—addressing everything you wanted to know about the SLF (and a few things you may have been afraid to ask).

Topics: Monetary policy - Monetary policy tools and implementation, Financial markets and funds management - Market functioning, Money and payments - Payment and financial market infrastructures, Financial system - Financial institutions and intermediation
JEL codes: E41, E42, E44, E58, E59, G21, G28

Five Reasons We Think the Standing Liquidity Facility is the Bank's Most Important Facility

When the topic of the Bank of Canada's (Bank) liquidity facilities comes up, conversations usually centre around overnight and reverse repos (ORs/ORRs), Term repo operations, Standing Term Liquidity Facility (STLF), or crisis-oriented operations such as the Extended Term Repo Facility (ETRF), or Contingent Term Repo Facility (CTRF). Yet, the Bank's Standing Liquidity Facility (SLF) rarely receives the attention it deserves. Although less well-known than other facilities, the SLF is likely the Bank's most important (and most regularly used) liquidity tool.

Here are five key reasons why:

- **Used every day in the payment system**: The SLF provides liquidity to institutions that participate directly in Lynx, Canada's high-value payment system. Under the provisions of the *Bank of Canada Act*, the Bank provides fully secured liquidity on both an intra-day and overnight basis to support orderly settlement in the Canadian payment system.
- **One of the components of monetary policy implementation**: One way that the Bank reinforces the policy interest rate set by Governing Council is by adjusting the amount of liquidity (settlement balances) in the payment system (which earns the deposit rate) and by the rate it charges Lynx participants on intraday loans and overnight SLF advances (which are charged the Bank Rate).
- **Backbone of other liquidity facilities:** The SLF collateral policy and haircut framework forms the foundation of a wide range of Bank liquidity facilities (see "How does the SLF collateral policy affect markets?" Figure 2). These include regular operations such as ORs/ORRs, term repos and STLF, as well as extraordinary operations such as CTRF, ETRF and even Emergency Lending Assistance (ELA).
- **Promotes financial market development:** The SLF collateral policy is a tool the Bank has used from time to time to incentivize developments and innovations in Canadian financial markets.
- **Can easily respond to changes in liquidity conditions:** The SLF collateral policy can also be adapted to respond to changes in demand for liquidity. For example, by increasing the concentration limit for non-mortgage loan portfolios (NMLPs) in the SLF policy, the Bank can easily and quickly generate significant amounts of additional liquidity for payment system participants during both non-exceptional and exceptional periods.

At its core, the SLF is hard-wired into the payment system – automatic and non-discretionary so long as sufficient eligible collateral is provided – making its usage entirely business-as-usual from the Bank's perspective.

This Staff Analytical Paper will delve into the role and function of the SLF, shining a light on the questions rarely asked and revealing why it is the cornerstone of the Bank's liquidity toolkit. This paper seeks to answer seven important questions about the SLF that you've always wanted to know but were too afraid to ask!

1. *How do intraday loans and overnight SLF advances work?*
2. *Are Intraday loans and overnight SLF advances a sign of liquidity stress?*
3. *Are my assets eligible for the SLF?*
4. *How does the SLF collateral policy affect markets?*
5. *What are 'haircuts' and how are they set?*
6. *How does the SLF help implement monetary policy?*
7. *What's next for the SLF?*

How do Intraday Loans and Overnight SLF Advances Work?

Intraday loans and overnight SLF advances are automatic and non-discretionary in Lynx. The provision of liquidity is dependent on the participant having sufficient SLF eligible collateral pledged to Lynx in the Bank's High Availability Banking System (HABS).

Participants generate the liquidity required to settle Lynx payments from one of three sources:

- By receiving payments from other Lynx participants
- By borrowing from the Bank though an intraday loan against collateral
- From any overnight deposits they have with the Bank (i.e., settlement balances)

Payment system participants maintain a prepositioned pool of SLF eligible collateral in HABS which is revalued by the Bank each business day prior to Lynx opening. The portion allocated from this pool to Lynx determines each participant's maximum credit limit that can be used for intraday loans and ultimately an SLF overnight advance. For example, at the beginning of 2026, there was nearly $75 billion in collateral pledged to

HABS, of which roughly $30 billion was allocated to Lynx and other collateral requirements at the Bank, leaving $45 billion in excess collateral.[1]

Should a participant need additional liquidity within the day, they can draw against their Lynx credit limit and have those funds transferred into their account. Afterwards, the participant can distribute the funds across to their other Lynx accounts (i.e. the various payment settlement mechanisms contained in Lynx) as needed. With funds now in its accounts, the participant can begin to make payments. **Box 1** provides an illustrative example of how this process works.

Box 1: How does an intraday loan and overnight SLF advance work in practice?

