

BANK OF CANADA

RULES GOVERNING ADVANCES TO FINANCIAL INSTITUTIONS

1. GENERAL

These Rules serve as policy guidelines and administrative procedures for financial institutions and financial market infrastructures (“FMIs”) seeking to obtain loans from the Bank of Canada (“the Bank”). The Bank may also from time to time communicate in writing to financial institutions, FMIs and to the public additional policies regarding specific aspects of advances and security for advances, providing that these additional policies are not inconsistent with these Rules (see, for example, the Bank’s Lender of Last Resort Policies on its website at <http://www.bankofcanada.ca/core-functions/financial-system/lender-of-last-resort/>). If there is any conflict between these Rules or any additional policies and those agreements referred to in paragraph 5, the latter will prevail. All references in those agreements to the “Rules” and “Rules Governing Advances to Financial Institutions” are to these Rules only and not to any additional policies communicated by the Bank.

2. DEFINITIONS

In these Rules:

- (a) “**ACSS**” means the Automated Clearing Settlement System operated by the Canadian Payments Association (CPA).
- (b) “**Advance**” means an advance of a loan from the Bank to a financial institution or an FMI that is among those types of advances described in paragraph 3;
- (c) “**Bank Rate**” means the minimum interest rate that the Bank is prepared to charge in respect of advances, as made public in accordance with the *Bank of Canada Act*;
- (d) “**Business day**” means a day on which there is a clearing of payment items pursuant to paragraph 6(1)(a) of the *Canadian Payments Act*;
- (e) “**CDSX**” means the CDSX clearing and settlement system operated by CDS Clearing and Depository Services Inc. and any of its successors or assigns (“CDS”), and includes any successor to that system.
- (f) “**Credit date**” means, in respect of each type of advance described in paragraph 3:
 - (i) in respect of Discretionary LVTS Advances, the date of the loan

- application;
- (ii) in respect of Non-Discretionary LVTS Advances, the date of the LVTS cycle in which occurred the default of the LVTS participant, creating an obligation of the Bank to lend;
 - (iii) in respect of ACSS Default Advances, the settlement date of the ACSS cycle in respect of which the Advance is required to permit settlement; and
 - (iv) in respect of ELA Advances and Other Advances, a date determined by the Bank and communicated to the financial institution or FMI prior to making the Advance.
- (g) “**Eastern Time**” means that time (either Eastern Standard Time or Eastern Daylight Time) that is in effect in the Eastern Time zone at the time of the matter in question.
 - (h) “**HABS**” means the Bank’s High Availability Banking System.
 - (i) “**LVTS**” means the Large Value Transfer System operated by the Canadian Payments Association.
 - (j) “**Repayment date**” means, in respect of all advances, the date the advance is repayable.
 - (k) “**Term Loan**” means, in respect of a Non-Discretionary LVTS Advance, Other Advance or ELA Advance, having a term to maturity of more than one Business Day but less than six months.

3. **ADVANCES BY THE BANK**

The following are the types of advances that may be made by the Bank to financial institutions and FMIs:

- (a) SLF Advances under the Bank’s Standing Liquidity Facility or “SLF.” SLF Advances are overnight advances made at the Bank’s discretion to an LVTS participant to provide it with a sufficient settlement balance at the Bank to permit settlement of its multilateral net position in the LVTS without the participant defaulting in the LVTS. An SLF Advance is also referred to as a “Discretionary LVTS Advance”;
- (b) an advance that the Bank is obligated by the LVTS By-law to make to an LVTS participant following the default of a participant in the LVTS (Non-Discretionary LVTS Advance);
- (c) an advance to an ACSS direct clearer or group clearer secured by collateral pledged to the Bank in accordance with the ACSS By-law in connection with the settlement of that financial institution’s multilateral net debit position, default

contribution or additional contribution obligations in the ACSS (ACSS Default Advance);

- (d) ELA Advances are advances made at the Bank’s discretion for the purpose of addressing a serious and persistent withdrawal of liquidity from a financial institution or FMI in the context of the recovery or resolution of the entity (“Emergency Lending Assistance” or “ELA”). ELA is not intended to address illiquid markets;
- (e) Other Advances, including the following:
 - (i) an advance made by the Bank at its discretion as a contingency measure in the event that the LVTS is unavailable, or an LVTS participant is unable to connect to the LVTS, for the purpose of either funding transfers of funds between the settlement accounts at the Bank of participants in a clearing and settlement system and of the clearing house for that system in order to settle payment obligations arising from the system, or for the purpose of enabling a direct clearer or group clearer in the ACSS to settle its obligations in that system;
 - (ii) any other advances that may be required by a financial institution or an FMI, in very unusual circumstances associated with a sudden and large-scale liquidity shortage, for any purpose other than those set out in subparagraphs 3(a), 3(b) or 3(c). The recipients of such advances and the collateral required will depend on the exact nature of the exceptional circumstances.

Discretionary LVTS Advances and Non-Discretionary LVTS Advances are referred to collectively in these Rules as “LVTS Advances.”

