

**TERMS AND CONDITIONS GOVERNING THE MORNING AUCTION
OF RECEIVER GENERAL CASH BALANCES
(4 September 2002)**

1. Overview

Receiver General cash balances are invested through an auction process administered by the Bank of Canada and the Department of Finance on behalf of the Minister of Finance (Canada). Auction procedures for the tendering of Receiver General cash balances are administered by the Bank of Canada.

Tenders may be held on any day when clearing exchanges occur. Typically, there will be two auctions per day. The first auction (the “morning auction”) takes place at 9:15 a.m. Ottawa time. The second auction (the “afternoon auction”) takes place at 4:15 p.m. Ottawa time.

This document sets forth the Terms and Conditions for the morning auction, which will be carried out on both an uncollateralized and collateralized basis.

2. Entities Eligible to Participate in the Morning Auction

In order to be eligible to participate in the morning auction, an entity (each a “participant”) must:

- a) be a Crown corporation or an agent of the federal government, a provincial government or an agent of a provincial government, a municipal government or municipal finance authority, a regulated deposit-taking institution, another financial institution, an investment dealer, or a corporation, partnership or other legal entity; and
- b) have a credit rating of at least “BBB” as defined in Appendix A or be a participant in the Large Value Transfer System (LVTS) or be a Primary Dealer of Government of Canada Securities; and
- c) be resident in Canada; and
- d) be a regular participant in wholesale capital markets with experience and expertise in the execution of capital market borrowing transactions; and
- e) sign the following documents as required:
 - Participation Agreement (in substantially the form of Appendix B),
 - a grid note for non-deposit-taking participants (in substantially the form of Appendix C),
 - a master Repurchase/Reverse Repurchase Transaction Agreement (in substantially the form of Appendix D),
 - Tri-Party Repo Service Agreement with Canada and an agent appointed by Canada (in substantially the form of Appendix E),
 - a guarantee granted by an “A” or better rated participant in respect of the obligations of a “BBB” or non-rated participant bidding as required below (in substantially the form of Appendix I),
 - such opinions and other documents as may be required by Canada in its sole discretion.

The selection of participants will be subject to the approval of the Minister of Finance based on such information and documents as the Minister may require.

A participant may be subject to sanctions if it violates these Terms and Conditions including, but not limited to, the suspension from one or more auctions or the revocation of its eligibility.

Entities wishing to express an interest in becoming a participant in the morning auction are invited to contact:

The Team Leader & Assistant Director
Debt Management and Settlement Systems
Financial Markets Department
Bank of Canada
Ottawa, Ontario
K1A 0G9

3. Uncollateralized Access to Auctions

Participants that are rated “A” or better, as defined in Appendix A, will be extended an uncollateralized auction limit on the amount that they will be awarded at auction based on their credit rating as follows:

For regulated Canadian deposit-taking institutions, agents of the federal government, provinces, and agents of provinces:

- \$250 million for “AA” or better rated participants,
- \$100 million for “A” rated participants.

For all other participants (municipal governments, municipal finance authorities, other financial institutions, investment dealers, and corporations):

- \$100 million for “AA” or better rated participants,
- \$50 million for “A” rated participants.

Eligible deposit-taking participants shall be awarded uncollateralized balances on a fixed-term deposit basis.

All other eligible participants shall be awarded uncollateralized balances under the terms of a grid note (in substantially the form of Appendix C). This grid note is structured so as to include all auction amounts awarded to the participant up to the participant’s uncollateralized limit.

The meaning of “Related Entities” is set out in Appendix H. The Related Entities of an eligible participant, together with the participant, are referred to as the “Related Entity Group.” The Related Entity Group may designate one of its members to participate on an uncollateralized basis and must advise Canada of such designation. The remaining members of the Related Entity Group may only participate on a fully collateralized basis. Agencies of the Government of Canada are exempt from the requirements with respect to Related Entities.

The uncollateralized limit in respect of the member of the Related Entity Group that is designated to participate on an uncollateralized basis is determined based upon such designated member’s

credit rating, but if a guarantee is granted, may be increased to the limit that would be available to the guarantor based on the guarantor's credit rating.

"BBB" rated and non-rated entities may only participate on an uncollateralized basis with a guarantee from an "A" or better rated eligible participant and the "BBB" rated or non-rated entity, together with the guarantor, will be considered Related Entities for the purposes of allocating the uncollateralized limit.

The amount of uncollateralized cash balances that may be awarded to a participant at any auction will not exceed the excess of the participant's uncollateralized maximum auction limit over the then unpaid fixed-term deposits or grid note balances owing less any amounts maturing on the day of the auction.