For illustrative purposes, let's assume there are three Lynx participants – A, B and C.

At the start of Lynx, assume Participant A is provided with a credit limit (based on their updated collateral pool value allocated to Lynx in HABS) of $3 billion that could be allocated to Lynx. As Participant A has an opening Lynx account balance of $0, assume this participant then draws the full $3 billion from its credit limit, triggering an intra-day loan from the Bank and allocates it to their account in Lynx.

Using the $3 billion intra-day loan, Participant A sends a $3 billion payment to Participant B at 9:00am. At 11:00am that same day, Participant A receives a payment from Participant C for $3 billion.

Participant A uses the proceeds from this payment to repay the intraday loan from the Bank, which restores its available liquidity under its Lynx credit limit to $3 billion. Since the advance is repaid within the same business day (i.e., intraday), no interest is paid by Participant A.

Now instead, assume that prior to 6:00pm Participant A only receives payments totalling $2 billion from Participant C. Participant A uses these funds to repay $2 billion of the $3 billion intraday loan. At 6:30pm, Participant A's remaining $1 billion intraday loan is automatically converted in Lynx into a $1 billion overnight SLF advance (i.e., without initiation by the participant) to repay the remaining $1 billion intraday loan. Participant A incurs interest charges at Bank Rate (i.e., the upper bound of the Bank's operating band) on the overnight SLF advance from the Bank.

[1] Note the amount of collateral and excess collateral pledged in HABS is based on the 20% concentration limit for the NMLP being in place. If the full amount of the NMLP is accounted for (i.e. 100% concentration limit), excess collateral available to participants would be around $350 billion.

Box 1 Continued... How does an intraday loan and overnight SLF advance work in practice?

The following business day, Participant A must generate at least $1 billion in liquidity to repay the $1 billion SLF advance plus interest prior to 6:30pm. Liquidity could be generated through either payments received or taking an intraday loan (assuming Participant A has sufficient collateral value allocated to Lynx as $1 billion worth of collateral is encumbered to secure the overnight SLF advance).

Participant A can continue to make payments in Lynx before the overnight SLF advance is repaid if the participant has sufficient liquidity in Lynx (i.e., there is enough collateral value allocated to Lynx and/or sufficient inbound payments from other Lynx participants have been received).

Once the $1 billion overnight SLF advance plus interest is repaid, the $1 billion worth of collateral used to secure the SLF Advance is unencumbered and is available to be used for other purposes.

Are Intraday Loans and Overnight SLF Advances a Sign of Liquidity Stress?

Intraday loan and overnight SLF advances are automatic and non-discretionary in Lynx, making them a normal part of daily payment system activity and not a sign of liquidity stress. Therefore, no stigma should be attached to SLF use. The process of receiving intraday loans and overnight SLF advances supports timely payment settlement and helps improve the efficiency of payment system activity.

Borrowing from the Bank using an intraday loan is a normal part of payment system operations and is an integral part of the operational design of Lynx. Since the introduction of Lynx in 2021, the Bank has provided approximately $6 billion per day on average in intraday loans between September 2021 and September 2023 (**Chart 1**). More recently, this daily average has increased to about $11 billion. This notable rise in intraday loans observed in 2023 can mainly be attributed to a shift in how participants chose to utilize intraday loans as opposed to settlement balances (i.e., cash on hand) to make payments.

Chart 1: The Bank provides intraday SLF loans to Lynx participants daily

Average Daily Use of Intraday SLF Advances in Lynx ($billions)

