

Note: These rules are currently under revision

BANK OF CANADA

RULES GOVERNING ADVANCES TO FINANCIAL INSTITUTIONS

1. GENERAL

These Rules serve as policy guidelines and administrative procedures for financial institutions seeking to borrow funds from the Bank of Canada ("Bank"). The Bank may also from time to time communicate in writing to financial institutions additional policies regarding specific aspects of advances and security for advances, providing that these additional policies are not inconsistent with these Rules. If there is any conflict between these Rules or any additional policies and those agreements referred to in paragraph 5, the latter will prevail.

2. DEFINITIONS

In these Rules:

- (a) **“advance”** means an advance of a loan from the Bank to a financial institution which is among those types of advances described in paragraph 4;
- (b) **“Bank Rate”** means the minimum interest rate which the Bank is prepared to charge in respect of advances, as made public in accordance with the Bank of Canada Act;
- (c) **“Business Day”** means a day on which there is a clearing of payment items pursuant to paragraph 6(1)(a) of the Canadian Payments Act;
- (d) **“credit date”** means, in respect of each type of advance described in paragraph 4:
 - (i) in respect of ACSS Advances, the date of the loan application referred to in paragraph 6;
 - (ii) in respect of Discretionary LVTS Advances, the date of the loan application;
 - (iii) in respect of Non-Discretionary LVTS Advances, the date of the LVTS cycle in which occurred the default of the LVTS participant creating an obligation of the Bank to lend; and

- (iv) in respect of Other Advances, at the Bank's discretion, either the Business Day immediately preceding the date of the loan application or the date of the loan application.
- (e) **“eastern time”** means that time (either eastern standard time or eastern daylight time) which is in effect in the eastern time zone at the time of the matter in question.
- (f) **“repayment date”** means, in respect of all advances, the date the advance is repayable.

3. ELIGIBILITY

The following financial institutions may apply for advances from the Bank:

- (a) any bank or non-bank member of the Canadian Payments Association ("CPA") with an account at the Bank that participates directly ("direct clearer") in the daily clearing and settlement of payment items in the Automated Clearing Settlement System ("ACSS") of the CPA;
- (b) any bank or non-bank member of the CPA with an account at the Bank that is a participant in the Large Value Transfer System ("LVTS" and "LVTS participant") of the CPA; and
- (c) any other bank or non-bank member of the CPA.

4. ADVANCES BY THE BANK

The following are advances that may be made by the Bank to financial institutions:

- (a) advances to a direct clearer to ensure that it has a sufficient closing settlement balance at the Bank to permit settlement of its clearing balance in the ACSS ("ACSS Advance");
- (b) advances to an LVTS participant to ensure that it has a sufficient settlement balance at the Bank to permit settlement of its multilateral net position and of its additional settlement obligations in the LVTS ("LVTS Advance"), which LVTS Advances shall be either:
 - (i) an advance made at the Bank's discretion to permit settlement of an LVTS participant's multilateral net position without the participant defaulting in the LVTS ("Discretionary LVTS Advance"); or

- (ii) an advance which the Bank is obligated by the LVTS By-law to make following the default of a participant in the LVTS (“Non-Discretionary LVTS Advance”); and
- (c) Other advances consistent with the Bank's statutory powers to lend to financial institutions (“Other Advances”), including, but not limited to:
 - (i) advances applied for after the time prescribed in paragraph 6;
 - (ii) advances having a longer term than that prescribed in subparagraph 7(a);
 - (iii) advances secured by a security interest in collateral other than the collateral prescribed in subparagraph 8(a);
 - (iv) all advances to financial institutions other than direct clearers and LVTS participants; and
 - (v) all advances for any purpose other than those set out in subparagraphs 4(a) or 4(b) including, without limitation, for the purpose of funding transfers of funds between the settlement accounts at the Bank of participants in a clearing and settlement system and of the clearing house for that system in order to settle payment obligations arising from the system.

5. PRESCRIBED DOCUMENTATION

Any financial institution seeking an advance from the Bank shall have executed the following documents, in the forms prescribed by the Bank:

- (a) in respect of an ACSS Advance, (i) an Account Agreement for Settlement Account, (ii) a Loan Facility Agreement, (iii) a Security Agreement for ACSS Advances and Other Advances and (iv), if the direct clearer in the ACSS wishes to use funds standing to its credit in a Special Deposit Account as collateral, an Account Agreement for Special Deposit Account;
- (b) in respect of an LVTS Advance, (i) an Account Agreement for Settlement Account, (ii) a Loan Facility Agreement, (iii) a Security Agreement for LVTS Collateral and (iv) if the LVTS participant wishes to use funds standing to its credit in a Special Deposit Account as collateral, an Account Agreement for Special Deposit Account; and
- (c) in respect of an Other Advance, any or all of the documents listed above, plus such other documents, as may be required by the Bank.

