CANADIAN FIXED INCOME FORUM | CIMPA

August 13, 2026

Companion FAQ: Implementation of a framework in support of a fee for failing to settle Government of Canada bond and T-bill trades

Note: This is a living document that may be updated periodically.

Section I – Questions relevant to the trial period

1. What is the Government of Canada (GoC) fail fee framework?
   - The GoC fail fee framework was published in 2024 and includes a fee for failing to settle GoC bond and bill transactions to create financial incentives for timely settlement, especially in a low interest rate environment.[1] If activated, the fail fee would be set at 50bps and apply to delivery-versus-payment (DvP) transactions settled through the Canadian Depository for Securities (CDS). Should fails become elevated and persistent, the dynamic component of the fee would be activated, increasing the total incentive to a maximum of 150bps.

2. The framework mentions a set of best market practices for settlement. When will they be published?
   - The best practices are expected to be published early in the trial period.

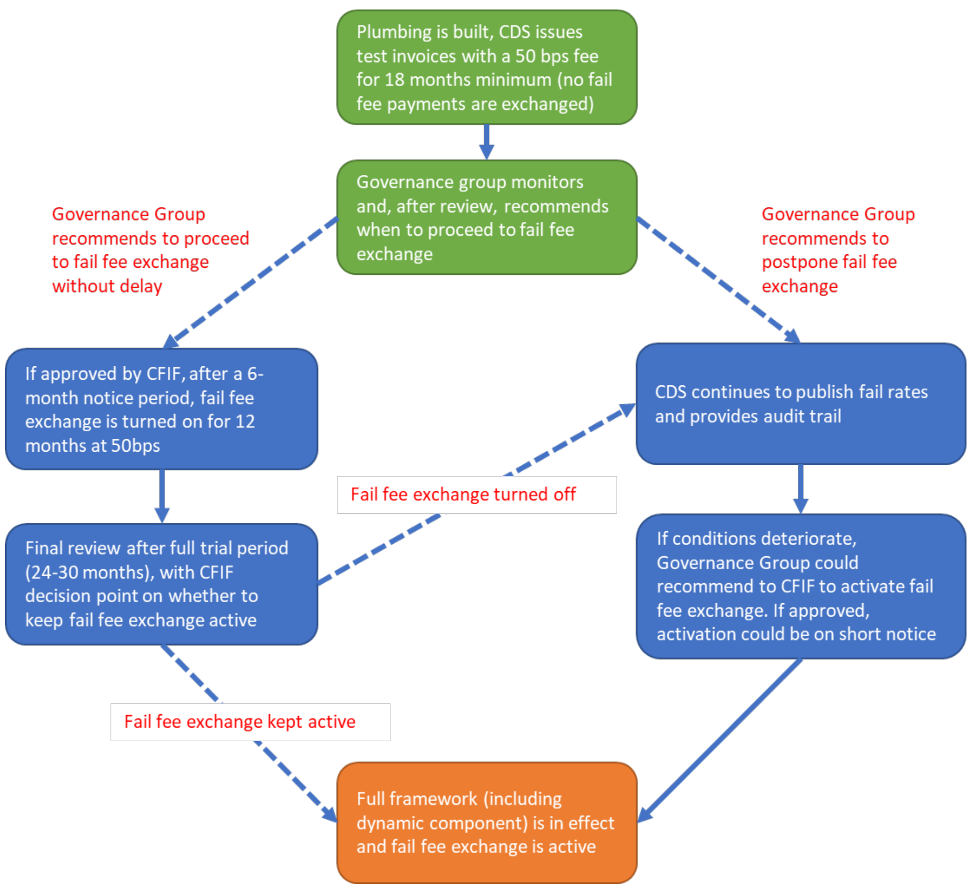
3. Why is there a trial period?
   - The trial period ensures that market participants have operational readiness and a general understanding of how fail fees would be disseminated in practice. The trial also ensures that the fee fail specifications and reporting are accurately calibrated.
   - The trial period includes numerous decision points will ultimately help inform the decision of whether to turn on the fee.
   - Chart 1 outlines the decision tree for how the trial period will be approached and in which circumstances the exchange of fail fee payments would be turned on.

4. What does the trial period for the GoC fail fee framework entail?
   - The first (dry-run) stage of the trial period lasts for a minimum 18 months, during which fails and associated fail fees are calculated, but not charged or disbursed.
   - During the first stage, fail rates will be publicly disseminated and an audit trail of failed transactions and indicative fail fee invoices will be provided to CDS participants. No payments will be exchanged and the Fail Fee Subgroup (FFSG) of the Collateral Infrastructure and Market Practices Advisory Group (CIMPA) will monitor for any potential implementation issues.