Source: Bank of Canada calculation

Date: January 2026

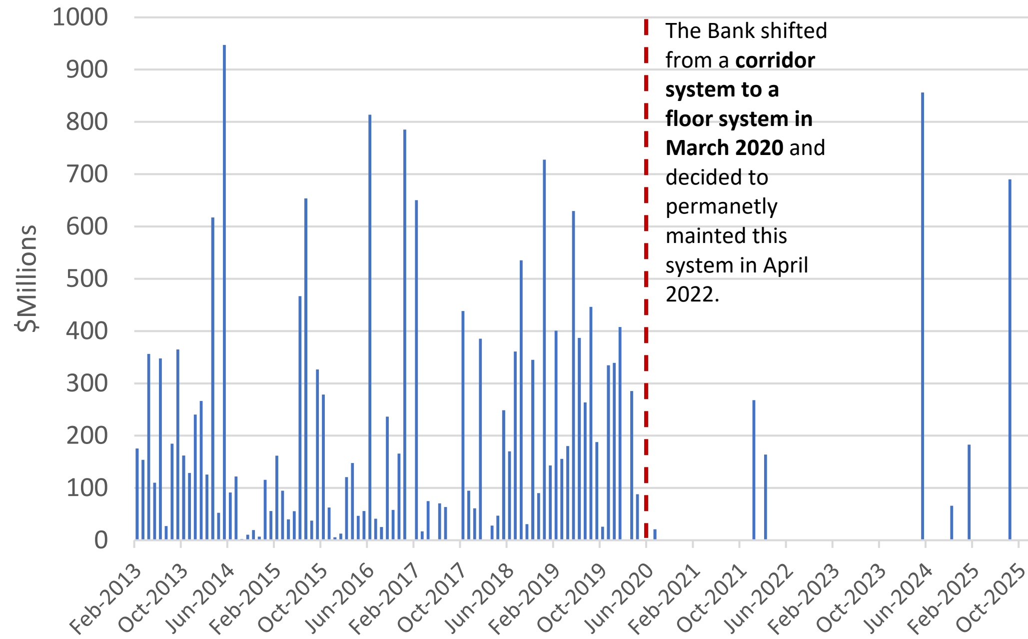
Overnight liquidity provided by the Bank via an SLF advance is automatically extended in Lynx, and is thus a routine (i.e., business as usual) part of payment system operations. Like the intraday loans, overnight SLF lending supports an effective Lynx payment system and the participants efficient liquidity management. The adoption of floor system by the Bank in 2020 for the implementation of monetary policy has reduced the need for Lynx participants to take (draw on) overnight SLF advances on a regular basis, given the ample supply of settlement balances in the system.[2] Such transactions were relatively common when the Bank implemented monetary policy using a corridor system.

For example, between 2013 and 2019, the number of overnight SLF advances taken each year ranged between around 20 to 55, or roughly 2 to 5 for month on average, with sizes ranging between a few million to almost $1 billion (**Chart 2**). The higher frequency corresponded to the near zero amount of settlement balances left in the payment system while the Bank implemented a corridor system, typically operating with daily balances of $250 million or less.

[2] See Bank of Canada Staff Discussion Paper 2023-10, "*Reviewing Canada's Monetary Policy Implementation System: Does the Evolving Environment Support Maintaining a Floor System?*" for additional background information on the Bank's decision to move to a floor system.

Chart 2: Overnight SLF advances have decreased since moving to a floor system

Overnight SLF advances taken between 2013 and 2026 ($millions)



Since the Bank adopted a floor system, liquidity (i.e., level of settlement balances) in the payment system has generally surpassed a minimum amount needed for routine payment activity, which is estimated to be $20–30 billion per day.[3] As a result, overnight SLF advances have become much less frequent. Since the Bank moved to a floor system in March 2020, just under 10 overnight SLF advances have been taken ranging in size from under $50 million to almost $900 million (**Chart 2**).

That said, the occurrence of SLF advances remains both normal and expected, from time to time. Payment forecasting and processing issues as well as potentially non-payment related operational challenges may arise, potentially leading to unanticipated delays in payments. Depending on the participant's liquidity position and the size of the delayed payment, such events may lead to an end-of-day shortfall requiring a routine overnight SLF advance. Moreover, the overall amount of settlement balances can fall (rise) in part due to increases (decline) in the Bank's other liabilities (in particular Government of Canada deposits). On occasion, settlement balances may be low enough (or the distribution of balances may be as such) to increase the likelihood that a Lynx participant requires an overnight SLF advance if some version of the above events happen to occur.

From the Bank's perspective, taking an overnight SLF advance is viewed no differently than using an intraday loan. The provision of liquidity, on both an intraday and overnight

[3] See Bank of Canada Staff Discussion Paper 2023-26, "Estimating the Appropriate Quantity of Settlement Balances in a Floor System" for additional details.

basis, is a normal part of the Bank's role as a liquidity provider for the payment system to ensure its efficient functioning.

Are My Assets Eligible for the SLF?