4. ELIGIBILITY

- (a) To be eligible for SLF Advances, a financial institution must
 - (i) be an LVTS participant and
 - (ii) be able to provide the Bank with valid and enforceable first-priority security in collateral of a type acceptable to the Bank for SLF Advances.
- (b) To be eligible for ELA Advances, a financial institution must
 - (i) be a member of the CPA;
 - (ii) be able to provide the Bank with valid and enforceable first-priority security in collateral of a type acceptable to the Bank for ELA Advances; and
 - (iii) in the judgment of the Bank, have a credible recovery and resolution framework.

In order to provide ELA to a CPA member that is a central co-operative credit society or a local co-operative credit society, the Bank will also require an

indemnity from the province of incorporation and must be of the view that providing ELA is necessary to support the stability of the Canadian financial system.

- (c) To be eligible for ELA Advances, an FMI must:
 - (i) be a clearing house that provides clearing or settlement services to a clearing and settlement system that has been designated by the Governor under subsection 4(1) of the *Payment Clearing and Settlement Act*;
 - (ii) be able to provide the Bank with valid and enforceable first priority security in collateral of a type acceptable to the Bank for ELA Advances to FMIs.
- (d) To be eligible for ACSS Default Advances, a financial institution must (i) be an ACSS direct clearer or group clearer and (ii) be able to provide the Bank with valid and enforceable first-priority security in collateral of a type acceptable to the Bank for SLF Advances.

5. PRESCRIBED DOCUMENTATION

A financial entity seeking an advance from the Bank shall have executed the following documents, in the forms prescribed by the Bank:

- (a) in respect of an LVTS Advance or an ACSS Default Advance – (i) an Account Agreement for Settlement Account; (ii) a Loan Facility Agreement; (iii) a Security Agreement for Loan Advances and Advances of Bank Notes; (iv) if the financial entity wishes to use funds standing to its credit in a Special Deposit Account as collateral, an Account Agreement for Special Deposit Account; (v) if the financial entity wishes to use its non-mortgage loan portfolio as collateral, a General Security Agreement or, in the case of an institution having its head office in the province of Quebec, a Deed of Hypothec; (vi) legal opinions satisfactory to the Bank regarding the enforceability of these agreements; (vii) for foreign incorporated institutions, legal opinions satisfactory to the Bank from the institution's home jurisdiction regarding the applicability of foreign laws to these agreements; and (viii) such other documents as may be required by the Bank from time to time;
- (b) in respect of an Other Advance – any or all of the documents listed above, plus such other documents as may be required by the Bank;
- (c) in respect of an ELA Advance to a financial institution (i) a General Security Agreement or, in the case of an institution having its head office in the Province of Quebec, a Deed of Hypothec; (ii) a Loan Facility Agreement for ELA Advances; and (iii) legal opinions satisfactory to the Bank regarding the enforceability of these agreements and any other agreements required by the Bank, as well as, at the Bank's discretion, any or all of the documents listed

above, plus such other agreements and documents as may be required by the Bank;

- (d) in respect of an ELA Advance to an FMI, (i) a Settlement Account Agreement; (ii) a Loan Facility Agreement and (iii) a Security Agreement.

Financial institutions' accounts with the Bank are established and governed in accordance with the Account Agreement for Settlement Account and, if the financial institution opens a Special Deposit Account, the Account Agreement for Special Deposit Account. Upon application by a financial institution for a settlement account, the Bank will notify the institution's regulator that the institution intends to open a settlement account.

Each advance shall be subject to the provisions of the applicable loan agreement and recorded on the books of the Bank. Each advance shall be secured by a security interest in collateral acceptable to the Bank, pursuant to (in the case of LVTS Advances, ACSS Default Advances and Other Advances) the Security Agreement for Loan Advances and Advances of Bank Notes, the General Security Agreement or Deed of Hypothec, and (in the case of ELA Advances) the General Security Agreement or Deed of Hypothec and such other agreements as the Bank may prescribe. The Loan Facility Agreement, the Security Agreement, the Security Agreement for Loan Advances and Advances of Bank Notes, and the General Security Agreement and Deed of Hypothec are available from the Bank on request.

6. APPLICATION FOR ADVANCES

- (a) Discretionary LVTS Advances shall be applied for by the financial institution submitting a loan application in the form prescribed in the Loan Facility Agreement through the HABS. Loan applications for Discretionary LVTS Advances must be submitted within such time period as may be indicated by the Bank at the time that the Bank notifies the LVTS participant, pursuant to the LVTS bylaw and any applicable rules thereunder, that it has insufficient settlement balance at the Bank to permit settlement of its multilateral net position. All loan applications must be submitted for credit as of the Credit date applicable to the type of advance.
- (b) Non-Discretionary LVTS Advances shall not be applied for but shall be provided unilaterally by the Bank for credit as of the applicable Credit date in accordance with the terms of the LVTS bylaw and the Loan Facility Agreement upon the default in the LVTS of an LVTS participant. A Non-Discretionary LVTS Advance shall be in such amount as is determined, in accordance with the Loan Facility Agreement and the LVTS bylaw, to be necessary to permit the financial institution to settle either or both of its multilateral net position or additional settlement obligations in the LVTS. Such advances shall bear such interest and have such terms to maturity as are communicated by the Bank to the financial institution at the time the Advance is made.
- (c) ACSS Default Advances shall not be applied for but shall be provided unilaterally

