

Standard Terms for Auctions to Primary Dealers Under the Bank of Canada Securities-Lending Program

1. All tenders submitted by primary dealers, on or after 30 September 2002, for auctions under the Bank of Canada Securities-Lending Program shall be subject to these *Standard Terms for Auctions to Primary Dealers Under the Bank of Canada Securities-Lending Program* (the “Terms”).
2. Only those primary dealers who have signed the Bank’s form of Securities Loan Agreement and provide any additional legal documentation or comfort required by the Bank of Canada may participate in the program.
3. Each tender shall be unconditional and shall be received by the Bank of Canada, not later than the time, and on the auction day, specified in the *Call for Tenders*.
4. Primary dealers may bid on their own behalf subject to auction limits. If two or more primary dealers are related entities, as defined in Schedule “A” hereto, only one of them will be able to participate in the program, unless they certify to the Bank’s satisfaction that all policies, decisions, knowledge and information relating to investment and bidding in or for Government of Canada securities are made separately within each of the entities with no exchange or sharing of such policies, decisions, knowledge or information.
5. The maximum amount of a security that any primary dealer may bid is the greater of \$100 million and 25 per cent of the amount being auctioned. Participants are not eligible to bid for a security if they hold more than 25 per cent of the issue.
6. Primary dealers must submit tenders via the Communication, Auction and Reporting System (CARS). Tenders may consist of up to four bids per issue on (each of) the securities being made available. These bids must be stated in multiples of \$1,000,000. Each bid shall state the yield in number of basis points with no decimal places (in terms of spread below general collateral). Primary dealers shall not bid directly or indirectly on behalf of, or in concert with, any other primary dealer and each dealer shall so certify to the Bank on an annual basis.
7. Securities will be made available when the Bank believes that they are trading, or are unavailable, at the minimum bid rate or higher (in terms of spread below general collateral).
8. The minimum bid rate shall be indicated in the *Call for Tenders*. If considered necessary by the Bank, the minimum bid rate may be rounded to the next lowest 1/4 percentage point. The minimum bid rate may be adjusted in what the Bank considers to be extraordinary circumstances. Any such change will be indicated in the *Call for Tenders*. The minimum bid rate:

(a) for marketable bonds shall be the lower of 150 basis points or 50 per cent of the Bank's target for the overnight rate;

(b) for treasury bills shall be the lower of 100 basis points or 50 per cent of the Bank's target for the overnight rate.

9. Tenders shall be submitted to the Bank of Canada via the CARS. The Bank shall not bear any liability whatsoever for any errors in tenders received or for delays in the transmission of tenders.

10. The Bank of Canada reserves the right to accept or reject any or all tenders, in whole or in part, including without limitation, the right to accept less than the maximum amount specified in the *Call for Tenders*.

11. The deadline for receiving auction bids is 11 a.m. (Ottawa time). The auction results will be made available on the CARS on the day of the auction.

12. Participants must report their closing aggregate net position (as of 5 p.m.) in the auctioned security to the Bank of Canada, via the CARS or facsimile to the Bank of Canada (613-782-7182), by 5:30 p.m. (Ottawa time) on the day of the auction. Should a net position report not be received from a borrowing participant by the deadline, the participant will not be given access to the next auction.

13. The net position will include (i) the par amount of cash holdings of a security with the same International Securities Identification Number (ISIN), (ii) the par amount of when-issued positions, (iii) the par amount of futures contracts that require delivery of the specific security being auctioned but not futures contracts for which the security being auctioned is one of several securities that may be delivered, and not futures contracts that are cash-settled, (iv) forward contracts, (v) holdings of the residual component of a stripped bond of the security being auctioned, (vi) the par amount of option contracts which require delivery of the specific security being auctioned weighted by the estimated probability that the option(s) will be exercised, and (vii) the par amount of any position in the security not covered by the above types of contracts, including "guaranteed" trades. For repurchase agreements or securities lending, the entity that owns the security, not the one that has borrowed it, must report the repoed or lent security as part of its position. All positions are based on trade date rather than delivery date.

14. The Bank of Canada will charge a lending fee on each transaction, which will be calculated by applying the rate of winning bids to the market value of the security borrowed on an actual over 365 basis. The lending fee will be made available on the CARS on the day of the auction and lending fees shall be payable via LVTS on or before the maturity date of the

transaction.

15. Collateral for the securities loan must be delivered to the Bank of Canada by 4 p.m. (Ottawa time) on the day of the auction. Collateral to be delivered shall be confirmed with and priced by the Bank of Canada after the auction and prior to delivery. A confirmation of the transaction will be provided by the Bank. All collateral provided must comply with the list of eligible collateral for the securities-lending program, as set out in Schedule “B” hereto. All collateral delivered must be submitted free and clear of all liens, charges, claims, encumbrances, hypothecs, security interests or other restrictions of any kind and a primary dealer, in delivering securities as collateral, is deemed to warrant and represent that all securities delivered by it are free and clear.

16. The delivery of the collateral securities shall be effected through the pledge function of the DCS (or in any successor service to the DCS), involving the book entry transfer from the DCS securities account designated by the primary dealer to the Bank of Canada’s DCS securities account. Primary dealers shall observe all applicable CDS Rules, Procedures and User Guides for the DCS or any successor service to the DCS.

17. In delivering the lent securities, the Bank of Canada will, until further notice, utilize the DCS or any successor service to the DCS. The delivery of securities shall be effected through the pledge function of the DCS.