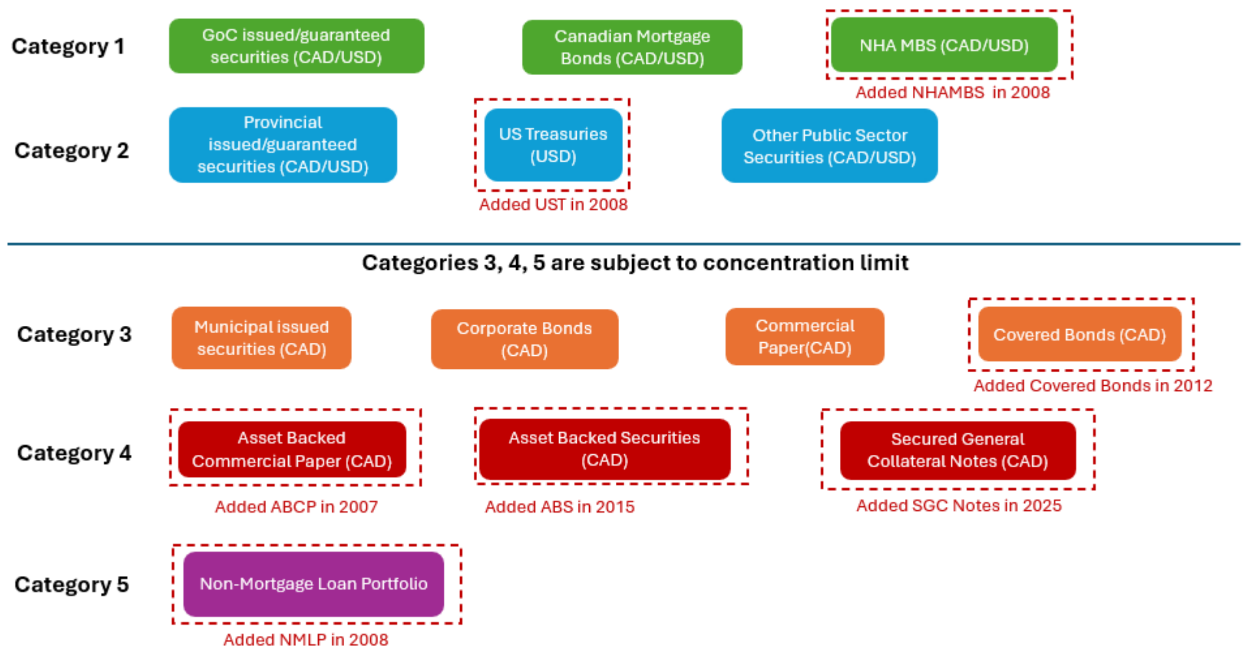
The Bank accepts a wide range of marketable and non-marketable assets as eligible collateral for intraday loans and overnight advances under the SLF. Eligible collateral includes federal, provincial, municipal, public-sector, and selected private-sector instruments that meet specific legal, structural and credit requirements, and Non-Mortgage Loan Portfolios (NMLPs).

SLF eligible collateral has evolved over time (see **Annex 1** for evolution), but has generally fallen into five main categories based on their liquidity, credit profile, and concentration limit requirements (see **Figure 1**). These include:

1. **Government of Canada (GoC) issued and/or guaranteed securities** including Treasury bills (T-bills) and bonds, along with their stripped coupons and residuals, Canada Mortgage Bonds (CMBs) and NHA mortgage-backed securities (NHA MBS)
2. **Other government and public sector securities,** including a) provincial issued and/or guaranteed securities, including the stripped coupons and residuals of provincially guaranteed securities, b) US Treasury issued securities, including US T-bills, notes and Treasury-Inflation-Protected Securities (TIPS), and c) other public-sector securities including those issued by foreign governments, central banks, supranational, Canadian public pension plans and other government-related entities
3. **Municipal bonds and private sector issued securities**, including corporate bonds, covered bonds, commercial paper and promissory notes
4. **Asset backed securities,** including Asset Backed Commercial Paper (ABCP), Asset backed Securities (ABS) and Secured General Collateral (SGC) Notes
5. **NMLP** of Lynx direct participants subject to a 20% limit of the total value of collateral pledged by an institution

The Bank maintains a comprehensive list of conditions for an asset to be considered as SLF eligible collateral. These include specific margin requirements, concentration limits, eligibility reviews, as well as specific asset constraints including restrictions that apply to pledging own-name or related-entity securities and the types of U.S. dollar-denominated assets that may be pledged. A full list of eligible collateral, along with their associated pledging rules, can be found on the Bank's website.

Figure 1: The Bank's SLF eligible collateral has evolved over time



How does the SLF Collateral Policy Affect Markets?

Decisions made by the Bank on its SLF collateral policy, including what securities are eligible for intraday loans and overnight SLF advances as well as other Bank liquidity facilities can improve liquidity both on an individual and market-wide basis. They can also encourage the development and adoption of new financial instruments in the Canadian market.