[1] The framework documents are available at https://www.bankofcanada.ca/2024/01/gmf-publishes-final-framework-fee-for-failing-settle-goc/

- During a potential second stage, the fail fee would be turned on for a period of 1 year. This decision would be made subject to a recommendation to turn on the fee by CIMPA and an endorsement by the Canadian Fixed Income Forum (CFIF).

Chart 1: Decision tree for potential fail fee payment activation



5. Can participants in the GoC market now expect to pay a fail fee? When will the fail fee be turned on?
    - There will be no payment of fail fees during the first stage of the trial period, which will last a minimum of 18 months. If a decision is made to proceed with exchanging fail fee payments in a second stage of the trial, the fail fee exchange would start no earlier than 18 months into the trial period.
    - Following the conclusion of the trial period, the CIMPA Fail Fee Subgroup (FFSG) will produce a final review and recommendation to CIMPA and CFIF on whether to keep the fail fee activated or turn it off until conditions warrant either permanent or conditionally permanent reactivation. The review will include an assessment of impacts on market functioning if the fail fee is turned on during the second stage of the trial period.

- If there is a no second stage of live fail fee payments immediately following the dry-run stage, the provision of the transparency metrics by CDS would continue. In an environment of elevated fails, the fail fee exchange could then be activated on very short notice and without any further trial, which market participants should be prepared for.

6. Is the adoption of the fail fee mandatory?
   - There are two components to the GoC fail fee framework – 1) a fee for failing to settle GoC bond and bill transactions; 2) a set of best market practices for settlement.
   - The fail fee will be incorporated into CDS rules and procedures; direct participants in CDSX will be subject to the fail fee if payments are turned on. Pass-through of the fee to clients is encouraged, but will ultimately be governed by the business relationships between the client and the CDSX participant.
   - The best market practices will be published on the CIMPA website around the start date of the trial period. They are recommendations that market participants are encouraged to adhere to and they include best practices for timely settlement, partial fails and bilateral claims for non-DvP transactions.

7. To which market participants do the fail fees apply and under what circumstances?
   - The fee only applies to the seller of securities. Buyers are not in scope.
   - The accompanying CDS technical document outlines the algorithm that determines whether a fail has occurred.

8. Who is responsible for the governance of the trial phase?
   - CIMPA is responsible for the governance of the framework and, when appropriate, will make recommendations to CFIF for approval.
   - The CIMPA FFSG comprises a broad range of stakeholders, including sell-side, buy-side, custodians/agent lenders, industry associations, and infrastructure providers.
   - During the trial phase, the CIMPA FFSG will solicit feedback from market participants, provide regular updates to CFIF and ultimately make a recommendation of whether to turn on the fail fee exchange, and if so, whether to keep it active. FFSG monitoring may include:
     - Operational issues, either transitory or persistent
     - Transmission of the fee beyond direct participants in CDS
     - Effects on market functioning, participation and liquidity
     - Effect on fails rates and specialness

9. What are the transparency features of the trial period?
   - During the dry run stage, CDS will provide its participants with daily .csv files of failed transactions and a monthly file of net fees payable or receivable. CDS will also provide the audit trail of failed trade transactions in CDSX and will publish daily fail rates to provide public transparency (see the accompanying CDS technical document published on the CDS website).

10. What are the public transparency metrics and where can they be accessed?
    - CDS will publish fails information daily on its website. The published metrics will include:
      - Fail rate by trade volume (%)

  - Fails by net settlement value ($)
  - Fail rate by net settlement value (%)
  - 10-day moving average fail rate by settlement value

11. Is there a technical document for how the fail fee framework will be implemented in CDS?
    - Yes, a link is available here.

12. How can the daily and monthly reporting on fail charges be accessed?
    - CDS will publish fail rate information daily on its website using a rolling 10-day window
    - CDS would provide its members with daily .csv files of failed transactions and a monthly file of net fees payable or receivable, calculated using the 50bps fail fee rate via the CFT Hub. Please consult the accompanying CDS technical document for further details.

13. How should market participants engage with the trial phase? Is there a need to now set up infrastructure to receive or to pay fail fees?
    - Market participants should use the trial period to ensure processes are in place for fail fee report extraction, warehousing and monitoring. In addition, the fail fee trial period should be communicated to relevant stakeholders to ensure further transparency and preparedness.
    - Market participants should vet the CDS fails reports for accuracy and to ensure the reports provide sufficient transparency for passing on or collecting the fail fee to/from clients (if the fail fee payments are turned on, the degree of pass-through would be subject to the business relationship with the client).
    - Market participants should also work towards ensuring operational readiness for when the fail fee is turned on. If a decision is made to turn on the fail fee, market participants would be given a minimum of 6 months' notice prior to the activation of fail fee exchange, i.e., no earlier than 18 months into the trial period.
    - The FFSG will conduct outreach during the trial phase and encourages feedback.

