CALCULATION OF THE CLEAN PRICE OF A BOND IN A CASH MANAGEMENT BOND REPURCHASE OPERATION

The purpose of this note is to describe how the Bank of Canada, on behalf of the Minister of Finance, calculates the Clean Price of a bond with 6 months or less to maturity in a Cash Management Bond Repurchase Operation, using the "money market equivalent yield" convention.

$$Clean\ Price = \frac{100 + \frac{C}{2}}{1 + Y * \frac{T}{365}} - Accrued\ Interest$$

$$Accrued\ Interest = C * \frac{AD}{365}$$

$$Settlement\ Price = Clean\ Price + Accrued\ Interest$$

where C is the annual coupon rate of the bond, Y is the yield to maturity of the bond, T is the number of days from the settlement date to the true maturity date of the bond, and AD is the number of accrual days from, but excluding, the last coupon payment day to the settlement date. The true maturity date is the date on which the maturity cash flow actually occurs, which may be different from the stated maturity date.