



BANK OF CANADA
BANQUE DU CANADA



B A C K G R O U N D E R S

Large Value Transfer System

The Large Value Transfer System (LVTS), operated by the Canadian Payments Association, is an electronic funds transfer system that allows financial institutions and their customers to send large payments, securely in real time, with certainty that the payments will settle. These time-sensitive payments include Government of Canada payments.

Sixteen institutions currently participate directly in the LVTS, including the Bank of Canada. In dollar terms, the system handles most of the payment flows that take place every day. In 2013, it processed an average of about 2 billion payments a day, worth an average total of \$155.5 billion.

[More information about payments and other clearing and settlement systems](#)

The Bank of Canada's Role in the LVTS

The Bank of Canada is legally responsible for overseeing the safety of the LVTS, which helps to ensure that Canada's financial system is not put at risk.

The Bank of Canada guarantees settlement of payments in the system in the extremely unlikely event that more than one participant fails during the LVTS operating day, and the amount owed by the failing participants exceeds the value of collateral pledged to the Bank of Canada.

The LVTS provides the setting in which the Bank of Canada conducts its [monetary policy](#). Here's how it all works:

Throughout any given day, LVTS members send payments back and forth to each other. When the transactions are added up at the end of the day, some financial institutions may be short of funds, while others may have funds left over. To settle these differences, LVTS members borrow from, and lend money to, each other every day, on a one-day (overnight) basis. The interest rate paid on these and other overnight loans is called the "overnight rate."

The Bank of Canada has a [target for the overnight rate](#), which influences the market rate for overnight loans and, consequently, other short-term interest rates in the Canadian economy. In choosing a target for the overnight rate, the Bank picks a level that is aimed at keeping future inflation low, stable, and predictable.

For details on the LVTS and the role of the target for the overnight rate in the transmission of monetary policy, see <http://www.bankofcanada.ca/en/res/dp/2008/dp08-9.html>.

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