14. Why are fail fees calculated based on the trade proceeds rather than the nominal value?
    - The opportunity cost of failing is more closely related to the failed cash value of a trade, rather than the nominal value. The party failing to deliver the security will not receive the associated cash proceeds, which could otherwise be lent in the market for general collateral.

15. Is the fail fee calculated on a monthly accrual basis over the life of a fail, or is it calculated once the failed transaction is settled?
    - The fail fee is calculated daily, but only invoiced monthly by CDS. For example, an aged fail that carries over from July into August would incur a fail fee in the invoice for July for the number of failed days in July, and again in the invoice for August for the number of failed days in August.

16. If market participants discover an error in the calculation of fail fees, what should they do to have the error corrected?
    - Market participants can reach out to their respective CDS representatives.

17. What happens to already outstanding fails if the fail fee is activated?
    - Fail fees would apply to all failed settlements, starting on the effective date of the activation. The fail fee would be neither applied retroactively, nor would already existing fails be exempt.

18. If the fail fee exchange is turned on, how will fail fees be paid or claimed?
    - The fail fee will be incorporated into CDS rules and procedures, and if the fail fee is turned on, CDS will automatically debit or credit CDS members' accounts with the monthly net fee payable or receivable. The application of the fee would be facilitated by CDS at the CDSX participant ledger level. CDS will calculate the fee payments daily, but report and disburse them monthly.

19. What is the treatment of fails from securities lending trades and what is the process for claiming?
    - Securities lending fails are not directly in scope of the CDS infrastructure build. However, to ensure a level playing field, the best practice would be for market participants to also exchange fail fees using a bilateral claims process.
    - For instance, if a fail to deliver in a DvP transaction is caused by an incoming fail in a delivery-vs-delivery (DvD) or free-of-payment (FoP) transaction, existing counterparty agreements such as GMSLAs to some degree already allow for a bilateral claim by the failed-to counterparty. A counterparty that relies on an incoming DvD or FoP delivery to make a DvP delivery would therefore be able to pass on a fail fee resulting from a DvP fail due to a fail of incoming DvD or FoP delivery.
    - CIMPA will publish further best practices for non-DvP fails to address this question in more detail.

20. What are the tax implications for non-Canadian residents who receive fail fees?
    - Market participants are advised to consult with internal tax advisors on the tax treatment. CIMPA is also working to provide more clarity on this issue.

21. The threshold levels for the dynamic component in the published framework have not been fully finalized. When will the final calibration be available?
    - The FFSG will use the newly available CDS fails data to review the appropriateness of the preliminary thresholds and make adjustments as necessary. The final calibration would be available prior to the fail fee being permanently turned on.

22. In the trial period, why is the dynamic component turned off?
    - The dynamic component is inactive during the trial period to keep the environment predictable, to be able to iron out potential issues, and to not complicate fail fee exchange. The trial period will also be used to gather further data on the appropriateness of the triggers for the dynamic component.

23. Where should I direct questions or comments about this framework?
    - Questions may be directed to the CIMPA FFSG at the following email address: CIMPA-FFSG@bank-banque-canada.ca

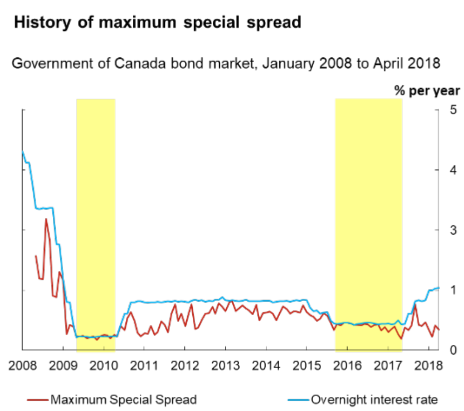
Section II – General questions about the framework

Background

24. Why recommend the introduction of a fail fee in the GoC market? Is there a problem with fails?

- The main purpose of the fail fee is to act as an insurance policy. It preserves an economic incentive to deliver securities in a zero/negative interest rate environment, when the incentive normally provided by the overnight rate vanishes.
- The Bank of Canada's research showed that the overnight rate has capped the specials spread in Canada.[2] Chart 2 demonstrates that the overnight rate can:
  - Act as a price cap in the securities financing market
    - The maximum specials spread is below the overnight rate in Chart 2
  - Compress the range over which the specials spread can adjust
    - The cap is more binding the lower the overnight rate is (yellow shading)
    - When the overnight rate is zero the cap is also zero

Chart 2



- The GoC market is not currently experiencing large and persistent fails. The calibration of the fail fee takes this into account by proposing only a de-minimis amount, unless fail rates rise persistently and trigger the dynamic component.

