

*EFFECTIVE 1 November 2015*

## **TERMS OF PARTICIPATION IN AUCTIONS FOR GOVERNMENT SECURITIES DISTRIBUTORS**

The classification “government securities distributor”, applies to those bidders eligible to participate directly in the tender process. The classification “primary dealer”, designates a subgroup of government securities distributors whose activity is above a certain threshold and who meet specified criteria (section 3). For an explanation of the terms used in this document, refer to Appendix 1.

### **1. Bidder Definition**

- 1.1 The bidder definition covers all government securities distributors and customers and applies to both legal entities (hereafter referred to as “entities”) and individuals. Refer to Appendix 2 for the definition of legal entities.
- 1.2 All bidders must certify that they are not bidding in concert with any other bidder.
- 1.3 A government securities distributor must not be affiliated with another government securities distributor.
- 1.4 Entities that are affiliated are considered one bidder for the purposes of Government of Canada securities auctions. To avoid being considered a single bidder, affiliated entities must certify that they do not exchange with one another information about yields, amounts, positions they hold or plan to hold, or their investment strategies with respect to the securities being auctioned. Refer to Appendix 2 for the definition of affiliated.
- 1.5 Entities are affiliated if one is controlled by the other or if both are controlled by the same person. The definition of control includes formal voting control along with direct and indirect controlling influence over management and policies. Refer to Appendix 2 for the definition of control.
- 1.6 An affiliate must promptly notify the Bank of Canada, in writing, of a change in the circumstances that enable the affiliate to qualify for separate-bidder status, or if their certification is no longer valid.
- 1.7 Any entity that implements the conditions necessary to be considered a separate bidder must direct all bids and purchases through a non-affiliated government securities distributor.

### **2. Government Securities Distributor Status**

- 2.1 An entity seeking to apply to the Bank of Canada in order to obtain the status of government securities distributor must provide the following information to the Bank of Canada:
  - 2.1.1 The motivation for obtaining the status of government securities distributor;
  - 2.1.2 Detailed records reflecting at least six months of adequate domestic fixed-income trading data;

- 2.1.3 The business plan of the firm with respect to participation at auctions of Government of Canada securities and fixed-income trading and/or money market trading; and
- 2.1.4 Demonstrate the firm's ability to submit bids and settle at auctions (Section 4.4).
- 2.2 Every government securities distributor must be a dealer member of the Investment Industry Regulatory Organization of Canada (IIROC). An entity that was a government securities distributor for bonds or treasury bills, or both, on 1 November 2015 may continue to operate as a government securities distributor without becoming a dealer member of IIROC only if it continues to operate in that same capacity.
- 2.3 Every government securities distributor must have its core domestic fixed-income market trading and sales operations for Government of Canada securities residing in Canada.
- 2.4 Every government securities distributor, irrespective of whether it is a dealer member of IIROC, must submit, or cause to be submitted, weekly statistical reports on its domestic fixed-income trading activities (including Repo transactions) in the required format as specified by the Bank of Canada to IIROC and the Bank of Canada via the Market Trade Reporting System (MTRS) operated by the Bank of Canada as agent of the Government of Canada. The Bank of Canada may waive this requirement at any time by publishing a notice on its website stating that weekly statistical reporting via MTRS is no longer required.
- 2.5 Every government securities distributor, irrespective of whether it is a dealer member of IIROC, must submit, or cause to be submitted, reports on its fixed-income trading activities (including Repo transactions), in the required format as specified in IIROC Rule 2800C to IIROC and the Bank of Canada via the Market Trade Reporting System operated by IIROC (MTRS 2.0), subject to the following conditions:
  - 2.5.1 Subject to section 2.5.2, transaction types that are not required to be reported under IIROC Rule 2800C must not be reported;
  - 2.5.2 Notwithstanding and in addition to the reporting requirements and exceptions in IIROC Rule 2800C, transactions involving debt securities with an original maturity of greater than one year executed by an entity that is a government securities distributors for treasury bills only must be reported.
- 2.6 All government securities distributors must notify the Auction Manager at the Bank of Canada (613-782-7719) of any changes in auction contact information.