4. Collateralized Access to Auctions

Participants with an uncollateralized limit may also bid on a collateralized basis for amounts in excess of their uncollateralized limit. Participants rated "A" or better may bid for up to 100 per cent of the amount being auctioned.

For "BBB" rated and non-rated participants the maximum amount of Receiver General cash balances that they will be awarded and that they may have outstanding at any one time is \$500 million, and eligible securities for the Repurchase/Reverse Repurchase Transaction Agreement are restricted to only securities issued or guaranteed by the Government of Canada or an agent of the Government of Canada.

"BBB" and non-rated participants with a guarantee from an "A" or better rated participant may bid for up to 100 per cent of the amount being auctioned.

All amounts awarded to a participant on a collateralized basis will be applied by Canada to make fully collateralized purchases of eligible securities from the participant pursuant to a Repurchase/Reverse Repurchase Transaction Agreement to be entered into between Canada and the participant (in substantially the form of Appendix D) and a tri-party repo service agreement to be entered into between Canada, the participant, and an agent appointed by Canada (in substantially the form of Appendix E) (collectively, a participant's "Receiver General Sale and Repurchase Agreement" with Canada). Royal Trust Corporation of Canada ("Royal Trust") has been appointed as agent, and "agent" as used in these Terms and Conditions shall mean Royal Trust or such other agent as Canada shall appoint from time to time.

Eligible securities and related requirements are described in Appendix F, List of Eligible Securities for Receiver General Sale and Repurchase Agreements.

All transactions must settle on the same day that the Receiver General cash balances are awarded. Participants must either deliver eligible securities to the agent directly through the Debt Clearing Service (DCS) of The Canadian Depository for Securities Limited or the agent shall settle using eligible securities held by the agent in the participant's account on a standing basis. Only eligible securities that are held in the Debt Clearing Service of The Canadian Depository for Securities Limited may be used for Receiver General Sale and Repurchase Agreements.

5. Procedures Related to Tendering

Call for Tender

The amount of Receiver General cash balances to be offered at tender by tranche and the maturity date for each tranche will be communicated to participants via the Communication, Auction and Reporting System (CARS) by 5:00 p.m. Ottawa time on the business day immediately preceding the tender.

Date of Contracts

Transactions will be dated effective the business day of the tender.

Time and Method of Tendering

All bids will be submitted to the Bank of Canada using the CARS in the prescribed format by 9:15 a.m. Ottawa time.

Number of Bids

No more than four bids per tranche may be submitted by each participant.

Maximum Size of a Participant's Tender

Participants rated "A" or better may bid for up to 100 per cent of the amount being auctioned. "BBB" rated and non-rated participants may bid for a maximum of \$500 million less any amount of Receiver General cash balances outstanding that has already been awarded to the participant that does not mature on the day of the auction. "BBB" and non-rated participants with a guarantee from an "A" or better rated participant may bid for up to 100 per cent of the amount being auctioned.

All amounts awarded in excess of a participant's available uncollateralized limit (if any) will be subject to such participant's Receiver General Sale and Repurchase Agreement.

Minimum Size of Bid

The minimum eligible bid is \$5 million. Eligible bids will be in even multiples of \$1 million.

Places of Decimals

Bids will be accepted on a yield basis to two (2) places of decimals.

Errors in Bids

Once submitted, bids may be modified, cancelled, or overwritten by composing and submitting a new bid through the CARS. To be accepted, modifications or cancellations of bids must be received before the auction deadline. Participants are solely responsible for the accuracy of their bids and all eligible bids submitted and not cancelled before the auction deadline time shall be valid, binding bids.

Right of Refusal

The Minister of Finance reserves the right to accept or reject any or all bids, in whole or in part.

Uncovered Tender

In the event that less than the total amount offered in the morning tender is accepted, or the full amount of the morning tender is not covered by participants' bids, the amount not awarded may be added to the pool of funds available in the afternoon auction.

Notification of Tender Results

On the day of the tender, all participants will be advised via the CARS of the average, high, and low rates paid at the auction and the percentage allotment at the lowest accepted yield (this allotment will be rounded to the nearest \$1,000). The amount awarded and the corresponding amount due on the maturity date will be confirmed via the CARS to each winning participant.

Amounts will be awarded so as to make use of the participant's available uncollateralized limit (if any). In the event that more than one tranche is offered, the allotment of any available uncollateralized limit will begin with the tranche with the longest term to maturity.

