



EFFECTIVE 13 DECEMBER 2005

STANDARD TERMS FOR AUCTIONS OF GOVERNMENT OF CANADA REAL RETURN BONDS

1. The Minister of Finance hereby gives notice that all tenders submitted by authorized government securities distributors (“government securities distributors”), on or after the date set out below, for Government of Canada Real Return Bonds issued pursuant to the Financial Administration Act shall be subject to these *Standard Terms for Auctions of Government of Canada Real Return Bonds*.
2. Each tender shall be unconditional and shall be received by the Bank of Canada, acting on behalf of the Department of Finance Canada, **not later than the time**, and on the auction day, specified in the *Final Call for Tenders* to which the tender is a response.
3. Bids may be submitted by both government securities distributors and by customers subject to their own auction limit, provided that, in the case of a bid by a customer, the customer has obtained a bidder identification number from the Bank of Canada prior to the tender. Government securities distributors will also have a separate limit for the aggregate amount of bids they submit on behalf of customers. Bids by customers must be submitted through a government securities distributor and include the customer’s bidder identification number. Where a government securities distributor submits bids both on its own behalf and on the behalf of a customer with a bidder identification number, the bids on behalf of the customer must be listed separately from the distributor’s own bids.
4. The maximum amount that any government securities distributor or customer can bid on a competitive basis is its bidding limit less its excess net long position, which is its net long position in excess of the product of its percentage bidding limit and the par value of any outstanding stock of the specific security being auctioned. Customer bids are not netted against the limits of government securities distributors. The limit for the total amount of bids that primary dealers, a subgroup of government distributors, can submit on behalf of customers equals 25 per cent of the tender. Primary dealers have bidding limits tiered from 10 to 25 per cent of the auctioned amount for bids on their own account. Other government securities distributors’ limit for the total amount they can submit on behalf of customers is 10 per cent of the tender. Other government securities distributors have bidding limits tiered from 0 to 9 per cent of the auctioned amount for bids on their own account. Government securities distributors that do not act as principal in the purchase and sale of Government of Canada securities directly with customers and other financial intermediaries have a bidding limit of 0 per cent for their own account. A customer may bid for up to 25 per cent of the amount auctioned. In addition, the aggregate limit for the sum of the bids submitted by a primary dealer on its own behalf and on behalf of its customers is 40 per cent of the tender less the dealer’s excess net long position (up to the dealer’s bidding limit).
5. Government securities distributors may submit competitive tenders or non-competitive tenders, or both. Subject to conditions in (a) and (b) below, non-competitive bids will be accepted in full and then competitive bids will be accepted in rising order of real yield until the full amount of the issue is allotted. All non-competitive and successful competitive bids will be allotted at the highest real yield of accepted competitive bids.



- a. Competitive tenders may consist of up to seven bids. These bids must be stated in multiples of \$1,000 subject to the condition that each individual bid be for a minimum of \$100,000. Each bid shall state the real yield to maturity to three decimal places. Government securities distributors shall not bid directly or indirectly on behalf of, or in concert with, any other government securities distributor.
 - b. Government securities distributors may submit only one non-competitive bid on their own behalf. This bid must be stated in multiples of \$1,000 subject to a minimum of \$1,000 and a maximum limit of \$3,000,000 per government securities distributor. Government securities distributors can also bid non-competitively on behalf of customers. The total amount of customer non-competitive bids that each government securities distributor can submit is limited to \$3,000,000. The total amount of non-competitive bids for each customer is limited to \$3,000,000.
6. Successful bidders will be allotted Real Return Bonds at the price equivalent of the highest real yield of accepted competitive bids, plus accrued Inflation Compensation and accrued Coupon Interest, if applicable. The calculation of the purchase price for accepted bids will be carried to three decimal places on the basis of price per hundred.
 7. Tenders shall be submitted to the Bank of Canada, acting on behalf of the Department of Finance Canada, via the *Communication, Auction and Reporting System* provided by the Bank of Canada. Neither the Minister of Finance nor the Bank of Canada shall bear any liability whatsoever for any errors in tenders received or for delays in the transmission of tenders. With the prior permission of the Bank of Canada, tenders may alternatively be submitted on the official tender forms.
 8. The Minister of Finance reserves the right to accept or reject any or all bids, in whole or in part, including without limitation, the right to accept less than the total amount specified in the *Final Call for Tenders*.
 9. The auction results will be made available on the *Communication, Auction and Reporting System* on the day of the auction, and those submitting tenders may thereby confirm the acceptance or rejection, in whole or in part, of the submitted tenders.
 10. The Bank of Canada is eligible, without restriction, to participate in each auction.
 11. No fees or commissions will be paid by the Government of Canada in connection with the issuance of Government of Canada Real Return Bonds.
 12. Government securities distributors must report their aggregate net position in the auctioned security to the Bank of Canada when submitting their own bids or bids on behalf of customers. Customers bidding competitively at auction must also report their aggregate net position in the auctioned security. If no net position is reported, the competitive bid for the non-reporting entity will be rejected automatically. Customers can submit their aggregate net position report either directly to the Bank of Canada or through a government securities distributor that is submitting a bid on their behalf. A customer reporting its net position in the auctioned security directly to the Bank of Canada



may do so up to 30 minutes before the bidding deadline. All bidders are required to re-submit their net position in the auctioned security, by the bidding deadline, if it changes by more than \$25 million. Customers may make non- competitive bids without submitting a net position report.

13. In delivering the Real Return Bonds to government securities distributors, the Bank of Canada will, until further notice, utilize CDSX provided by The Canadian Depository for Securities Limited (“CDS”). The delivery of Real Return Bonds to a customer shall be settled through the government securities distributor who submitted the bid for the customer. The Real Return Bond allocation to each government securities distributor from whom a bid is accepted shall be effected through the settlement of a sale in CDSX, involving the book entry transfer of Real Return Bonds from the Bank of Canada’s CDSX securities account to the CDSX securities account designated by the government securities distributor, in exchange for a CDSX funds transfer of the net new issue amount owing by the government securities distributor. Government securities distributors shall observe all applicable CDS Rules, Procedures, and User Guides for CDSX. Government securities distributors are responsible for the settlement, on the day stipulated in the *Final Call for Tenders*, of any accepted bids that they have submitted on their own behalf or on the behalf of a customer, and shall be liable to the Bank of Canada for any losses incurred as a result of those sales failing to settle in CDSX.
14. A global certificate for the full amount of the Real Return Bonds offered will be issued in fully registered form in the name of “CDS & Co.,” a nominee of CDS. Principal, Inflation Compensation and Coupon Interest on the Real Return Bonds will be paid in lawful money of Canada to CDS & Co. The Real Return Bonds must be purchased, transferred, or sold directly or indirectly through a participant in CDSX. If, at any time, the Minister of Finance determines that it is no longer practicable or appropriate to use CDS, the Minister may select another depository for the purpose of registration and settlement of the Real Return Bonds, or may direct that individual certificates be made available to bond owners in integral multiples of \$1,000. The Real Return Bonds are authorized pursuant to an Act of Parliament, and Principal, Inflation Compensation and Coupon Interest are a direct charge on, and payable out of, the Consolidated Revenue Fund of Canada.
15. Further information concerning Real Return Bonds is contained in a Government of Canada circular dated 25 November 1994.
16. Government securities distributors and customers must comply with the *Terms of Participations in Auctions for Government Securities Distributors* and with the *Terms of Participations in Auctions for Customers*, respectively.