### **3. Primary Dealer Status**

- 3.1 A government securities distributor may be designated a primary dealer when: (i) its calculated bidding limit reaches a threshold level of 10 per cent based on its primary and secondary market shares, and buyback activity; and (ii) it has provided evidence of sufficient resources and the desire to participate actively in the market-making activity of Government of Canada securities to the satisfaction of the Department of Finance and the Bank of Canada.
- 3.2 The Department of Finance and the Bank of Canada may designate a government securities distributor as a primary dealer for either treasury bills or bonds, or both.

- 3.3 Any primary dealer whose performance has caused its calculated bidding limit (Section 9) to fall below 10 per cent will be given six months to improve its performance before its primary dealer designation is removed.
- 3.4 In the event that two or more government securities distributors merge, the bidding limit for the new entity is determined by the combined activity of the pre-merger entities, subject to the 25 per cent maximum bidding limit.

#### **4. Submission of Bids**

- 4.1 Government securities distributors are able to bid on their own behalf subject to an auction limit (Section 6).
- 4.2 Government securities distributors also have a separate limit for the total amount of bids that they can place on behalf of customers (the customer submission limit). These bids must be listed separately from the distributor's own bids. Distributors are not authorized to submit pre-tender orders from customers under the distributor's own bidding limit.
- 4.3 Bidding by each customer is subject to an auction limit (Section 6).
- 4.4 Government securities distributors are responsible for the settlement in CDSX of any accepted bids that they have submitted on their own behalf or on behalf of a customer and are liable to the Department of Finance and the Bank of Canada for any losses incurred as a result of those sales failing to settle.

#### **5. Non-Competitive Bidding<sup>1</sup>**

- 5.1 Each government securities distributor may submit one non-competitive bid for its own account, in addition to any competitive bids, at auctions of Government of Canada bonds and for each tranche of a treasury bill auction.
- 5.2 The maximum non-competitive bid for each government securities distributor for its own account is \$3 million for Government of Canada bonds and for each tranche of a treasury bill auction.
  - 5.2.1 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 non-competitive bidding limit of \$0 for their own account.
- 5.3 All government securities distributors may also bid non-competitively on behalf of customers. The total non-competitive bids that each government securities distributor can submit on behalf of its customers is limited to \$3 million for Real Return Bonds and \$10 million for other marketable Government of Canada bonds, and for each tranche of a treasury bill auction.
- 5.4 A bidder identification number is not required for the submission of non-competitive bids, but government securities distributors are required to provide the Bank of Canada with information on customers' non-competitive bids upon request.

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<sup>1</sup> Non-competitive bids are made without specifying a price or yield. Non-competitive allocations are made at the average price or yield of the accepted bids at an auction (in the case of auctions of Real Return Bonds, non-competitive allocations are made at the allotment price).

## 6. Competitive Auction Limits<sup>2</sup>

- 6.1 The maximum that any government securities distributor can bid on a competitive basis at an auction (its auction limit) equals 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 security being auctioned (Examples are provided in Appendix 3).
- 6.2 To permit computation of the auction limit, government securities distributors must report their net positions prior to the auction. For the purposes of the computation of the auction limit, the bidder's net position includes the par amount of: (i) cash holdings of a security with the same International Securities Identification Number (ISIN); (ii) when-issued positions; (iii) 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) option contracts which require delivery of the specific security being auctioned weighted by the estimated probability that the option(s) will be exercised;<sup>3</sup> and (vii) 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. Bidders are not required to post net positions for securities that share the same maturity date (fungible) as the auctioned security, unless they have been stripped and reconstituted into the auctioned security.

## 7. Competitive Bidding Limits for Auctions of Government of Canada Bonds

- 7.1 For Government of Canada bonds, 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 have bidding limits tiered from 0 to 9 per cent. 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. In all other circumstances, the bidding limit for government securities distributors is calculated on the basis of a formula (Section 9).
- 7.2 Government securities distributors have an additional bidding limit for bids on behalf of customers. The limit for bidding by a primary dealer on behalf of customers is equal to 25 per cent of the tender. The limit for bidding by every other government securities distributor on behalf of customers is equal to 10 per cent of the tender.
- 7.3 The aggregate bids submitted by a primary dealer on its own behalf and on behalf of its customers cannot exceed 40 per cent of the tender less the primary dealer's excess net long position.