In the event that a participant's accepted bids exceed its uncollateralized limit, the amount awarded will be split into two separate instruments: (i) a fixed-term deposit in the case of deposit-taking institutions or a grid note in the case of non-deposit-taking participants and (ii) a Receiver General Sale and Repurchase Agreement. That is to say, for any individual accepted bid that causes the total amount awarded to exceed the uncollateralized limit, that portion of the amount awarded in excess of the uncollateralized limit will be treated as a separate transaction subject to a Receiver General Sale and Repurchase Agreement.

6. Payment and Settlement

I. Uncollateralized Amounts

A. Amounts Awarded Through a Fixed-Term Deposit

Eligible deposit-taking participants shall be awarded uncollateralized Receiver General cash balances as fixed-term deposits made by the Receiver General with winning participants. No certificates will be issued for fixed-term deposits. Each participant and the Receiver General shall maintain a register of the amounts of deposits awarded and such register shall record (i) the amount of each deposit made by the Receiver General with that participant and the maturity date thereof, (ii) the interest rate and amount of interest due and payable or to become due and payable from the participant to the Receiver General on each deposit, and (iii) the amount of any sum received by the Receiver General from the participant in repayment of deposits. The entries on the register of the Receiver General shall, absent manifest error, be prima facie evidence of the existence and amounts of the obligations of the participant.

B. Amounts Awarded Through a Grid Note

All other participants shall be awarded uncollateralized Receiver General cash balances as advances under the terms and conditions of a grid note issued by the participant. The terms of the

grid note will incorporate the terms on which Receiver General cash balances are awarded to the participant. The Receiver General shall maintain the grid attached to the grid note which shall record (i) the amount of Receiver General cash balances advanced from time to time under the grid note to that participant and the maturity date thereof, (ii) the interest rate and amount of interest due and payable or to become due and payable from the participant to the Receiver General on each advance, and (iii) the amount of any sum received by the Receiver General from the participant in repayment of advances. The entries by the Receiver General on the grid shall, absent manifest error, be prima facie evidence of the existence and amounts of the obligations of the participant under the grid note. The outstanding amounts under a participant's grid note shall be capped at the participant's uncollateralized limit with the obligation of the participant limited to the net amount of uncollateralized funds advanced.

C. Settlement of Uncollateralized Receiver General Cash Balances

Payment for amounts awarded and for amounts maturing shall be made via the LVTS prior to 1:00 p.m. Ottawa time. Effective the value date, the amount of each participant's uncollateralized winnings (if any) will be netted against the amount of its maturing uncollateralized winnings from previous tenders (if any), plus interest thereon.

If the amount of Receiver General cash balances awarded on a particular day exceeds the principal amount maturing that day plus accrued interest, the participant (or its settlement agent) will receive via LVTS the amount of the difference from the Bank of Canada on behalf of the Receiver General. If the amount of Receiver General cash balances awarded on a particular day is less than the amount maturing that day plus accrued interest, the participant (or its settlement agent) will send via LVTS the amount of the difference to the Bank for credit to the Receiver General.

II. Collateralized Amounts - Settlement of Receiver General Sale and Repurchase Agreements

Purchase transactions under a participant's Receiver General Sale and Repurchase Agreement will settle on the same day that collateralized cash balances are awarded to the participant at tender. Participants shall deliver eligible securities to the agent appointed by Canada and the agent shall deliver Receiver General cash balances awarded to the participant using the Debt Clearing Service of The Canadian Depository for Securities Limited. In the case where the participant has chosen to lodge eligible securities with the agent on a standing basis, the transfer between the agent and the participant will be made once the agent is satisfied that sufficient standing securities are in place.

Settlement of the sale of securities by the participant is to occur prior to 3:00 p.m. Ottawa time on the day of the tender. Settlement of the repurchase of securities by the participant is to occur prior to 1:00 p.m. Ottawa time on the related repurchase date under the participant's Receiver General Sale and Repurchase Agreement.

In the event that a participant does not deliver eligible securities ("fails delivery") of sufficient value by the 3:00 p.m. deadline to settle a transaction completely, the Bank of Canada may, in accordance with the related Receiver General Sale and Repurchase Agreement, instruct the agent to either (i) complete a partial settlement of the transaction for the amount of eligible securities that are delivered and release the corresponding amount of funds to the participant or (ii) cancel the entire transaction.

In the event that the Bank of Canada instructs the agent to partially settle the transaction, the remainder of the Receiver General cash balances that were awarded at tender will be withheld from settling by the agent and be held by the agent on behalf of the Receiver General. In this regard, the settlement confirmation delivered to the participant and the Bank of Canada will show the amount withheld as “Withheld Purchase Price.” If the Receiver General Sale and Repurchase Agreement is for greater than one day, the participant may complete the delivery of securities in exchange for the Withheld Purchase Price on any day(s) subsequent to the date of the original failure until delivery is completed.