The financial institution's accounts with the Bank are established and governed in accordance with the Account Agreement for Settlement Account and the Account Agreement for Special Deposit Account. Each advance shall be subject to the provisions of the Loan Facility Agreement and recorded on the books of the Bank. Each advance shall be secured by a security interest in the eligible collateral referred to in paragraph 8, pursuant to the Security Agreement for ACSS Advances and Other Advances (in the case of ACSS Advances and of Other Advances), the Security Agreement for LVTS Collateral (in the case of LVTS Advances) or such other agreements as the Bank may prescribe. The Security Agreement for ACSS Advances and Other Advances and the Security Agreement for LVTS Collateral are available from the Bank on request.

6. APPLICATION FOR ADVANCES

- (a) A financial institution shall apply for an ACSS Advance or a Discretionary LVTS Advance by submitting a loan application in the prescribed form to the attention of the Bank's Department of Banking Operations in Ottawa. Loan applications for ACSS Advances must be submitted to the Bank prior to 11:30 a.m. eastern time on those days when the final closing time for clearing in the ACSS occurs at 11:00 a.m. and prior to 12:00 noon eastern time on those days when the final closing time for clearing in the ACSS occurs after 11:00 a.m. Loan applications for Discretionary LVTS Advances must be submitted within such time period as may be indicated by the Bank at the time that the Bank notifies the LVTS participant pursuant to the LVTS By-law and any applicable rules thereunder that it has insufficient settlement balance at the Bank to permit settlement of its multilateral net position. All loan applications must be submitted for credit as of the **credit date** applicable to the type of advance. A loan application shall be submitted by such means of transmission as may be provided for in the Loan Facility Agreement or, in the case of Other Advances, such other loan agreement as may be required by the Bank.
- (b) Non-Discretionary LVTS Advances shall not be applied for but shall be provided unilaterally by the Bank for credit as of the applicable **credit date** in accordance with the terms of the LVTS By-law and the Loan Facility Agreement upon the default in the LVTS of an LVTS participant. A Non-Discretionary LVTS Advance shall be in such amount as is determined in accordance with subsection 4(d) of the Loan Facility Agreement to be necessary to permit the financial institution to settle either or both of its multilateral net position or additional settlement obligations in the LVTS. Such advances shall bear such interest and have such terms to maturity as are communicated by the Bank to the financial institution at the time the Advance is made.
- (c) Loan applications for Other Advances shall be submitted pursuant to the loan

agreement governing the advance only after the institution has consulted regarding the need for the advance with either: the Deputy Governor, Monetary Policy and Financial Analysis; the Deputy Governor, Financial Markets; the Adviser, Regulatory Policy; or such other person as the Bank may indicate from time to time as the person to consult in respect of Other Advances for particular purposes, and has provided that person with such information concerning the Other Advance as the Bank considers relevant.

The Bank will signify acceptance of a loan application and provide an advance by crediting the proceeds of the advance to the institution's settlement account with the Bank. The Bank will notify the institution if a loan application is rejected.

NOTE: While the Bank is conscious of its role as lender of last resort, it expects all financial institutions to adjust their cash positions principally by way of the money markets. The Bank will exercise its discretion to make advances in keeping with that expectation.

7. TERMS OF ADVANCES

All advances are governed by the provisions of the Loan Facility Agreement and, in the case of Other Advances, such other agreements as the Bank may require as a condition of making an advance. The following briefly describes the relevant terms applicable to ACSS Advances and LVTS Advances:

- (a) **Term** -
 - (i) for ACSS Advances, less than one **Business Day**, that is, the **repayment date** is the same **Business Day** as the **credit date**;
 - (ii) for Discretionary LVTS Advances, one **Business Day**, that is, the **repayment date** is the next **Business Day** after the **credit date**;
 - (ii) for Non-Discretionary LVTS Advances, such term as may be determined by the Bank as a condition of the advance and communicated to the financial institution at the time of providing the advance, which term shall not exceed six months.

- (b) **Interest Rate** -
 - (i) for ACSS Advances and Discretionary LVTS Advances, the **Bank Rate** as of the **credit date**; and
 - (ii) for Non-Discretionary LVTS Advances, such rate as is determined by the Bank at the time of making the advance and communicated to the financial institution.

For all LVTS Advances and ACSS Advances, interest accrues on a daily basis from the **credit date** until the **repayment date** except in the event of a default in repayment of the advance, in which event interest shall continue to accrue at the rate applicable to the advance until repayment in full.

- (c) **Credit of Funds and Repayment** - The proceeds of an advance are credited to the financial institution's settlement account with the Bank as of the **credit date**. Repayment of principal and interest is made by means of a payment received by the Bank through the LVTS on the **repayment date** for value as of the **repayment date**. In the event that a financial institution is unable to repay an advance on the repayment date because the LVTS is suspended or inoperative on that date, repayment shall be by such method and within such time as may be specified by the Bank.