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<sup>2</sup> Competitive bids are made at a specific price or yield.

<sup>3</sup> For example, an option with an estimated 50 per cent probability of being exercised on a notional amount of \$100 million would represent a weighted position (long or short) in the auctioned security of \$50 million (\$100 million x 0.5).

<b>BIDDING LIMITS FOR BOND AUCTIONS</b>		
	<b>Competitive Bidding</b>	<b>Non-Competitive Bidding</b>
Primary Dealer - for own account	From 10 to 25 per cent	\$3 million
- for customers	25 per cent	The sum of customer bids cannot exceed \$3 million for Real Return Bonds and \$10 million for other marketable Government of Canada bonds.
- in aggregate	The sum of the bids submitted by a primary dealer on its own behalf and on behalf of its customers cannot exceed 40 per cent of the tender less the dealer's excess net long position (up to the dealer's bidding limit).	
Other Government Securities Distributor* - for own account	From 0 to 9 per cent	\$0 or \$3 million
- for customers	10 per cent	The sum of customer bids cannot exceed \$3 million for Real Return Bonds and \$10 million for other marketable Government of Canada bonds.

\* 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 competitive bidding limit of 0 per cent and a non-competitive bidding limit of \$0 for their own account.

## **8. Competitive Bidding Limits for Auctions of Treasury Bills**

8.1 Government of Canada treasury bills that are issued with a maturity of three months or more (hereafter referred to as “regular treasury bills”) and Government of Canada treasury bills that are issued with a maturity of less than three months and share a common maturity date with previously issued regular treasury bills (hereafter referred to as “fungible cash-management bills”), are subject to the following bidding limits in each tranche of the auction:

8.1.1 A primary dealer has a bidding limit of 25 per cent of the auctioned amount for bidding on its own behalf. Every other government securities distributor has a bidding limit of 10 per cent of the auctioned amount. 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. In all other circumstances, the limit for government securities distributors is calculated on the basis of a formula (Section 9).

8.1.2 Government securities distributors have an additional bidding limit for bids on behalf of customers. The limit for bidding by a primary dealer on behalf of customers is equal to 25

per cent of the tender. The limit for bidding by every other government securities distributor on behalf of customers is equal to 10 per cent of the tender.

- 8.1.3 The aggregate bids submitted by a primary dealer on its own behalf and on behalf of its customers cannot exceed 40 per cent of the tender less the primary dealer's excess net long position.
- 8.2 Government of Canada treasury bills that are issued with a maturity of less than three months and do not share a common maturity date with previously issued regular treasury bills (hereafter referred to as "non-fungible cash-management bills") are subject to the following bidding limits:
- 8.2.1 The bidding limit for a primary dealer and any other government securities distributor is 100 per cent of the amount auctioned.
  - 8.2.2 The bidding limit for bids submitted on behalf of a customer is 100 per cent of the amount auctioned.
  - 8.2.3 The sum of the bids submitted by a government securities distributor on its own behalf and on behalf of its customers cannot exceed 100 per cent of the auctioned amount.

<b>BIDDING LIMITS FOR TREASURY BILL AUCTIONS</b>			
	<b>Competitive Bidding</b>		<b>Non-Competitive Bidding (per tranche, for all treasury bills and cash-management bills)</b>
	<b>Regular treasury bills and fungible cash-management bills (per tranche)</b>	<b>Non-fungible cash-management bills (per tranche)</b>	
Primary Dealer - for own account	25 per cent	100 per cent	\$3 million
- for customers	25 per cent	100 per cent	\$10 million
- in aggregate	The sum of the bids submitted by a primary dealer on its own behalf and on behalf of its customers cannot exceed 40 per cent of the auctioned amount less the dealer's excess net long position (up to the dealer's bidding limit).		
Other Government Securities Distributor - for own account*	0 or 10 per cent	0 or 100 per cent	\$0 or \$3 million
- for customers	10 per cent	100 per cent	\$10 million

\* 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 competitive bidding limit of 0 per cent and a non-competitive bidding limit of \$0 for their own account.

