



October 16, 2001

**Subject: Inclusion of Reconstituted Bonds into the Computation of Net Excess Long Positions**

The purpose of this letter is to clarify how reconstituted bonds are taken into account in the calculation of bidders' net positions prior to Government of Canada bond auctions. Since February 5, 2001, the new rules pertaining to the reconstitution of stripped bonds allow reconstitution of a particular bond issue beyond the quantity stripped by book entry.

As future benchmarks may share a common maturity date with off-the-run issues, participants' views were sought during the August 2001 market consultations about the best way to incorporate a bidder's position in these fungible issues when calculating a bidder's net position. Following the comments received during these consultations, and in an effort to balance participants' reporting requirements with the benefits associated with a well-functioning Government of Canada securities market, the computation of the bidders' net excess long position will be modestly adjusted to account for reconstituted securities.

**Effective October 24, 2001**, the total amount of outstanding bonds used to calculate a participant's net excess long position will include the bonds that have been reconstituted into the issue being auctioned. The total amount outstanding of a bond issue being auctioned, including that created through reconstitution, will be disseminated via the call for tenders. Up-to-date information regarding the amount of the bond issue created through reconstitution will be obtained directly from the Canadian Depository for Securities Limited (CDS). Should this amount change by more than \$250 million between the release of the call for tenders and the auction date, the information on the call for tenders will be updated no later than 10 a.m. the day of the auction.

Also, as currently required by the Terms of Participation in Auctions, the Bank will continue to ask participants to report their total net position of the issue being auctioned, including the amount of bonds that has been acquired through reconstitution. Participants will not however be required to report their position of fungible issues that have not been reconstituted into the issue being auctioned.

The Bank of Canada and the Department of Finance are committed to maintain and enhance a well functioning market for Government of Canada securities. As such, we thank you for your cooperation, and we look forward to working with you in continued support of this goal. Please ensure that copies of the letter are conveyed to the appropriate staff within your firm.

If you have any questions, please contact Philippe Muller at (613) 782-8778.

Sincerely,

Donna Howard  
Director  
Financial Markets Department  
Bank of Canada