

**Revised Standard Terms for Auctions to Primary Dealers Under the
Bank of Canada Securities-Lending Program
(Published 22 May 2009)**

1. All tenders submitted by primary dealers, on or after 1 June 2009, for auctions under the Bank of Canada Securities-Lending Program shall be subject to these *Revised Standard Terms for Auctions to Primary Dealers Under the Bank of Canada Securities-Lending Program* (the “Terms”).
2. Only those primary dealers who have signed the Bank’s original Securities Loan Agreement, as well as the amendment to the Securities Loan Agreement and have provided any additional legal documentation or comfort required by the Bank of Canada may participate in the program.
3. Securities will be made available when the Bank believes that they are trading at the minimum bid rate or higher (in terms of spread below the target rate), or are unavailable. The term to maturity of each securities lending operation is one business day and the Bank will make its Government of Canada securities available through a tender process.
4. Each tender shall be unconditional and shall be received by the Bank of Canada, not later than the time, and on the auction day, specified in the *Call for Tenders*.
5. Primary dealers may bid on their own behalf subject to auction limits. If two or more primary dealers are related entities, as defined in Schedule “A” hereto, only one of them will be able to participate in the program, unless they certify to the Bank’s satisfaction that all policies, decisions, knowledge and information relating to investment and bidding in or for Government of Canada securities are made separately within each of the entities with no exchange or sharing of such policies, decisions, knowledge or information.
6. The maximum amount of a security that any primary dealer may bid is the greater of \$100 million and 50 per cent of the amount being auctioned. Participants are not eligible to bid for a security if they hold more than 25 per cent of the issue.
7. Primary dealers must submit tenders via the Communication, Auction and Reporting System (CARS). Tenders may consist of up to four bids per issue on (each of) the securities being made available. These bids must be stated in multiples of \$1,000,000. Each bid shall state the yield in number of basis points with no decimal places (in terms of spread below the target rate). Primary dealers shall not bid directly or indirectly on behalf of, or in concert with, any other primary dealer and each dealer shall so certify to the Bank on an annual basis.
8. The Bank will make up to 50 per cent of its securities available to the market on a given day, provided that the securities meet the entry criteria set out above. Auctions of securities with less than two weeks to maturity may be conducted at the discretion of the Bank of Canada. The Bank will not conduct an auction for an amount of securities less than \$100 million. The Bank will not make available more securities than it holds at the time of the auction. The amount of each Government of Canada issue held by the Bank are provided on the Bank’s website at http://www.bankofcanada.ca/en/markets/boc_holdings.html.

9. The minimum bid rate shall be indicated in the *Call for Tenders*. If considered necessary by the Bank, the minimum bid rate may be rounded to the next lowest 1/4 percentage point.

The minimum bid rate is calculated as follows:

(a) for marketable bonds shall be the lower of 150 basis points or 50 per cent of the Bank's target for the overnight rate when the target rate is below three per cent;

(b) for treasury bills shall be the lower of 100 basis points or 50 per cent of the Bank's target for the overnight rate when the target rate is below two per cent.

If the target overnight rate is at or below 50 basis points then the minimum bid rate for marketable bonds and for treasury bills will be set at 25 basis points.

The minimum bid rate may be adjusted in what the Bank considers to be extraordinary circumstances. Any such change will be indicated in the *Call for Tenders*.

10. Tenders shall be submitted to the Bank of Canada via the CARS. The Bank shall not bear any liability whatsoever for any errors in tenders received or for delays in the transmission of tenders.

11. The Bank of Canada reserves the right to accept or reject any or all tenders, in whole or in part, including without limitation, the right to accept less than the maximum amount specified in the *Call for Tenders*. The Bank also reserves the right to deny access to the tender process at its own discretion.

12. The deadline for receiving auction bids is 11:15 a.m. (Ottawa time). The *Call for Tenders* will be released 15 minutes before the auction deadline. The auction results will be made available on the CARS on the day of the auction. However, on days when a treasury bill auction is already scheduled, and market conditions warrant a securities-lending operation, the bidding deadline for the securities-lending auction will be moved to 12 noon (Ottawa time).