## **9. Calculation of Bidding Limits for Government Securities Distributors**

- 9.1 For marketable Government of Canada bonds, bidding limits are calculated on the basis of a formula calculation that takes into account, over the previous four quarters, each government securities distributor's: (i) winnings on its own behalf at auctions of Government of Canada bonds; (ii) participation at buyback operations; and (iii) activity in the secondary market for bonds.
- 9.2 For regular Government of Canada treasury bills and fungible cash-management bills, bidding limits are calculated on the basis of the formula calculation that takes into account, over the previous four quarters, each government securities distributor's: (i) winnings on its own behalf at auctions of regular treasury bills and fungible cash-management bills; (ii) participation at auctions of non-fungible cash-management bills; and (iii) activity in the secondary market for regular treasury bills and cash-management bills (both fungible and non-fungible).
- 9.3 Since participation in buyback operations for Government of Canada bonds and at auctions of non-fungible cash-management bills is optional, the formula will not lower the bidding limits of government securities distributors that choose not to participate in these operations.

- 9.4 The formula calculation excludes securities allotted to the Bank of Canada at auctions.
- 9.5 For the purposes of calculating bidding limits, the primary market share of a government securities distributor includes its competitive and non-competitive winning bids, but does not include winning bids on behalf of customers.
- 9.6 Primary market activity has a greater weighting than secondary market activity, which in turn has a greater weighting than participation at buyback operations and at auctions of non-fungible cash management bills.
- 9.7 Bidding limits determined by the formula calculation are rounded upward to the nearest percentage point.
- 9.8 Bidding limits equal the lesser of: the formula calculation or 25 per cent of the auctioned amount. These limits are re-calculated every six months.
- 9.9 In assessing the application of a new government securities distributor, the Bank of Canada may use data on bids entered on the applicant's behalf by other government securities distributors over a specified period.

## **10. Reporting Requirements**

### *Reporting of Net Positions*

- 10.1 Government securities distributors must report their aggregate net positions in the auctioned security to the Bank of Canada when submitting their own bids or bids on behalf of their customers. Their net positions must be reported, regardless of whether they are long or short positions.
- 10.2 Government securities distributors are responsible for ensuring that their customers are informed that they must report their net positions either indirectly through the government securities distributor or directly to the Bank of Canada before their bids are included in an auction.
- 10.3 Each bidder is required to re-submit its position if it changes by more than \$25 million before the bidding deadline.
- 10.4 Government securities distributors are required to provide net positions on their own behalf and on behalf of customers when the Bank of Canada conducts a spot verification of net positions after an auction.

### *Bid Certification and Verification*

- 10.5 Every bidder is required to certify that the information it provides to the Bank of Canada is correct. These certificates are to be forwarded to the Bank of Canada on an annual basis by the internal audit departments of government securities distributors.
- 10.6 In order to maintain market integrity, the Bank of Canada, may verify the accuracy and completeness of customer bids submitted by government securities distributors.



### *Market Information*

- 10.7 In the event that the Bank of Canada is of the view that there is or has been unusual trading activity in a Government of Canada security for a persistent period of time, the Bank may require government securities distributors to disclose the names and activities of customers involved in such trading.
- 10.8 Government securities distributors are required to make available real-time information on fixed-income prices and yields. Government securities distributors may also, from time to time, be required to (i) report secondary market trading; and (ii) provide detailed issue-specific trading reports to the Bank of Canada. The purpose of such reports will typically be to clarify the reasons for specific securities to trade in the cash and repo markets at prices divergent from issues of similar maturity.
- 10.9 The Department of Finance and the Bank of Canada can, at their discretion, investigate whether activity has contravened auction rules. If the Department of Finance or Bank of Canada suspects that there may have been an attempt to manipulate the market for Government of Canada securities, the Department of Finance or the Bank of Canada may: (i) notify the appropriate regulatory authorities; (ii) refer such incidents to IIROC for investigation of possible violations of its Rule 2800, the Code of Conduct for IIROC-Regulated Firms Trading in Wholesale Domestic Debt Markets; and (iii) sell securities from the Bank of Canada's portfolio. The Government of Canada can, at its discretion, re-open an issue outside the timetable provided by the Quarterly Bond Schedule and the usual cycle for treasury bill issuance.

### *Other*

- 10.10 In order to provide assurance that government securities distributors are maintaining a sound financial position, the Bank of Canada may require information regarding their capitalization and profitability from their regulatory authority.