The Bank can adjust its SLF collateral policy and relax pledging requirements to increase collateral availability, either during normal course to support payment flows of an individual institution or to support the financial system more broadly during periods of market-wide uncertainty or stress (**Box 2**). While the concentration limit for collateral that fall into categories 3,4 and 5 is usually set at a maximum of 40% of the total collateral value pledged by a Lynx participant, the Bank reserves the right to modify this threshold up or down under specific conditions, including:

(1) When an individual participant requires additional liquidity (e.g., due to increased demand for cash or during a period of heightened payment activity), they may request an increase to their NMLP concentration limit. In January 2025, in an effort to normalize Lynx participants' access to SLF liquidity and reduce their precautionary demand for settlement balances, the Bank began automatically allowing participants to increase their NMLP pledge above the 20% concentration limit to facilitate time-

critical Financial Market Infrastructure (FMI) settlements. These time-critical settlements include pay-ins[4] for:

- foreign exchange settlement through Continuous Linked Settlement (CLS)
- retail payments though Automated Clearing Settlement System (ACSS) or
- security settlement using Canadian Depository for Securities (CDSX)

Previously, the Bank reviewed and approved such requests on a case-by-case basis before granting an increase, causing potential delays and uncertainty for participants since approval was not guaranteed. Under the current procedure, once the limit has been raised and the time-critical settlements have been sent, a follow-up discussion takes place afterward to confirm and better understand the factors that led to the increase.

(2) When there is market-wide uncertainty or liquidity stress, this limit may be temporarily raised for all Lynx participants. For example, in March 2020, in response to deteriorating market conditions caused by the pandemic, the Bank temporarily raised the NMLP concentration limit to 100%. This allowed participants to use their NMLP collateral for payment system liquidity while freeing up more liquid marketable securities to be used elsewhere.

Box 2: Adjusting NMLP concentration limits to support liquidity conditions

Non-Mortgage Loan Portfolios (NMLPs) were initially accepted as SLF-eligible collateral in October 2008 while NMLP concentration limits were first introduced into the SLF collateral policy in 2009. In normal course, NMLP may account for no more than 20% of the total value of collateral pledged by an institution.

The decision to include NMLP in 2008 was designed to give payment system participants greater flexibility in managing their collateral. Participants were able to replace marketable securities they had pledged to the Bank with their NMLP and then use the marketable securities to generate liquidity elsewhere, including at the Bank's other liquidity facilities. Initially, the acceptance of the NMLP under the SLF policy was done as a temporary measure. However, given its effectiveness, it was decided it would remain on a permanent basis but subject to the 20% concentration limit.

[4] Pay-ins are funds that a participant must deliver to meet its obligation in a clearing or settlement system.

Box 2 Continued… Adjusting NMLP concentration limits to support liquidity conditions

By having this concentration limit in place, the Bank can temporarily relax it to easily generate additional liquidity for payment system participants. This is opposed to going through a lengthy legal and operational process every time the Bank wanted to make the NMLP eligible under the SLF policy.

The relaxation of concentration limits can occur during non-exceptional times to support Lynx participants in managing their liquidity needs. Such periods may include times of heightened payment flows (e.g., when there are extremely large FMI critical payment flows) or for precautionary reasons. For example, in 2021, the concentration limit was lifted to 40% during the cutover from LVTS to Lynx and in 2025 was increased to 100% during the go-live for CDSX post-trade modernization.

Changes to the concentration limit may also be used during exceptional periods. In March 2020, in response to deteriorating market conditions due to the pandemic, the Bank first increased the NMLP concentration limit for Lynx participants from 20% to 40% and subsequently raised it further to 100%.

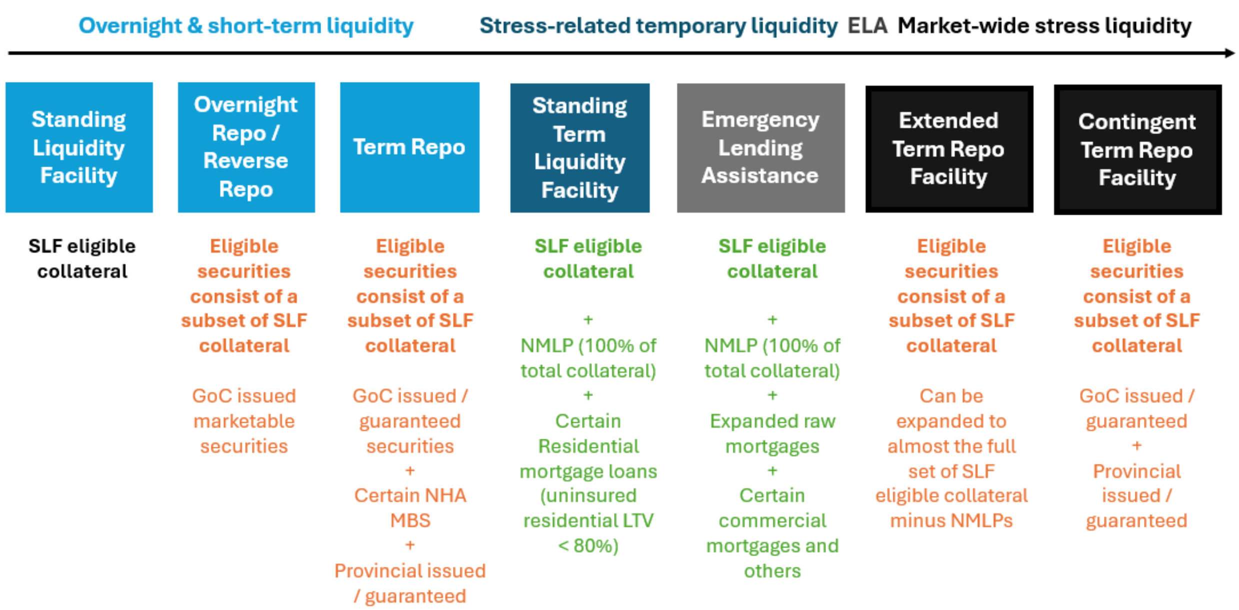
In both cases, the Bank gradually reduced the concentration limit back to 20% giving payment system participants time to readjust their collateral/liquidity levels back to normal.