In the event that a participant fails delivery of securities, interest will be payable to the Receiver General by the participant on the entire amount of Receiver General cash balances awarded at auction at the rate specified in the accepted bid regardless of whether and when delivery of securities occurs for the entire amount.

A more detailed description of settlement arrangements for Receiver General Sale and Repurchase Agreements appears in Appendix G, Participants’ Guide for Settling Receiver General Sale and Repurchase Agreements and in the Receiver General Sale and Repurchase Agreement.

7. Costs Relating to the Issuance and Management of Receiver General Sale and Repurchase Agreements

As is market practice for tri-party repo agreements, the seller under the Receiver General Sale and Repurchase Agreement (i.e., the participant) shall bear the associated costs. These costs shall include a fee payable to the agent of 3 basis points on the daily aggregate outstanding purchase prices under the participant’s Receiver General Sale and Repurchase Agreements. In addition, transaction charges will be payable to the agent at the rates outlined in Schedule L of the tri-party repo service agreement. All costs will be invoiced to the participant by the agent on a monthly basis.

8. Contacts

Participants are to provide the Bank of Canada and the agent appointed by the Government of Canada with the names and telephone numbers of:

- 1) those individuals authorized to submit bids at the auctions,
- 2) those individuals responsible for the transmission/receipt of LVTS payments,
- 3) those individuals who will be available for consultation if required.

The Bank and the agent are to be informed immediately of any changes to the contact list.

9. Amendments

These Terms and Conditions may be amended by Canada at any time and from time to time. Amendments shall be effective upon the date specified, and if no date is specified, they shall be effective when posted on the Bank of Canada’s web site. Posting amendments on the Bank of Canada’s web site shall constitute sufficient notice for all purposes. By presenting a bid for Receiver General cash balances, a participant (i) agrees to be bound by these Terms and Conditions, and (ii) acknowledges having received notice of all amendments.

Appendix A

CREDIT RATING DEFINITIONS REGARDING THE AUCTION OF RECEIVER GENERAL CASH BALANCES

The Government will use two credit ratings from private sector credit rating agencies to assign ratings to participants and to securities eligible for Receiver General Sale and Repurchase Agreements. Where ratings differ, the second highest rating shall be used.

Long-term ratings are for senior unsecured obligations. Short-term ratings are for commercial paper or deposit instruments.

Private credit ratings are acceptable for participants, provided that the rating agreement provides for the same ongoing monitoring on the part of the credit rating agency as that agency would normally carry out for its public ratings.

The Bank of Canada must be informed immediately by the participant of any change in its credit rating, including a change in outlook if applicable. The Bank must also receive a confirmation of the credit rating on at least a semi-annual basis.

“AA” or better rating

An entity (including a participant) or any debt obligation will be considered to be rated “AA” if at least two long-term credit ratings have been assigned to such entity or debt obligation and at least two long-term credit ratings assigned to such entity or debt obligation are equal to or better than:

	Moody’s	S&P/CBRS	DBRS	IBCA/Fitch
Long-term	Aa3	AA-	AA (low)	AA-

Where long-term credit ratings are not available, an entity or debt obligation will also be considered to be rated “AA” if at least two short-term credit ratings have been assigned to such entity or debt obligation and at least two short-term credit ratings assigned to such entity or debt obligation are equal to or better than:

	Moody’s	S&P/CBRS	DBRS	IBCA/Fitch
Short-term	P-1(Aa)	A-1 (high)	R-1 (middle)	F-1

“A” rating

An entity or any debt obligation that is not rated AA will be considered to be rated “A” if at least two long-term credit ratings have been assigned to such entity or debt obligation and at least two long-term credit ratings assigned to such entity or debt obligation are equal to or better than:

	Moody's	S&P/CBRS	DBRS	IBCA/Fitch
Long-term	A3	A-	A (low)	A-

Where long-term credit ratings are not available, an entity or debt obligation will also be considered to be rated “A” if at least two short-term credit ratings have been assigned to such entity or debt obligation and at least two short-term credit ratings assigned to such entity or debt obligation are equal to or better than:

	Moody's	S&P/CBRS	DBRS	IBCA/Fitch
Short-term	P-1(A)	A-1 (mid)	R-1 (low)	F-1

“BBB” rating

An entity or any debt obligation that is not rated AA or A will be considered to be rated “BBB” if at least two long-term credit ratings have been assigned to such entity or debt obligation and at least two long-term credit ratings assigned to such entity or debt obligation are equal to or better than:

	Moody's	S&P/CBRS	DBRS	IBCA/Fitch
Long-term	Baa2	BBB	BBB (mid)	BBB

Where long-term credit ratings are not available, an entity or debt obligation will also be considered to be rated “BBB” if at least two short-term credit ratings have been assigned to such entity or debt obligation and at least two short-term credit ratings assigned to such entity or debt obligation are equal to or better than:

	Moody's	S&P/CBRS	DBRS	IBCA/Fitch
Short-term	P-2(A)	A-2	R-2 (high)	F-2

Appendix B

PARTICIPATION AGREEMENT

(to be provided on request)

Appendix C

GRID NOTE

(to be provided on request)

Appendix D

REPURCHASE/REVERSE REPURCHASE TRANSACTION AGREEMENT

(to be provided on request)

Appendix E

TRI-PARTY REPO SERVICE AGREEMENT

for the Receiver General Cash Balances Auction

(to be provided on request)

Appendix F

LIST OF ELIGIBLE SECURITIES FOR RECEIVER GENERAL SALE AND REPURCHASE AGREEMENTS

A. Eligible Securities

The following securities qualify as eligible securities for transfer under Receiver General Sale and Repurchase Agreements, provided that the security satisfies all of the applicable requirements set out in sections A through E inclusive.

1. Securities issued or guaranteed by the Government of Canada, or an agent of the Government of Canada, including NHA mortgage-backed securities and Canada Mortgage Bonds.
2. Securities issued by or guaranteed by a provincial government, or an agent of a provincial government, provided that the security:
 - has a remaining term to maturity of 10.5 years or less; and
 - has a credit rating of at least “A” as defined in Appendix A of the Terms and Conditions Governing the Morning Auction of Receiver General Cash Balances
3. Securities issued by a municipal government, municipal finance authority, financial institution, or corporation provided that the security:
 - has a remaining term to maturity of 10.5 years or less; and
 - has a credit rating of at least “A” as defined in Appendix A and is a publicly traded security issued pursuant to an offering memorandum.
4. As authorized by the Bank of Canada, cash may also be transferred by the seller of the Receiver General Sale and Repurchase Agreement. Cash would normally be acceptable only to clean up “tag end” amounts, including margin calls and collateral substitution. No rebate (interest) will be paid to the seller when cash is transferred by the seller of the repo.

B. General Restrictions

To be eligible, a security must satisfy the following requirements on the date of transfer:

1. All securities must be denominated in Canadian dollars.
2. The minimum principal amount of an individual security that may be transferred is \$1 million (except for securities transferred to clean up “tag end” amounts, including margin calls and collateral substitution).
3. The security must not have an embedded option or carry a right of conversion into equity securities.
4. The security must not mature, pay a coupon, or be about to undergo a corporate action during the term of the Receiver General Sale and Repurchase Agreement.

5. A liquid market must exist for the security and a reliable market price must be obtainable.
6. The security must be in book-entry format and be held in the Debt Clearing Service of The Canadian Depository for Securities Limited.
7. The security must not have been issued by the participant or any of its related entities.
8. The participant must not have provided any form of credit support or enhancement for the security. This would include, for example, bankers' acceptances for which the participant is the stamping financial institution.

C. Limits on Amounts of Eligible Securities

There is no limit on the amount of securities issued or guaranteed by the Government of Canada or an agent of the Government of Canada that will be accepted as collateral under Receiver General Sale and Repurchase Agreements.

Other eligible securities are subject to the limits noted below:

1. Of the total amount of collateral pledged by a participant, the maximum principal amount issued by any one province (including agents of that province) and the aggregate amount issued by all provinces (including agents of all provinces) shall not exceed:

An "A" Rated Province (including Agents of that Province)	A "AA" or Better Rated Province (including Agents of that Province)	Aggregate Limit for Securities Issued by All Provinces (including Agents of All Provinces)
10 per cent	20 per cent	40 per cent

2. Of the total amount of collateral pledged by a participant, the maximum principal amount issued by any other entity (including parties related to that entity) and the aggregate amount issued by all other entities shall not exceed:

An "A" Rated Entity (including parties related to that entity)	A "AA" or Better Rated Entity (including parties related to that entity)	Aggregate Limit for Securities Issued by All Other Entities
5 per cent	10 per cent	20 per cent

D. Collateral Substitution

Participants will be allowed to substitute eligible collateral in accordance with the Receiver General Sale and Repurchase Agreement, subject to operational guidelines established in the tri-party repurchase agreement with the agent appointed by Canada.