## **11. Code of Conduct**

- 11.1 All government securities distributors must comply with IIROC Rule 2800, the Code of Conduct for IIROC-Regulated Firms Trading in Wholesale Domestic Debt Markets.

## **12. Responsibilities of Government Securities Distributors**

- 12.1 Each government securities distributor must submit at least one winning competitive or non-competitive bid on its own behalf or on behalf of customers, every six months.
- 12.2 Failure to submit one competitive or non-competitive winning bid at least once every six months will result in the revocation of a dealer's government securities distributor status. The dealer may re-submit an application, no earlier than three months after its revocation.
- 12.3 The six-month period will coincide with the revision of bidding limits for government securities distributors (1 April to 30 September and 1 October to 31 March).
- 12.4 Each government securities distributor is solely responsible for ensuring that it meets its minimum winning obligation under section 12.1.

### **13. Responsibilities of Primary Dealers**

#### **13.1 Minimum Bidding**

- 13.1.1 At every auction, a primary dealer's bids, and bids from its customers, must total a minimum of 50 per cent of its auction limit (Sections 7.1 and 8.1.1) or 50 per cent of its formula calculation (sections 9.1 and 9.2), rounded upward to the nearest percentage point, whichever is less.
  - 13.1.2 Minimum bidding requirements do not apply to auctions of non-fungible cash-management bills and buyback operations of Government of Canada bonds.
  - 13.1.3 Minimum bidding requirements apply to auctions of: (i) regular treasury bills; (ii) fungible cash-management bills; and (iii) marketable Government of Canada bonds, including Real Return Bonds.
  - 13.1.4 The minimum level of bidding must be at no more than 10 basis points above the highest yield accepted by the Bank of Canada for that issue of Government of Canada securities.
  - 13.1.5 The minimum level of bidding for Real Return Bonds must be at no more than 10 basis points above the higher of (i) the highest yield accepted by the Bank of Canada for that issue of Government of Canada Real Return Bond and (ii) the yield in the secondary market prior to the auction for that Government of Canada Real Return Bond. The secondary market yield will be determined, by the Bank of Canada, on the basis of the secondary market quotes before the auction.
- 13.2 On average, the percentage of accepted bids should be approximately equal to the primary dealer's share in the secondary market over a specified time period.
  - 13.3 A primary dealer is expected to make two-sided markets (bid and offer) under normal market conditions. The term "two-sided markets" entails the posting of bid and offer prices at a spread not significantly larger than that of other market participants for a typical trade size.
  - 13.4 As noted in Section 10, a primary dealer is obliged to provide market information, including trade activity and position reports, to the Bank of Canada, on request, in a timely and expeditious manner.

#### **14. Monitoring and Compliance**

- 14.1 As noted in Section 9.8 above, the Bank of Canada recalculates bidding limits every six months and informs government securities distributors of their recalculated limits. In the event that a firm's bidding limit changes significantly during a recalculation period, the Bank may contact that firm to discuss the circumstances giving rise to the change in the limit.
- 14.2 The Bank of Canada analyzes bidding after each auction to determine whether primary dealers have complied with the minimum bidding obligations (Section 13.1). In the event that a primary dealer has not met its minimum bidding obligations, the Bank of Canada will contact the primary dealer shortly after the auction to discuss the circumstances pertaining to the auction.
- 14.3 The Department of Finance and the Bank of Canada may sanction a government securities distributor if they are of the view that the government securities distributor has: attempted to manipulate the market for Government of Canada securities; made an incorrect representation or

certification; failed to provide information required under these Terms, or provided information that was incorrect, inaccurate, or incomplete; participated in any other breach of these Terms or of IIROC Rule 2800, the Code of Conduct for IIROC-Regulated Firms Trading in Wholesale Domestic Debt Markets.