The Bank can also leverage the collateral set defined under the SLF collateral policy to calibrate other liquidity facilities, as the eligible securities for several stress-related liquidity facilities are derived from the SLF collateral framework (**Figure 2**).

For example, the business-as-usual OR/ORRs and term repo operations accept a narrow subset of SLF eligible securities (e.g., GoC issued and guaranteed for OR/ORRs, as well as Provincial issued and guaranteed, and certain NHA MBS for term repo). The STLF, which provides temporary liquidity support, accepts all SLF eligible collateral, as well as NMLP without concentration limit requirements, and certain residential mortgage loans. ELA, which provides last-resort liquidity to individual FIs or FMIs facing serious liquidity problem, accepts all STLF eligible collateral, in addition to commercial mortgages.

During stressed liquidity periods, the Bank can deploy the ETRF to support liquidity in short-term funding markets. This facility relaxes term repo eligibility requirements by broadening the range of its eligible securities to potentially include nearly the full set of SLF eligible collateral. The expansion in eligible securities helps to ease funding liquidity constraints that financial institutions may face during times of stress. Similarly, the CTRF, a market-wide liquidity facility targeting non-bank financial institutions, also uses a subset of the SLF collateral for eligible securities (i.e., GoC issued and guaranteed, Provincial issued and guaranteed).

Figure 2: Eligible collateral for the SLF and other Bank liquidity facilities



Note: OR/ORR, term repo, ETRF and CTRF accept a subset of SLF-eligible collateral (shown in orange), while STLF and ELA accept a broader set of SLF-eligible collateral (shown in green).

The Bank can also leverage the set of SLF collateral to encourage the adoption and foster the development of new financial instruments. For example, during the 2007-2008 financial crisis, the Bank updated its SLF policy to include Asset Backed Commercial Papers (ABCP) as eligible collateral and introduced detailed pledging requirements for its use.[5] The Bank's acceptance of ABCP increased liquidity and enhanced stability in the Canadian ABCP market. Moreover, the Bank's ABCP pledging rules helped established clearer standards for the Canadian ABCP market, improving transparency and promoting greater standardization.

What are 'haircuts' and how are they set?

A 'haircut' is a reduction applied to the nominal value of an asset, typically shown as a percentage, that protects the Bank against potential financial losses should a security need to be sold in the event of a participant's default on a loan. These types of adjustments are commonplace across financial markets and among

[5] See Program Eligibility Criteria for the Use of ABCP as Collateral in Assets Eligible as Collateral under the Bank of Canada's Standing Liquidity Facility - Bank of Canada.

central banks.[6] **Applying haircuts to eligible collateral is central to the Bank's SLF policy.**

Haircuts help safeguard the Bank from credit and liquidity risk when it:

- provides intraday loans or overnight SLF advances to payment system members
- provides liquidity through operations related to monetary policy implementation, financial stability, and / or balance sheet management

If a participant defaults on its obligations, the haircut serves to protect the Bank from potential decreases in asset value that might happen if the security must be sold in the secondary market.

Haircuts for SLF eligible securities (Category 1-4 securities) are determined using both quantitative and qualitative approaches.[7] The Bank periodically reviews haircuts for Category 1-4 securities, beginning with quantitative analysis. First, return distributions (or price changes) are estimated using historical data over an assumed liquidation period for each asset type. Using historical return data (i.e., a non-parametric approach), rather than assuming returns follow a specific statistical distribution ensures that haircut calculations are more robust to extreme market movements. The assumed liquidation period also differs for each asset type and is based on how quickly each security could be sold in the secondary market should a participant default on their collateralized loan or repo.