E. Margin Requirements

The following margin requirements will be applied (note that, for securities with up to one year to maturity, the margins are adjusted by term divided by 365):

Collateral Type	Maturity				
	up to 1 yr.	>1-3 yrs.	>3-5 yrs.	>5-10.5 yrs.	>10.5 yrs.
Securities issued by the Government of Canada (including strips and residuals)	1.0%	1.0%	1.5%	2.0%	2.5%
Securities of agents of the Government of Canada or guaranteed by the Government of Canada (including Canada Mortgage Bonds and NHA MBS*)	1.5%	2.0%	2.5%	3.0%	3.5%
Securities issued by a provincial government (rated A or better)	2.0%	3.0%	3.5%	4.0%	
Securities of agents of a province or guaranteed by a province (rated A or better)	3.0%	4.0%	4.5%	5.0%	
Bankers' acceptances, BDNs, promissory notes, commercial paper, and short-term municipal paper (rated A-1 (high) by S&P or R-1 (mid) or better by DBRS)	7.5%				
Bankers' acceptances, BDNs, promissory notes, commercial paper, and short-term municipal paper (rated A-1 (mid) by S&P or R-1 (low) by DBRS or 1 by Moody's)	12.0%				
Corporate and Municipal Bonds (rated AA or better)	7.5%	7.5%	8.5%	9.0%	
Corporate and Municipal Bonds (rated A)	12.0%	12.0%	13.0%	13.5%	

*Minimum pool size of \$75 million

Appendix G

RECEIVER GENERAL MORNING AUCTION PARTICIPANTS' GUIDE FOR SETTLING RECEIVER GENERAL SALE AND REPURCHASE AGREEMENTS

I. Overview and Background Information

- Royal Trust Corporation of Canada (Royal Trust) has been appointed by Canada to act as Custodian and Collateral Agent under a tri-party repo service arrangement for the collateralized portion of the morning auctions. As such, Royal Trust will manage the repo relationship between the Bank of Canada and participants in respect to the eligible securities for the Receiver General Sale and Repurchase Agreements (RG Repos), margin ratios, and the exposure concentration limits as defined in the "List of Eligible Securities for Receiver General Sale and Repurchase Agreements" (Appendix F).
- The Bank of Canada will advise each participant and Royal Trust of the results of the collateralized portion of the auction, via the CARS (Communication, Auction and Reporting System), by 9:30 a.m. on the morning of the auction.
- The Bank of Canada will settle with Royal Trust, via the Large Value Transfer System (LVTS) by 1:00 p.m. on each day that there is a net addition to the amount of Receiver General Sale and Repurchase Agreements outstanding.
- On days that there is a net reduction of RG Repos outstanding, the Bank of Canada will receive a settlement by 4:00 p.m. from Royal Trust, via LVTS, representing the net value by which RG repos declined that day.
- Royal Trust must report the status of transactions and settlements to the Bank of Canada as at 1:00 p.m., 3:00 p.m., and 4:00 p.m., each day.
- Royal Trust will provide to participants via fax or the Internet trade confirmation statements prior to 5:00 p.m. on the day of the trade and more detailed statements overnight.

II. Participants Settling Transactions Through the Debt Clearing System of CDS

A. Procedures for Settling Collateralized Winnings

- Participants, or their DCS agent, will issue DCS trade instructions to Royal Trust confirming that they will deliver eligible securities in exchange for cash, which will equal their collateralized auction winnings (plus initial margin).
- Participant instructions will include the relevant account number, securities delivering in, trade date, settlement date, against payment, and the amount.
- Royal Trust will match the auction information provided through the CARS and by the participant, or its DCS agent, and validate the eligibility of the securities and amounts. If the securities do not meet the eligibility rules, the trade will be cancelled on DCS. Royal Trust will request that the participant provide other eligible securities.

- If the securities are acceptable, Royal Trust will confirm the trade in DCS provided that Royal Trust has received all maturing cash from the participant. (Settlements of new winnings prior to 1:00 p.m. will be dependent on sufficient cash being available.) This will be completed by 3:00 p.m. At this point, the cash will be delivered to the winning participant, or its DCS agent, and the securities will be delivered to Royal Trust. Royal Trust will hold the securities in a segregated account, for the Government of Canada.
- Royal Trust will provide new winnings to participants only after receiving any monies to be returned from maturing RG Repos by the same participant.
- Prior to 3:00 p.m., Royal Trust will facilitate partial settlement, to the extent possible, if insufficient securities are delivered from the market participant. This is subject to the processes outlined in the Purchase Exception Processing – Insufficient Market Participant Securities section of this document.
- Royal Trust will report to the Bank of Canada the status of transactions and settlements of new cash winnings as at 3:00 p.m. (with a final report by 4:00 p.m.).