- 14.4 Before imposing a sanction, the Department of Finance and the Bank of Canada will contact the government securities distributor in question to notify the firm of their intention to impose a sanction, and to provide the firm with an opportunity to explain the situation.
- 14.5 The sanctions that the Department of Finance and the Bank of Canada may impose include suspending the government securities distributor from participating in one or more future auctions; and changing, on a temporary or permanent basis, the distributor's bidding limits. In the event of behaviour that the Department of Finance and the Bank of Canada consider to be fundamentally incompatible with a firm continuing to act as a government securities distributor, the Department of Finance and the Bank of Canada may revoke the government securities distributor's status as a government securities distributor.
- 14.6 Sanctioning of government securities distributors in the case of an infraction related to these Terms is based on a surveillance framework that ensures the fair and consistent treatment of all parties involved.
- 14.7 Any outstanding obligations or liabilities owed by a government securities distributor to the Bank of Canada or the Government as a result of past participation in auctions shall survive the imposition of any sanction on that government securities distributor.

## Appendix 1 – Explanation of Terms

A *government securities distributor* is an entity that has been given notice of its status as such by the Bank of Canada and has access to bid at Government of Canada auctions.

A *primary dealer* is a member of the subset of government securities distributors whose participation in the primary and secondary markets for Government of Canada securities is above a threshold level, and who acts as a principal for customers and other financial intermediaries in the purchase and sale of Government of Canada securities. A government securities distributor may be a primary dealer for bonds, or treasury bills, or for both.

A *bid* is an offer to purchase a stated par amount of securities at an auction, either on a competitive or non-competitive basis. An offer to purchase a stated par amount of securities submitted by a government securities distributor to fulfill a guarantee to sell a specified amount of securities at an agreed-upon price or a price fixed in terms of an agreed-upon standard is a bid of the government securities distributor and not a bid of a customer.

A *bidder* is a person or an entity that bids either directly or through an entity authorized to submit bids for customers in an auction. In some cases, two or more persons or entities are considered to be one bidder, based on their relationship.

A *submitter* is an entity that is permitted to submit bids, either on its own behalf or on behalf of customers, to the Bank of Canada for the auction of Government of Canada securities. Only government securities distributors and the Bank of Canada may be submitters.

A *customer* is a bidder on whose behalf a government securities distributor has been directed to submit a competitive or non-competitive bid for a specified amount of securities at a specific price.

*Bidding limit* means the government securities distributor's or customer's limit prior to adjusting for long positions. If a distributor or a customer does not have a long position, its auction limit would equal its bidding limit.

*Auction limit* means the maximum amount for which a government securities distributor or customer is allowed to bid at a specific auction. The auction limit is equal to the bidding limit adjusted for long positions in the securities being auctioned. An auction limit is equal to or smaller than the bidding limit.

*Customer submission limit* means the maximum amount of bids a government securities distributor is allowed to submit on behalf of its customers.

*Aggregate limit* means the maximum amount for which a government securities distributor and its customers can bid in combination.

*Repo transaction* means a transaction that involves the simultaneous sale and future repurchase, or simultaneous purchase and future sale (reverse repo), of any debt securities, including transactions arranged as buy sell-backs and sell buy-backs.

## Appendix 2 — Affiliated vs. Non-Affiliated Parties

### 2.1 Definition of Affiliated Party

Legal entities (hereafter referred to as “entities”) may bid at auctions, either directly or indirectly. Various operational components, departments, or divisions within the same entity will not be considered separate bidders at auctions. Only entities that are not affiliated with any other bidder may submit a separate auction bid for Government of Canada securities. Entities that are considered under these rules to be affiliated will be treated collectively as a single bidder unless they can meet, to the satisfaction of the Bank of Canada and the Department of Finance, the criteria set out for treating otherwise affiliated parties as separate bidders. Individuals may only bid indirectly at an auction, i.e., through one or more government securities dealers.

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

A person is affiliated with an entity if that person is a director or senior officer of the entity.

A person controls 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 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 a trust if:

- (a) that person is a trustee of the trust, or
- (b) that person controls a trustee of the trust

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 purpose of determining control, the term “Entity” includes the following:

- corporations
- partnerships
- trusts
- funds
- unincorporated associations or organizations
- Her Majesty in Right of Canada or of provincial governments
- agencies of Her Majesty in either of such rights
- governments of foreign countries or any political subdivisions thereof and any agencies thereof
- foreign central banks
- international organizations.

“Person” means an individual or an entity.