Following this analysis, haircuts are calculated based on a Value-at-Risk measure at the 0.5th percentile of the empirical return distribution. This means that the probability of the pledged collateral value falling below the haircut percentage over the liquidation period is less than 0.5%. The Bank also applies a 'through-the-cycle' policy, ensuring that price changes of each asset type are collected from at least one full business cycle that includes a stress period to enhance robustness.

Following the quantitative analysis, the Bank then applies qualitative analysis to the model-implied values to set the final SLF haircuts. Key adjustments made include:

- **Maturity risk**: Longer-dated securities of the same asset type generally carry higher haircuts than shorter-dated securities, reflecting the greater market risk and price volatility.

---

[6] See the European Central Bank (ECB) explainer on haircuts and why they use them here.

[7] Haircuts for Category 5 collateral – non-mortgage loan portfolio are determined using a different method and are subject to a different review schedule.

- **Liquidity & Credit risk**: Some assets are more difficult to sell without accepting a lower price. To account for this, higher haircuts are generally applied to less liquid assets within the same maturity bucket to compensate for this risk.
- **Stripped security risk**: Haircuts for stripped securities are generally higher than those of coupon bearing bonds of the same class and maturity as these securities are less liquid if needing to be sold.
- **Currency risk**: Haircuts on USD-denominated securities are adjusted upward to mitigate foreign exchange risk.

SLF haircuts, published on the Bank's website under Assets Eligible as Collateral under the Bank of Canada's Standing Liquidity Facility - Bank of Canada, are reviewed and published periodically – typically every five years. The most recent update for SLF eligible marketable securities (Category 1–4) was completed in 2021.

How Does the SLF Help Implement Monetary Policy?

In conjunction with other tools, the SLF plays a role in the execution of monetary policy by helping to establish an upper bound (or ceiling) for the overnight market interest rates.

As all Lynx participants have a settlement account at the Bank, the SLF is the core loan-based ceiling facility for Lynx participants. It reinforces the upper end of the operating band and helps to limit upward pressure on overnight rates by providing secured intraday and overnight advances at the Bank rate (policy interest rate plus 25 basis points) to Lynx participants against a broad range of eligible collateral.

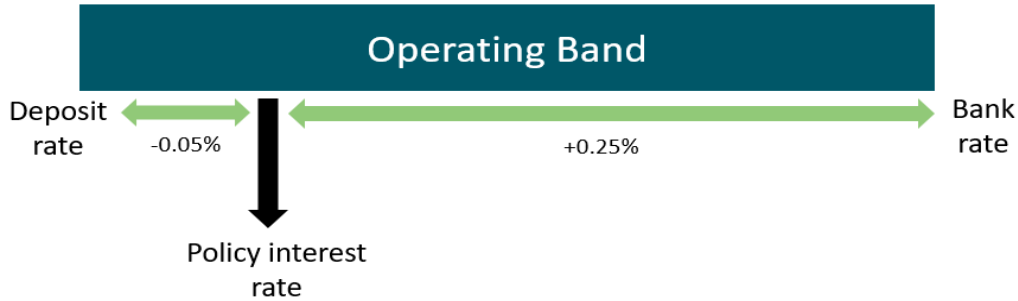
The main objective of the Bank's operational framework is to keep the secured overnight general collateral rate—measured by CORRA—within a range close to the policy rate.[8] To do so, the Bank uses tools that target both Lynx participants, which hold settlement balances, and the Government's primary dealers, which are active in repo markets. In practice, its main tools for leaning against repo market imbalances are OR operations when CORRA faces upward pressure and ORR operations when CORRA faces downward pressure. At times, larger 2-week term repo operations can also complement ORs by supplying additional cash to the repo market.

At the lower end of the operating band, the deposit facility reinforces the floor and limits downward pressure on CORRA: Lynx participants deposit excess cash on an overnight basis at the Bank at earn the deposit rate on their excess balances. The deposit rate is

[8] CORRA – the Canadian Overnight Repo Rate Average – is Canada's primary risk-free interest rate measuring the cost of overnight general collateral funding using GoC treasury bills and bonds.

currently set 5 bps below the target rate to incentivize participants holding settlement balances to lend them out to earn a higher market rate and thus support the functioning of the repo and other short-term funding markets (**Figure 3**). [9]

Figure 3: Lynx participants borrow from the Bank using the SLF at the Bank rate



As such, a Lynx participant with a long settlement balance position at the end of the business day will deposit their excess funds with the Bank and earn the deposit rate. In contrast, Lynx participants that find themselves short settlement balances at the end of the business day (i.e., has a negative cash position in Lynx at 6:30pm) will have their intraday loan automatically converted into an overnight SLF advance and will pay the Bank Rate on the advance.