B. Procedures for Settling Maturing Amounts (Repurchases)

1. Broker-Dealers

- Broker-Dealers will provide (set-up) DCS trade instructions confirming they will deliver cash in exchange for securities, to the value of the maturing RG Repos (principal plus interest), not later than 1:00 p.m.
- Royal Trust will match and confirm the trades in DCS and upon settlement the securities will be delivered to the participant in DCS and Royal Trust will receive the cash in its DCS CUID, crediting the Government of Canada cash account.
- Royal Trust will complete the repurchase in a timely manner starting at 9:00 a.m. and will be completed no later than 1:00 p.m. (To help meet this deadline, participants should target to have repurchase transactions in by 12:30 p.m.) Note that new winnings will not be paid out to participants until after the maturing RG Repos have been repaid.
- Royal Trust will report to the Bank of Canada any failed unwind of maturing RG Repos as of 1:00 p.m. and will act on instructions issued by the Bank of Canada in this regard.

2. Non Broker-Dealers

- Royal Trust will notify the participant of the cash value (principal plus interest) of the repurchase transactions and will set up the DCS trade instructions not later than 1:00 p.m.
- The participant will match the information and amounts and will confirm the trade in DCS. Upon settlement, the securities will be delivered to the participant in DCS, or its DCS agent and Royal Trust will receive the cash in its DCS CUID, crediting the Government of Canada cash account.
- Royal Trust will complete the repurchase in a timely manner starting at 9:00 a.m. and will be completed no later than 1:00 p.m. (To help meet this deadline participants should target to have repurchase transactions in by 12:30 p.m.) Note that new winnings will not be paid out to

participants until after the maturing RG Repos have been repaid.

- Royal Trust will report to the Bank of Canada any failed unwind of maturing RG Repos as at 1:00 p.m. and will act on instructions issued by the Bank of Canada in this regard.

C. Purchase Exception Processing – Insufficient Market Participant Securities

- If by 2:30 p.m., the securities have not settled in DCS, Royal Trust will contact the participant to discuss the status of transaction.
- If sufficient securities are not received by the 3:00 p.m. deadline to settle a transaction completely, the Bank of Canada will instruct Royal Trust to either (i) complete a partial settlement of the transaction for the amount of eligible securities that are delivered and release the corresponding amount of funds to the participant or (ii) cancel the entire transaction.
- In the event that the Bank of Canada instructs the agent to partially settle the transaction, the remainder of the Receiver General cash balances that were awarded at tender will be withheld from settling by the agent and be held by the agent on behalf of the Receiver General. In this regard, the settlement confirmation delivered to the participant and the Bank of Canada will show the amount withheld as “Withheld Purchase Price.”
- If the Receiver General Sale and Repurchase Agreement is for greater than one day, the participant may complete the delivery of securities in exchange for the Withheld Purchase Price on any day(s) subsequent to the date of the original failure until delivery is completed.
- In the event that a participant fails delivery of securities, interest will be payable to the Receiver General by the participant on the entire amount of Receiver General cash balances awarded at auction at the rate specified in the accepted bid regardless of whether and when delivery of securities occurs for the entire amount.

D. Management of Collateral

- Royal Trust will establish a separate custody account for the Government of Canada and will ensure that only acceptable securities of sufficient value are received.
- Royal Trust will value the securities on a daily basis and make margin calls in accordance with the tri-party repo service agreement against auction participants. Royal Trust will telephone the participants to agree on the amounts and positions to be delivered to cover the margin call. Participants will deliver their positions via DCS, in the same manner of new winnings by 3:00 p.m.
- Royal Trust will inform the Bank of Canada when such margin calls have been made on its behalf.
- It is at the sole discretion of the Bank of Canada to determine whether a participant has defaulted on a margin call. The Bank of Canada will be responsible for taking any appropriate action or for providing instructions to Royal Trust to take any appropriate action in the event of a default.
- Royal Trust will settle any securities substitutions requested by participants up to 4:00 p.m. each day.

- Substitutions will be made against securities that meet the eligibility requirements and must be against equal value. Participants will advise Royal Trust of their substitution requirements by telephone. Participants and Royal Trust will deliver their positions via DCS.
- In cases of excess collateralization, the participant may request by telephone to have securities positions released. Royal Trust will process such requests in a timely manner up to 3:00 p.m.

III. Participants Lodging Standing Collateral with RBC GS

Where the participant chooses to lodge securities with Royal Trust on a standing basis, the participant and Royal Trust will sign a separate clearing agreement, which will govern their relationship.

