

BANK OF CANADA

BANK OF CANADA ACT

AMENDMENT TO POLICY FOR BUYING AND SELLING SECURITIES

This policy amends and restates the Bank of Canada Policy for Buying and Selling Securities under subsection 18.1(1) of the *Bank of Canada Act*, published in the *Canada Gazette*, Part I, on June 27, 2009, and July 26, 2008.

The Governor of the Bank of Canada establishes this policy pursuant to subsection 18.1(1) of the *Bank of Canada Act*, for buying and selling securities and financial instruments for the purposes set out in subparagraph 18(g)(i) of the Act. This policy sets out the range of securities and instruments that the Bank will use for certain types of transactions but it in no way obligates the Bank to accept the full range of securities and instruments for any particular transaction. Nor does this policy in any way restrict the securities and instruments in which the Bank may transact pursuant to its statutory powers other than those powers set out in subparagraph 18(g)(i) of the Act, including, without limitation, subparagraph 18(g)(ii).

Purposes and Types of Financial Transactions under Subparagraph 18(g)(i)

Pursuant to subparagraph 18(g)(i) of the Act, the Bank may buy and sell securities and instruments, other than instruments that evidence an ownership interest in an entity, for purposes of conducting monetary policy or promoting the stability of the Canadian financial system. In conducting monetary policy and promoting the stability of the Canadian financial system, the Bank buys and sells securities and instruments through purchase and resale transactions (buybacks). The Bank determines, at its sole discretion, when it will engage in buybacks and the securities and instruments which it will use, within the range of securities and instruments set out below.

Transactions in the Normal Course

In the normal course, the Bank engages in buyback transactions with primary dealers for purposes of implementing monetary policy, when it feels that market conditions warrant such transactions. In such transactions, the Bank will normally buy and sell bonds and treasury bills issued by the Government of Canada. Buyback transactions for purposes of implementing monetary policy normally have a duration of one business day (being a day on which there is a clearing of payment items pursuant to the *Canadian Payments Act*).

The Bank may also conduct buybacks in the normal course with primary dealers for longer terms, for purposes of managing the assets on the Bank's balance sheet and promoting the stability of the Canadian financial system. In such transactions, the Bank will normally buy and sell securities issued or guaranteed by the Government of Canada and Canadian provincial governments.

Exceptional Transactions

The Bank may also engage in buyback transactions for purposes of addressing a situation of financial system stress that could have material macroeconomic consequences or for purposes of implementing monetary policy where the Bank considers such transactions appropriate to reinforce a conditional commitment to maintain the overnight rate at a low level. In buyback transactions for this purpose, the Bank may expand the range of securities and instruments that it will buy and sell beyond securities issued and guaranteed by the Government of Canada and the governments of Canadian provinces to also include any or all of the following securities and instruments:

- securities issued or guaranteed by the U.S. Government;
- securities issued or guaranteed by member states of the Organization for Economic Cooperation and Development (OECD), including Canadian dollar securities issued or guaranteed by member states of the OECD;
- Canadian dollar corporate, municipal and covered bonds issued by Canadian or foreign entities;
- Canadian dollar bankers acceptances with a term to maturity not exceeding 365 days, issued by Canadian or foreign entities;
- Canadian dollar promissory notes with a term to maturity not exceeding 365 days, issued by Canadian or foreign entities ;
- Canadian dollar commercial paper, including asset-backed commercial paper, with a term to maturity not exceeding 365 days, issued by Canadian or foreign entities; and,
- Canadian dollar term asset-backed securities,

provided that the securities or instruments meet such applicable conditions and criteria as may be published by the Bank from time to time, including, without limitation, credit rating requirements. (Such buyback transactions conducted for this purpose and using an expanded range of securities or instruments to be referred to as “exceptional transactions”.)

Exceptional transactions will be conducted with such counterparties and will be for such duration as the Bank chooses, subject to a maximum term for any transaction of 380 days. The Bank will publicly announce in advance when it intends to make exceptional transactions available, the range of counterparties that will be eligible to engage in the transactions, the securities or instruments that may be used in the transactions, the term of the transactions and any other terms that it considers appropriate.

Resort by the Bank to exceptional transactions is distinct from, and does not take the place of, the Bank’s power under subparagraph 18(g)(ii) to buy and sell any securities and other financial instruments where the Governor is of the opinion that there is severe and unusual stress on a financial market or the financial system¹.

¹ This power has been in the Act since 2001.

Terms and Arrangements for Counterparties

In order to be eligible to be a counterparty in normal course buyback transactions or exceptional transactions with the Bank, an entity must first make appropriate arrangements with the Bank, including, without limitation, operational arrangements and entering into the Bank's legal agreements.

In addition to this policy, all transactions for the purchase and sale of securities are subject to such policies, rules and terms pertaining to that transaction as the Bank may publish from time to time.

Coming into Force of the Policy

This amended and restated policy comes into force, as provided in subsection 18.1(2) of the *Bank of Canada Act*, seven days after the date on which the Bank publishes it in the *Canada Gazette*, Part I. Upon coming into force, this amended and restated policy replaces the Bank of Canada Policy for Buying and Selling Securities under subsection 18.1(1) of the *Bank of Canada Act*, published in the *Canada Gazette*, Part I, on June 27, 2009, and July 26, 2008.

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STEPHEN S. POLOZ
Governor,
Bank of Canada