13. Participants must report to the Bank of Canada by 5:30 p.m. (Ottawa time), in the form of the Net Position Report in Schedule B, their closing aggregate net position (as of 5 p.m.) in the auctioned security. The net position must be reported via the CARS and the more detailed report must be faxed to the Bank of Canada (613-782-7182), by 5:30 p.m. (Ottawa time) on the day of the auction. Should a net position report not be received from a borrowing participant by the deadline, the participant will not be given access to the next auction. The net position report to be submitted is similar to the IIROC net position report and includes:

- Trading Positions (i) the par amount of cash holdings of a security with the same International Securities Identification Number (ISIN), (ii) the par amount of when-issued positions, (iii) forward contracts, (iv) holdings of the residual component of a stripped bond of the security being auctioned, (v) the par amount of any position in the security not covered by the above types of contracts, including positions not covered in the net financing position.

- Financing Positions (i) overnight and open reverse repos, (ii) term reverse repos, (iii) securities borrowed, (iv) collateral received for financial derivatives and other securities transactions, (v) overnight and open repos, (vi) term repos, (vii) securities loaned, (viii) pledged collateral for financial derivatives and other securities transactions.
- Others (i) futures contract, (ii) options contract, (iii) failure to receive, (iv) failure to deliver.

14. The Bank of Canada will charge a lending fee on each transaction, which will be calculated by applying the rate of winning bids to the market value of the security borrowed on an actual over 365 basis. The lending fee will be made available on CARS on the day of the auction and lending fees shall be payable via LVTS on or before the maturity date of the transaction by 4:00 pm (Ottawa time).

The following are the instructions for payment of lending fees. The Bank's SWIFT address is BCANCAW2. The payment instruction should be a SWIFT type MT205 or MT103, including the following information:

<i>Field 20:</i>	<i>Transaction Reference Number</i>
<i>Field 21 or 72:</i>	<i>Securities Lending Fees</i>
<i>Field 32A:</i>	<i>Value Date, Currency and Amount</i>
<i>Field 52A or D:</i>	<i>Ordering Institution (BIC)</i>
<i>Field 58A or D:</i>	<i>Beneficiary Institution (BIC)</i>
	<i>177-5</i>
	<i>Bank of Canada</i>
	<i>BCANCAW2</i>
	<i>Bank of Canada</i>
	<i>Ottawa CA</i>

15. Collateral for the securities loan must be delivered to the Bank of Canada by 4 p.m. (Ottawa time) on the day of the auction. Collateral to be delivered shall be confirmed with and priced by the Bank of Canada after the auction and prior to delivery. A confirmation of the transaction will be provided by the Bank. All collateral provided must comply with the list of eligible collateral for the securities-lending program, as set out in Schedule "C" hereto. All collateral delivered must be submitted free and clear of all liens, charges, claims, encumbrances, hypothecs, security interests or other restrictions of any kind and a primary dealer, in delivering securities as collateral, is deemed to warrant and represent that all securities delivered by it are free and clear.

16. The margin requirements for the Bank's securities-lending program are set out in Schedule "C." The margin requirement is the greater of the margin rate corresponding to the security being lent and the margin rate of the security being provided as collateral.

17. The delivery of the collateral securities shall be effected through the pledge function of CDSX (or in any successor service to CDSX), involving the book entry transfer from the CDSX securities account designated by the primary dealer to the Bank of Canada's CDSX

securities account. Primary dealers shall observe all applicable CDS Rules, Procedures and User Guides for CDSX or any successor service to CDSX.

18. In delivering the lent securities, the Bank of Canada will, until further notice, utilize CDSX or any successor service to CDSX. The delivery of securities shall be effected through the pledge function of CDSX.

19. On the maturity date, the lent securities must be delivered to the Bank of Canada by 4 p.m. (Ottawa time) through the pledge function of CDSX.

20. In the event of a failure to return the lent securities on the maturity date, the Bank may, at its option, extend the transaction for an additional business day(s) at a lending fee equal to the higher of the Bank's target for the overnight rate or three per cent.

21. Consistent with the Terms of Participation in Auctions for Government Securities Distributors, all eligible participants shall comply with IIROC Rule 2800 (previously IDA Policy No. 5), The Code of Conduct.

22. The Bank may, in addition to and without prejudice to any rights it may have under the securities loan agreement, sanction a primary dealer if the Bank is of the view that the dealer breached any of the Terms, including, without limitation: making an incorrect representation or certification; failing to provide any information required under the Terms or providing such information that is incorrect, inaccurate or incomplete; failing to return lent securities on the maturity date, or failing to pay the securities lending fee. The sanctions which the Bank may impose include, without limitation: suspending the primary dealer from participating in one or more future auctions and changing, on a temporary basis, the bidding limit applicable to the dealer. In the event of behaviour in relation to the securities-lending program or the auction which the Bank considers to be fundamentally incompatible with the primary dealer continuing to act as a government securities distributor, the dealer's status as a government securities distributor may be revoked. Any outstanding obligations or liabilities owed as a primary dealer to the Bank of Canada as a result of past participation in the program and in auctions shall survive the imposition of any sanction on the dealer.