18. On the maturity date, the lent securities must be delivered to the Bank of Canada by 4 p.m. (Ottawa time) through the pledge function of the DCS.

19. In the event of a failure to return the lent securities on the maturity date, the Bank may, at its option and without prejudice to its legal rights under the Securities-Lending Agreement (including the right to realize upon the collateral at any time), roll the transaction for an additional business day at a lending fee equal to the Bank’s target for the overnight rate.

20. Consistent with the Terms of Participation in Auctions for Government Securities Distributors, all eligible participants shall comply with the IDA Policy No. 5, The Code of Conduct.

21. The Bank may, in addition to and without prejudice to any rights it may have under the securities loan agreement, sanction a primary dealer if the Bank is of the view that the dealer breached any of the Terms, including, without limitation: making an incorrect representation or certification; failing to provide any information required under the Terms or providing such information that is incorrect, inaccurate or incomplete; or failing to return lent securities on the maturity date. The sanctions which the Bank may impose include, without limitation: suspending the primary dealer from participating in one or more future auctions and changing, on a temporary basis, the bidding limit applicable to the dealer. In the event of

behaviour in relation to the securities-lending program or the auction which the Bank considers to be fundamentally incompatible with the primary dealer continuing to act as a government securities distributor, the dealer's status as a government securities distributor may be revoked. Any outstanding obligations or liabilities owed as a primary dealer to the Bank of Canada as a result of past participation in the program and in auctions shall survive the imposition of any sanction on the dealer.

Schedule A

Related Entities

“Entity” means a corporation, trust, partnership, fund, or an unincorporated association or organization.

“Person” means a natural person, an entity or a personal representative.

Where two or more Primary Dealers are related entities with each other, only one of those entities may participate in the Bank’s securities-lending program, unless the related entities meet the criteria and provide the required certification specified in the Terms and Conditions to enable related entities to participate.

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

A person controls a corporation if:

- securities of the corporation to which are attached more than 50 per cent of the votes that can 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; or
- the aggregate of (i) any securities of the corporation which are beneficially owned by that person, and (ii) any securities of the corporation which are beneficially owned by any entity controlled by that person, is such that, if that person and all of the entities controlled by it which beneficially own securities of the corporation were one person, that person would control the corporation; or
- that person controls an entity which controls the corporation.

A person controls a limited partnership if:

- that person is a general partner of the limited partnership; or
- that person controls an entity which controls the limited partnership.

A person controls an unincorporated entity, other than a limited partnership, if:

- 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
- that person controls an entity which controls the unincorporated entity.

A person controls an 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.

Schedule B

Eligible Collateral for the Securities-Lending Program

The list of eligible collateral for the Bank's securities-lending program will consist of the following:

- Securities issued by the Government of Canada.
- Government of Canada stripped coupons and residuals.
- Securities guaranteed by the Government of Canada (including Canada Mortgage Bonds and NHA mortgage-backed securities (MBS) with a minimum pool size of \$75 million).
- Securities issued or guaranteed by a provincial government.
- Bankers' acceptances and promissory notes (maximum term 364 days) with a minimum issuer credit rating of R1 (low) by the Dominion Bond Rating Service (DBRS), A-1 (mid) by Standard and Poor's (S&P) or P1 by Moody's Investors Service (Moody's).
- Commercial paper and short-term municipal paper (maximum term 364 days) with a minimum issuer credit rating of R1 (low) by DBRS, A-1 (mid) by S&P or P1 by Moody's.
- Corporate bonds and municipal bonds with a minimum long-term issuer credit rating of A (low) by DBRS, A- by S&P or A3 by Moody's.

The following conditions will be applied to the use of these securities as collateral:

- Only Canadian-dollar denominated securities are eligible to be pledged as collateral.
- Securities used as collateral must be pledged using the Debt Clearing Service of the Canadian Depository for Securities Limited.
- No more than 20 per cent of the value of the collateral pledged by an institution should be the obligation of a single private sector issuer or related party. This condition does not apply for borrowings of less than \$50 million.
- Securities issued by the pledgor of collateral (or any related party) cannot be used as collateral by the pledgor.
- The security must not have an embedded option or carry a right of conversion into equity securities.
- A minimum principal amount of \$1 million of an individual security is required.

The following minimum margin requirements will be applied to securities loans. The margin requirement is the greater of the margin rate corresponding to the security being lent and the margin rate of the securities being provided as collateral.

Margin Requirements (per cent)

| Type of Security | Maturity | | | | |
|---|-----------------|---------------|---------------|----------------|--------------|
| | Up to 1 year | >1-3 years | >3-5 years | >5-10 years | >10 years |
| Securities issued by the Government of Canada, including stripped coupons and residuals | 1.0 | 1.0 | 1.5 | 2.0 | 2.5 |
| Securities 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 | 2.0 | 3.0 | 3.5 | 4.0 | 4.5 |
| Securities guaranteed by a province | 3.0 | 4.0 | 4.5 | 5.0 | 5.5 |
| Bankers' acceptances, 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, promissory notes, commercial paper, and short-term municipal paper (rated A-1 (mid) by S&P or R-1 (low) by DBRS or P1 by Moody's) | 12.0 | | | | |
| Corporate and municipal bonds (AAA rated) | 4.0 | 4.0 | 5.0 | 5.5 | 6.0 |
| Corporate and municipal bonds (AA rated) | 7.5 | 7.5 | 8.5 | 9.0 | 10.0 |
| Corporate and municipal bonds (A rated) | 12.0 | 12.0 | 13.0 | 13.5 | 15.0 |