## **2.2 Requirements to Establish Non-Affiliated Status within a Corporate Group**

The definition of a bidder permits an otherwise affiliated entity within a corporate group to bid separately if it is prepared to organize itself in such a manner that there is no exchange of information on auction bidding and strategy between it and other affiliated entities. Specifically, two or more entities that are affiliated may submit separate bids provided that each affiliate has certified to the Bank of Canada that it meets certain specified criteria meant to prevent the exchange of information on auction bidding and strategy, and that it has established written policies and procedures designed to ensure continued compliance. The criteria include: (i) the affiliate does not act jointly or in concert with any of the other affiliates with respect to securities; (ii) no director, officer, partner, employee, or agent of the affiliate that purchases Government of Canada securities at auctions or advises with respect to, participates in the formulation of, has influence over, or has knowledge of decisions or information relating to holdings, investment, or bidding strategies in or for Government of Canada securities by or on behalf of that affiliate, also engages in any of the same activities or has any of the same knowledge in respect of Government of Canada securities for or on behalf of any of the other affiliates;<sup>4</sup> (iii) the affiliate does not exchange information related to bidding at auctions with any of the other affiliates; and (iv) each affiliate maintains its records relating to holdings of and investment and bidding strategies for Government of Canada securities separate and apart from the records of any of the other affiliates.

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<sup>4</sup>This criterion does not apply with respect to (i) individuals who are either involved in senior management or engaged solely in clerical or administrative activities and who do not in either case make decisions relating to holding, investing and bidding for Government of Canada securities and (ii) knowledge of information that has been generally and publicly disseminated.

### Appendix 3 — Illustration of Primary Dealer Aggregate Bidding Limits

This appendix provides examples of the **aggregate limit**, which states that the sum of the bids submitted by a primary dealer on its own behalf and on behalf of its customers cannot exceed 40 per cent of the tender less the dealer's excess long position (up to the dealer's bidding limit). This rule affects primary dealers with limits over 15 per cent.

#### Example 1: Assume a new tender of \$2 billion

If the dealer has a 25 per cent bidding limit and no long position:

*Dealer auction limit on own behalf (25 per cent less excess long) = \$500 million*

*Dealer submission limit for customers (25 per cent) = \$500 million*

*Aggregate limit (40 per cent less excess long) = \$800 million*

The dealer must allocate bids between its own account and total customer bids to not exceed \$500 million each and \$800 million combined.

#### Example 2: Assume a tender of \$2 billion (re-opening of a \$2 billion issue)

a) If the dealer has a long position of \$500 million or less, it does not have an excess long position and its limits are the same as in Example 1.

b) If the dealer has a long position of \$750 million, its excess long position is \$250 million.

*Dealer auction limit on own behalf (25 per cent less excess long)*

*= \$500 million - \$250 million = \$250 million*

*Dealer submission limit for customers (25 per cent) = \$500 million*

*Aggregate limit (40 per cent less excess long) = \$800 million - \$250 million = \$550 million*

The dealer must allocate bids between its own account (not over \$250 million) and total customer bids (not over \$500 million) so that combined bidding does not exceed \$550 million.

c) If the dealer has a long position of \$1 billion, its excess long position is \$500 million.

*Dealer auction limit on own behalf (25 per cent less excess long)*

*= \$500 million - \$500 million = \$0*

*Dealer submission limit for customers (25 per cent) = \$500 million*

*Aggregate limit (40 per cent less excess long) = \$800 million - \$500 million = \$300 million*

The dealer cannot bid on its own account, and total customer bids cannot exceed \$300 million.

d) If the dealer has a long position of more than \$1 billion, its excess long position exceeds its bidding limit. Therefore, the 40 per cent aggregate limit is reduced by the bidding limit rather than the excess long position. As a result, the customer limit is still \$300 million.

#### Example 3: Assume a tender of \$2 billion (re-opening of a \$6 billion issue)

a) If the dealer is long \$1,500 million or less, the limits are the same as in Example 1 (there is no excess long position).

b) If the dealer is long \$1,750 million, the limits are the same as in Example 2b.

**c)** If the dealer is long \$2 billion, the limits are the same as in Example 2c (the excess long position equals the bidding limit).

**d)** If the dealer is long more than \$2 billion, the limits are the same as in example 2d (the excess long position exceeds the bidding limit, and the 40 per cent is reduced by the bidding limit).