A. Procedures for Settling Collateralized Winnings

- Participants will instruct Royal Trust directly, via fax or secured message, regarding the securities which will be equivalent to their collateralized auction winnings, plus initial margin, in their clearance accounts that they wish to allocate for auction winnings. Royal Trust will match the auction information provided by the Bank of Canada through the CARS and by the participant and validate the securities and eligibility amounts. If the securities are not eligible, then the Officer of Royal Trust appointed pursuant to the tri-party repo service agreement can allocate other securities that have not been earmarked for other trades directly from the participant's clearance account.
- If the securities are acceptable, Royal Trust will execute the trade provided that Royal Trust has received all maturing cash from the participant. (Settlements of new winnings prior to 1:00 p.m. will be dependent on sufficient cash being available for Royal Trust to complete a transaction.) The trade will be executed by simultaneously transferring the securities to the Government of Canada's account and the cash to the participant's account. This will be completed by 3:00 p.m. each day.
- Royal Trust will provide new winnings to participants only after receiving any monies to be returned from maturing RG Repos by the same participant.
- Prior to 3:00 p.m., Royal Trust will facilitate partial settlement, to the extent possible, if insufficient securities are available. This is subject to the processes outlined in the Purchase Exception Processing – Insufficient Participant Securities section of this document.
- Royal Trust will report to the Bank of Canada the final transaction settlement of the new cash winnings as at 3:00 p.m. (with a final report by 4:00 p.m.).

B. Procedures for Settling Maturing Amounts (Repurchase)

- Royal Trust will notify participants of the cash value (principal plus interest) of the repurchase transactions.
- Participants will utilize their clearance accounts to facilitate settlement of repurchase transactions.
- Royal Trust will execute the trade simultaneously, transferring the cash to the Receiver General's account and the securities to the participant's clearance account.

- Royal Trust will complete the repurchase in a timely manner starting at 9:00 a.m. and will be completed no later than 1:00 p.m. (To help meet this deadline, participants should target to have sufficient cash in their account by 12:30 p.m.) Note that new winnings will not be paid out to participants until after the maturing RG Repos have been repaid

C. Purchase: Exception Processing – Insufficient Market Participant Securities

- If sufficient securities are not received by the 3:00 p.m. deadline to settle a transaction completely, the Bank of Canada will instruct Royal Trust to either (i) complete a partial settlement of the transaction for the amount of eligible securities that are delivered and release the corresponding amount of funds to the participant or (ii) cancel the entire transaction.
- In the event that the Bank of Canada instructs the agent to partially settle the transaction, the remainder of the Receiver General cash balances that were awarded at tender will be withheld from settling by the agent and be held by the agent on behalf of the Receiver General. In this regard, the settlement confirmation delivered to the participant and the Bank of Canada will show the amount withheld as “Withheld Purchase Price.”
- If the Receiver General Sale and Repurchase Agreement is for greater than one day, the participant may complete the delivery of securities in exchange for the Withheld Purchase Price on any day(s) subsequent to the date of the original failure until delivery is completed.
- In the event that a participant fails delivery of securities, interest will be payable to the Receiver General by the participant on the entire amount of Receiver General cash balances awarded at auction at the rate specified in the accepted bid regardless of whether and when delivery of securities occurs for the entire amount.

D. Management of Collateral

- Royal Trust will establish a separate custody account for the Government of Canada and will ensure that only acceptable securities of sufficient value are received.
- Royal Trust will value the collateral on a daily basis and make margin calls, as appropriate, against auction participants. Royal Trust will telephone the participants to agree on the amounts and positions to be delivered to cover the margin call. Participants will utilize their clearance accounts to facilitate settlement.
- Royal Trust will inform the Bank of Canada when such margin calls have been made on its behalf.
- It is at the sole discretion of the Bank of Canada to determine whether a participant has defaulted on a margin call. The Bank of Canada will be responsible for taking any appropriate action or for providing instructions to Royal Trust to take any appropriate action in the event of a default.
- Royal Trust will settle any securities substitutions requested by the participants up to 4:00 p.m. each day.
- Substitutions will be made against securities that meet the eligibility requirements and must be against equal value. Participants will advise Royal Trust of their substitution requirements by telephone. Participants will use their clearance accounts to facilitate settlement.

- In the cases of excess collateralization, the participant may request by telephone to have securities positions released. Royal Trust will process such requests in a timely manner up to 3:00 p.m.

Appendix H

RELATED ENTITIES

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

A person controls an entity that is a corporation if:

- (a) 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;
- (b) 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
- (c) that person controls an entity that controls the corporation.

A person controls an unincorporated entity that is 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 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 purposes of this definition, a “person” means a natural person, an entity, or a personal representative.

Appendix I

**GUARANTEE IN RESPECT OF THE OBLIGATIONS OF A “BBB”
OR NON-RATED PARTICIPANT**

(to be provided on request)