The Bank's SLF is comparable to central bank lending facilities like the European Central Bank's Marginal Lending Facility, and the Bank of England's Operational Standing Facility. Although each central bank may use different parameters, these standing facilities act as a short-term liquidity backstop to promote efficient payment system settlements and facilitate the transmission of monetary policy. Further information on these facilities can be found in **Annex 2**.

What's Next for the SLF?

The Bank is presently undertaking a comprehensive review of the SLF collateral and haircut policy, which is anticipated to conclude within the next 12 to 18 months. The primary aim of this review is to streamline and simplify existing eligibility requirements that have accumulated as additional security types were introduced. This initiative is intended to improve clarity and facilitate greater public comprehension of the SLF collateral policy.

Furthermore, because the previous haircut review took place five years ago, the Bank is currently reassessing suitable haircut levels. The updated haircuts will be released alongside the new SLF policy resulting from the comprehensive review.

[9] On January 29, 2025, the Bank announced it was making an adjustment to the deposit rate. Effective January 30, the deposit rate will be set at a spread of 5bps below the Bank's policy interest rate.

Annex 1: Historical Changes to Bank's SLF Collateral Policy Since 2007

Table A.1: Historical Changes to Bank of Canada's SLF Collateral Policy Since 2007

2007-2009	2010	2015	2020
Added U.S. Treasuries	Separated strip bonds from coupon bonds and applied higher haircuts to strip bonds	Created a separated category for NHA MBS and applied higher haircuts than for other Government of Canada guaranteed bonds	Added several USD securities issued by Canadian federal and provincial governments, Canadian pension funds, and USD CMHC registered covered bonds into SLF eligible collateral
Added ABCP	Created a new ">35 year" maturity bucket	Split the "under 1 Year" maturity bucket into "0-3 Months" and "3-12 Months" bucket	Split the "10-35 Year" maturity bucket into two buckets: "10-20 Years" and "20 -35 Years"
Added NMLPs	Created separate haircut categories for corporate bonds AAA-AA and A rated corporate bonds	Consolidated corporate bond categories and applied the same haircut to all securities within a given asset class and maturity bucket, provided the security meets the minimum rating requirements	Allowed participants to request a same-day NMLP concentration limit increase
Relaxed the pool size requirement for NHA MBS.	Separated municipal bonds from the broader corporate bond category	Raised haircuts for Government of Canada bonds and provincial bonds at longer maturities	--
Relaxed the minimum credit rating requirements.	Reduced haircuts for Bankers' Acceptance, Commercial Papers, and US Treasuries	Added Term Asset Backed Securities (Term ABS) into SLF eligible collateral	--
Relaxed concentration limits on NMLPs	--	--	--

Annex 2: Comparison of the Bank's SLF vs. Peer Central Banks' Comparable Facilities

Table A2: Bank of Canada SLF vs. Peer Central Banks' Comparable Facilities

	Bank of Canada Standing Liquidity Facility	European Central Bank Marginal Lending Facility	Bank of England Operational Standing Facility
Functions	Provides intraday and overnight secured credit to Lynx participants to ensure settlement and smooth policy implementation	Provides on-demand liquidity to solvent banks to support settlement and monetary policy implementation	Provides on demand short-term liquidity against eligible collateral; Backstop to ensure smooth payment and monetary policy implementation
Eligible Assets	Broad range of high-quality marketable securities (e.g., GoC bonds, T-bills, provincial bonds) and certain non-marketable assets, loans subject to eligibility criteria	Euro system eligible collateral framework: marketable assets (sovereign bonds, covered bonds, ABS, corporate bonds) and non-marketable assets (credit claims) meeting ECB criteria	Sterling Monetary Framework Level A collateral: UK Sovereign Debt, high quality sovereign and supranational debt and certain government guaranteed securities
Eligible Participants	Direct Lynx participants (primarily federally regulated financial institutions)	Euro-area credit institution subject to reserve requirements and meet supervisory standards	Sterling Monetary Framework counterparties
Interest Rate	Bank Rate (policy rate + 25 bps)	Marginal Lending Facility Rate (acts as a ceiling of the overnight interbank market interest rate)	Bank Rate + 15bps
Disclosure	SLF usage reported on the Bank's balance sheet as a line item for reporting periods (see Quarterly Financial Report)	Aggregate usage of the MLF published on its official Standing Facility Page	Aggregate usage of the OSF published with a lag on its Market Operational Guide page

Source:
Bank of Canada: Framework for market operations and liquidity provision - Bank of Canada
European Central Bank: The Eurosystem's instruments
Bank of England : Bank of England Market Operations Guide: Our tools | Bank of England