BANK OF CANADA
BANQUE DU CANADA

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Bank of Canada Margin Call Practice for Domestic Operations

The Bank of Canada (the Bank) conducts, from time to time, term securities repurchase operations as part of the ongoing management of its balance sheet or to provide liquidity in support of the well-functioning of the financial system. As part of the Bank's risk management practice for transactions outstanding against securities purchased or sold under a term purchase and resale agreement, on a counterparty by counterparty basis, the Bank values the securities daily[1], and compares that value to the contract valuation[2] to ensure the Bank is adequately protected. If the Bank is insufficiently protected, the Bank will initiate a margin call requesting the counterparty to deliver additional securities to cover any shortfall. Margin calls will be initiated using the following criteria, however the Bank retains the right under the Master Repurchase Agreement to modify this criteria, if deemed appropriate:

When the shortfall is the lesser of:
a) $500,000
b) 0.1 percent of the total amount of transactions outstanding with that counterparty

In the case of shortfalls covered by criteria (b), there will be a minimum transfer amount of $50,000, and no margin call will be requested for shortfalls less than $50,000. When a margin call is initiated, the counterparty is asked to cover the full value of the shortfall by the additional securities delivered.

[1] Securities are valued applying a haircut to the market value of the securities, which results in the Bank having excess market value to protect the Bank should the future market value of the securities decline.
[2] The contract value equals the original cash value, plus any accrued interest, less any entitlements received on the securities purchased against the contracts.