The following terms are applicable to Other Advances:

- (d) **Term** - not exceeding six months.
- (e) **Interest Rate** - As determined by the Bank and communicated to the financial institution at the time of providing the advance.
- (f) **Credit of Funds and Repayment** - Usually, proceeds of an advance will be credited to the financial institution's settlement account and repayment of the advance will be as described in (c) above but this procedure may be changed by the Bank as it deems appropriate.

8. SECURITY FOR ADVANCES

Depending on the type of advance, security for an advance is governed by either the Security Agreement for LVTS Collateral, the Security Agreement for ACSS Advances and Other Advances or such other agreements as may be prescribed by the Bank. The Bank will accept as security for all types of advances those types of collateral which are set out in the list of eligible collateral published from time to time on the Bank's website (www.bankofcanada.ca). The Bank may also accept as security for Other Advances such additional types of collateral, if any, which the Bank may indicate to the institution as acceptable prior to making the Other Advance. In addition to the terms and conditions governing collateral which are set out in the list of collateral on the Bank's website, the following general terms and conditions shall apply:

- (a) While the special deposit account (SDA) which an institution has with the Bank is generally acceptable as security for advances to that institution, the Bank reserves the right to no longer accept SDAs as security for advances from any particular financial institution or class of financial institutions provided that the Bank gives such financial

institution or class of financial institutions prior notice of at least one Business Day that it will no longer accept their SDAs as security for advances.

- (b) Securities pledged as collateral must be identified by ISIN/CUSIP in the loan application (for ACSS Advances and Other Advances) or in the designation of collateral (for LVTS Advances). Securities which are in certificated form must be delivered to the Bank at its operations centre in Mississauga, Ontario, its operations centre in Verdun, Quebec, its head office in Ottawa or to such other premises as the Bank may agree to in writing, between the hours of 8:30 a.m. and 4:00 p.m., eastern time, on a Business Day and prior to or concurrent with submission of the loan application. The market value of securities pledged to the Bank shall equal not less than the principal amount of the loan plus any margin requirement for that collateral which may be stipulated by the Bank at its sole discretion.

9. SAFEKEEPING OF SECURITIES

Financial institutions eligible to apply for advances from the Bank may lodge securities at the Bank for use as collateral to secure borrowings from the Bank. Securities held in safekeeping which are not subject to a security interest in favour of the Bank may be withdrawn at any time on reasonable notice. There is currently no charge for this safekeeping service.

10. RELEASE OF COLLATERAL

A financial institution which has granted collateral to the Bank as security and which is entitled by the Security Agreement for ACSS Advances and Other Advances, the Security Agreement for LVTS Collateral or any other agreement governing collateral for the advance to a release of the collateral, may request and obtain a release of the collateral by:

- (a) in respect of collateral which is securities in the Debt Clearing Service (DCS) of the Canadian Depository for Securities Limited or a successor to that service, submitting a request for release to the Bank at any time that the DCS or its successor is available to complete a transfer of the securities back to the borrower;
- (b) in respect of collateral which is securities not in the DCS or its successor, submitting a request for release to the Bank on any Business Day between the hours of 8:30 a.m. and 4:00 p.m., eastern time; or
- (c) in respect of collateral which is the financial institution's SDA, submitting a request for release to the Bank on any Business Day prior to completion of the LVTS cycle for that day.

11. REQUIREMENTS FOR PARTICIPATION IN THE LVTS AND ACSS

- (a) The entering by the Bank into a Loan Facility Agreement and a Security Agreement for LVTS Collateral with a financial institution satisfies any requirement in the CPA by-laws or rules governing the LVTS that the institution, in order to become a participant in the LVTS, must enter into agreements with the Bank governing the provision of advances for LVTS purposes and the pledging of collateral to secure those advances.
- (b) The entering by the Bank into a Loan Facility Agreement and a Security Agreement for ACSS Advances and Other Advances with a financial institution satisfies any requirement in the CPA by-laws or rules governing the ACSS that the institution, in order to become a direct clearer in the ACSS, must enter into agreements with the Bank governing the provision of advances for ACSS purposes and the pledging of collateral to secure those advances.
- (c) The decision as to whether to enter into any of the above-mentioned agreements with a financial institution shall be at the sole discretion of the Bank.

12. EFFECTIVE DATE AND AMENDMENTS

This version of the Rules is effective from the date first noted above. Upon the day that these Rules become effective, the version of the Rules Governing Advances to Financial Institutions which became effective on February 1, 2002, shall cease to have effect except in respect of any advances which were made pursuant to those Rules and which remain outstanding. The Bank may amend or replace these Rules at any time, but will give financial institutions as much notice as possible.