25. Is the goal of the fail fee to eliminate fails?

- The fail fee is intended to preserve an economic incentive to deliver securities around the effective lower bound for the policy rate, not to eliminate fails.

[2] See Berger-Soucy, Fontaine and Walton (2019), Price Caps in Canadian Bond Borrowing Markets for the complete analysis. https://www.bankofcanada.ca/2019/01/staff-analytical-note-2019-2/

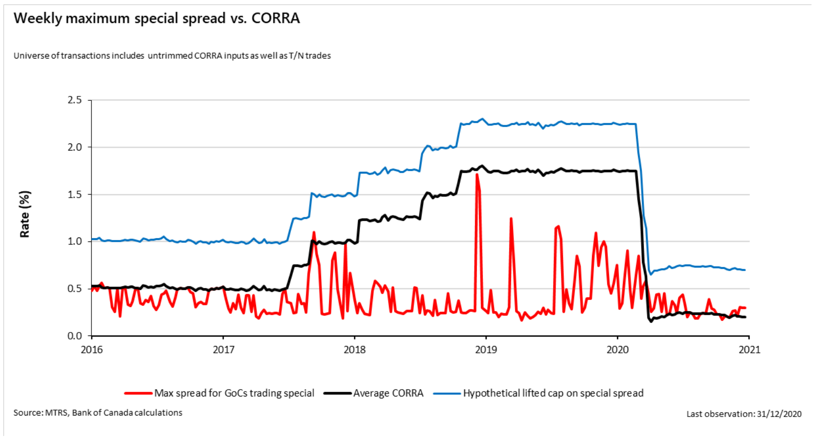
26. Will a fail fee create incentives to "extract" the fee from counterparties?
    - A fail fee in and of itself does not encourage hoarding of securities, and restores the opportunity cost of failing. The fee facilitates special repos trading below the 0% soft floor on repo rates.
    - Hoarding can also happen in the absence of a fail fee as the overnight interest rate acts as the de-facto fail fee, e.g., when interest rates are high and hoarders could attempt to extract a sizeable special spread.
    - Existing rules (such as Canadian Investment Regulatory Organization (CIRO) Rule 7110) already prohibit manipulative debt market practices, such as a dealer member "abusing market procedures or conventions to obtain an unfair advantage over, or unfairly prejudice, its counterparties or clients".

Fail fee calibration

27. Why should a fail fee framework be introduced now when there is no problem? And why would the fail fee not be turned off completely in times when the market is functioning well?
    - To ensure market participants' operational readiness, it would be preferable to begin the practice during calm times and address any potential issues then. The introduction of the Treasury Market Practices Group (TMPG) fails charge in the US has been generally well-received by market participants, but it took many months to iron out initial glitches.
    - The flexibility to turn the fee on and off exists in framework, though it is not recommended because, turning the fail fee on and off would introduce "toggle risk": Stopping and restarting the practice would risk the loss of participants' muscle memory, and would introduce uncertainty in the marketplace. As a result of this the US recently changed their fail structure to include a permanent fee irrespective of the level of US overnight interest rates.

28. How were the fail fee levels chosen?
    - The parameters have been established based on an analysis of maximum specialness in the GoC market over a five-year period. Chart 3 shows that from 2016 to mid-2017, the observed maximum weekly specialness was around 50bps (red line), which was visibly constrained by the soft cap imposed by the overnight rate (black line).
    - From mid-2017 to March 2020, when the effective cap was raised through a series of interest rate hikes, the average of the maximum weekly specialness continued to remain around 50bps, while peaks occurred in the 100-150bps range. A 50bp floor and 150bp dynamic component were therefore deemed sufficient for expanding the specialness space to promote market functioning.

Chart 3



29. What would happen if the warning threshold for the dynamic component is breached?
    - CIMPA would be informed and a 4-week monitoring cycle would start
    - On behalf of the Group, the BoC would alert market participants that activation of the dynamic component could be imminent
    - Market infrastructures (at minimum CDS) would also be informed

30. What if the trigger threshold for the dynamic component is subsequently breached?
    - Similar to the activation of the warning, the BoC, on behalf of CIMPA, would inform market participants of the activation of the dynamic component (incl. its effective date)

31. What if fail levels drop below the warning level without triggering the dynamic component?
    - The BoC would notify market participants of the cancellation of the warning at the end of the 4-week cycle

32. What if fail levels do not drop and the trigger threshold for the dynamic component is not breached? Could the 50bp floor be changed?
    - The BoC would renew the warning after 4 weeks, and issue would be further considered by CIMPA.
    - 50bps was deemed an appropriate level for the floor. However, the calibration of the framework cannot take into account all possible eventualities. Should there be issues with market functioning, CIMPA could change the level of the fail fee with the approval of the Canadian Fixed Income Forum (CFIF).