These Revised Terms, dated the 1st day of June, 2009, revise the Standard Terms for Auctions to Primary Dealers Under the Bank of Canada Securities-Lending Program.

Schedule A Related Entities

“Entity” means a corporation, trust, partnership, fund, or an unincorporated association or organization.

“Person” means a natural person, an entity or a personal representative.

Where two or more Primary Dealers are related entities with each other, only one of those entities may participate in the Bank’s securities-lending program, unless the related entities meet the criteria and provide the required certification specified in the Terms and Conditions to enable related entities to participate.

Two entities are related if one is controlled by the other or if both are controlled by the same person.

A person controls a corporation if:

- securities of the corporation to which are attached more than 50 per cent of the votes that can 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; or
- the aggregate of (i) any securities of the corporation which are beneficially owned by that person, and (ii) any securities of the corporation which are beneficially owned by any entity controlled by that person, is such that, if that person and all of the entities controlled by it which beneficially own securities of the corporation were one person, that person would control the corporation; or
- that person controls an entity which controls the corporation.

A person controls a limited partnership if:

- that person is a general partner of the limited partnership; or
- that person controls an entity which controls the limited partnership.

A person controls an unincorporated entity, other than a limited partnership, if:

- 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
- that person controls an entity which controls the unincorporated entity.

A person controls an 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.

Schedule B
Bank of Canada Net position Report

Reporting Date: _____
(as of close of business)

Name of IIROC Dealer Member: _____

Security (ISIN): _____

Maturity Date: _____

Government Security	Net Positions (par value, \$ millions to one decimal point)	
	Trade date	Settlement date
Trading Positions		
a. Cash holdings.....	\$	\$
b. When-issued positions.....	\$	
c. Holdings of the residual component of a stripped security..	\$	\$
d. Forward contracts.....	\$	
e. Any position in the security not covered by the above types of contracts.....	\$	\$
f. Net trading position.....	\$	\$
Financing Positions		
Reverse Repos		
g. Overnight and open.....	\$	\$
h. Term.....	\$	\$
i. Securities borrowed.....	\$	\$
j. Collateral received for financial derivatives and other securities transactions.....	\$	\$
k. Total securities received (g+h+i+j).....	\$	\$
Repos		
l. Overnight and open.....	\$	\$
m. Term.....	\$	\$
n. Securities loaned.....	\$	\$
o. Pledged collateral for financial derivatives and other securities transactions.....	\$	\$
p. Total securities delivered (l+m+n+o).....	\$	\$
q. Net Financing Position (k-p).....	\$	\$
r. Overall Position (f+q).....	\$	\$

Information Items		
Fails		
s. Failure-to-receive.....		\$
t. Failure-to-deliver.....		\$
Others		
u. Futures contracts	\$	
v. Options contracts	\$	

Schedule C

Eligible Collateral for the Securities-Lending Program

The list of eligible collateral for the Bank's securities-lending program will consist of the following:

- Securities issued by the Government of Canada
- Government of Canada stripped coupons and residuals
- Securities guaranteed by the Government of Canada (including Canada Mortgage Bonds and NHA mortgage-backed securities with a minimum pool size of \$25 million)
- Securities issued or guaranteed by a provincial government
- Bankers' acceptances and promissory notes, including those of foreign issuers (maximum term, 364 days) with a minimum issuer credit rating of R1 (low) by the Dominion Bond Rating Service (DBRS), or A-1 (mid) by Standard and Poor's (S&P), or P1 by Moody's Investors Service (Moody's)
- Commercial paper and short-term municipal paper, including those of foreign issuers (maximum term, 364 days) with a minimum issuer credit rating of R1 (low) by DBRS, or A-1 (mid) by S&P, or P1 by Moody's
- Corporate, municipal, and foreign-issuer bonds with a minimum long-term issuer credit rating of A (low) by DBRS, or A- by S&P, or A3 by Moody's
- Special Deposit Accounts held at the Bank of Canada
- Asset-backed commercial paper (ABCP) of eligible programs, with a minimum of two credit ratings, at least two ratings that are either R1 (high) by DBRS, A-1 (high) by S&P, P1 by Moody's, or F1+ by Fitch Ratings

The following conditions will be applied to the use as collateral of all the securities listed above:

- (i) Only Canadian-dollar securities are eligible to be pledged as collateral.
- (ii) Securities used as collateral must be pledged using CDSX of CDS Clearing and Depository Services Inc.
- (iii) No more than 20 per cent of the value of the collateral pledged by an institution should be the obligation of a single private sector, municipal, foreign issuer, or related party. In the case of ABCP, no more than 20 per cent of the value of the collateral pledged by an institution should be ABCP sponsored by a single institution.
- (iv) Securities issued by the pledgor of collateral (or any related party) cannot be used as collateral by the pledgor. For ABCP, the pledgor of collateral may not be the sponsor, nor the financial services agent, administrative agent, or similar service provider for the ABCP program. Nor can the pledgor provide liquidity support to the program.
- (v) The security must not have an embedded option or carry a right of conversion into equity securities, with the exception of a non financial call feature (i.e. 'Canada call').
- (vi) For ABCP, only the most senior tranches will be accepted.
- (vii) A minimum principal amount of \$1 million of an individual security is required.

Program Eligibility Criteria for the Use of ABCP as Collateral

- The ABCP program must be sponsored by a deposit-taking institution that is federally or provincially regulated and that has a minimum stand-alone credit rating equivalent to at least

A. The credit-rating requirement must be evidenced by the sponsor receiving the equivalent of at least an A as the second-highest rating in a minimum of two senior, unsecured, long-term credit ratings.

- The liquidity agreement(s) must obligate the liquidity provider to provide funding in all circumstances except in the event of insolvency of the conduit or against defaulted assets.
- Subject to the restrictions below, the program may hold assets in the form of loans advanced to, or notes or asset-backed securities (ABS) issued by, other securitization programs (to be referred to as second-level assets). However, such second-level assets must not expose the program indirectly to risks that would be unacceptable if the assets were held directly.
- The ABCP conduit must have an unencumbered ownership interest in the assets supporting the ABCP issued by the program such that the assets, and cash flows arising from the assets, are bankruptcy remote from the originators of the assets.
- The program must not contain any actual or potential exposure to
 - highly structured products such as (i) collateralized debt obligations (CDOs), both synthetic and cash flow, and (ii) ABS that are secured against or represent interests in managed (but not revolving) portfolios of multiple asset classes for which sequentially subordinated tranches of securities are issued, with the lowest tranches absorbing the first dollar of credit losses;
 - securities that are themselves backed by exposures to CDOs or similar highly structured products;
 - securities that have direct or indirect exposure to credit-linked notes, credit default swaps, or similar claims resulting from the transfer of credit risk by means of credit derivatives (except for the purpose of obtaining asset-specific credit protection for the ABCP program).
- To fund the acquisition, origination, or refinancing of its assets, the ABCP program may use financial leverage in the form of debt incurred under ABCP or loans secured against those assets. However, it may not use leverage in the form of partially collateralizing derivative contracts with assets whose value is only a fraction of the actual notional amount of the contract (i.e., leveraged synthetic assets).

The following minimum margin requirements will be applied to securities loans. The margin requirement is the greater of the margin rate corresponding to the security being lent and the margin rate of the securities being provided as collateral.

Margin Requirements (per cent)

Type of Security	Maturity				
	Up to 1 year	>1-3 years	>3-5 years	>5-10 years	>10 years
Securities issued by the Government of Canada, including stripped coupons and residuals	1.0	1.0	1.5	2.0	2.5
Securities guaranteed by the Government of Canada (including Canada Mortgage Bonds and NHA MBS)	1.5	2.0	2.5	3.0	3.5
Securities issued by a provincial government	2.0	3.0	3.5	4.0	4.5
Securities guaranteed by a province	3.0	4.0	4.5	5.0	5.5
Bankers' acceptances, promissory notes, commercial paper, and short-term municipal paper (rated A-1 (high) by S&P or R-1 (mid) or better by DBRS)	7.5				
Bankers' acceptances, promissory notes, commercial paper, and short-term municipal paper (rated A-1 (mid) by S&P or R-1 (low) by DBRS or P1 by Moody's)	12.0				
Asset-backed commercial paper (minimum two ratings, R-1 (high) by DBRS, P1 by Moody's, A-1 (high) by S&P, or F1+ by Fitch)	7.5				
Corporate and municipal bonds (AAA rated)	4.0	4.0	5.0	5.5	6.0
Corporate and municipal bonds (AA rated)	7.5	7.5	8.5	9.0	10.0
Corporate and municipal bonds (A rated)	12.0	12.0	13.0	13.5	15.0