by the Bank for credit as of the applicable credit date in accordance with the terms of the ACSS By-law and the Loan Facility Agreement. An ACSS Default Advance shall be in such amount as is determined in accordance with the Loan Facility Agreement, the ACSS By-law and the rules of the Canadian Payments Association, to be necessary to permit the financial institution to settle any of its multilateral net debit position, default contribution and additional contribution obligations in the ACSS. Such advances shall bear interest and have terms to maturity as are communicated by the Bank to the financial institution at the time the Advance is made.

- (d) Loan applications for ELA or Other Advances shall be submitted pursuant to the loan agreement governing the advance only after the financial institution or FMI has consulted regarding the need for the advance with either the Deputy Governor responsible for overseeing the financial system, the Deputy Governor responsible for overseeing financial markets, or such other person as the Bank may indicate from time to time as the person to consult in respect of ELA and Other Advances for particular purposes, and has provided that person with such information concerning the ELA or Other Advance as the Bank considers relevant.

The Bank will signify acceptance of a loan application and provide an advance by crediting the proceeds of the advance to the financial institution's or FMI's settlement account with the Bank or to an account designated by the institution or FMI. The Bank will notify the institution or FMI if a loan application is rejected.

7. TERMS OF ADVANCES

All advances are governed by the provisions of the applicable agreements (see paragraph 5). The following briefly describes the term to maturity, interest rate and methods of payment applicable to each type of advance:

- (a) **Term of the advance** –
 - (i) for Discretionary LVTS Advances, one Business Day; that is, the repayment date is the next Business Day after the Credit date;
 - (ii) for Non-Discretionary LVTS Advances, ACSS Default Advances, Other Advances and ELA Advances, such term as may be determined by the Bank as a condition of the advance and communicated to the financial institution or FMI at the time of providing the advance, which term shall not exceed six months. The term of an Other Advance or an ELA Advance shall be set out in the loan application.
- (b) **Interest Rate** –
 - (i) for Discretionary LVTS Advances, the Bank Rate as of the Credit date;
 - (ii) for Non-Discretionary LVTS Advances, ACSS Default Advances, Other Advances and ELA Advances, such rate as is determined by the Bank at

the time of making the advance and communicated to the financial institution or FMI.

For all advances except Non-Discretionary LVTS Advances and ACSS Default Advances, the interest rate shall be set out in the loan application. For all advances, interest accrues on a daily basis from the Credit date until the Repayment date, unless the Bank stipulates that interest shall be payable prior to the repayment date. In the event of a default in repayment of the advance, interest shall continue to accrue at the rate applicable to the advance until repayment in full.

- (c) **Credit of Funds and Repayment** – The proceeds of an advance are credited to the financial institution's or FMI's settlement account with the Bank as of the Credit date. Repayment of principal and interest is made by means of a payment received by the Bank through the LVTS on the Repayment date for value as of the Repayment date. Repayment may also be made by such other means as the Bank may specify in special circumstances, including in the event that a financial institution or FMI is unable to repay an advance on the Repayment date because the LVTS is suspended or inoperative.

8. SECURITY FOR ADVANCES

Depending on the type of Advance and the type of entity receiving the Advance, security for an Advance is governed by either the Security Agreement, Security Agreement for Loan Advances and Advances of Bank Notes, the General Security Agreement, the Deed of Hypothec or such other agreements as may be prescribed by the Bank. The Bank will accept as security for all types of Advances to financial institutions or FMIs those types of collateral that are set out in the list of eligible collateral under the Bank's SLF, as that list may be amended from time to time on the Bank's website. The Bank will accept as collateral from FMIs those types of securities that are described in the Security Agreement with the FMI. The Bank may also accept as security for ELA and Other Advances such additional types of collateral, if any, which the Bank may indicate to the institution or FMI as acceptable prior to making the ELA or Other Advance. In addition to the terms and conditions governing collateral that are set out in the list of collateral on the Bank's website, the following general terms and conditions shall apply:

- (a) While the special deposit account (SDA) that an institution has with the Bank is generally acceptable as security for advances to that institution, the Bank reserves the right to no longer accept SDAs as security for advances from any particular financial institution or class of financial institutions, provided that the Bank gives such financial institution or class of financial institutions prior notice of at least one Business Day that it will no longer accept their SDAs as security for advances.
- (b) Securities pledged as collateral for advances and that are settled in the CDSX must be transferred to the Bank through CDSX. Securities that are settled in a foreign clearing and settlement system must be transferred to the Bank by the

securities being credited to a securities account of the Bank or its agent in that system. Securities that are in certificated form and not settled in a clearing and settlement system must be delivered to the Bank at its head office in Ottawa, or to such other premises as the Bank may agree to in writing, between the hours of 8:30 a.m. and 4:00 p.m., Eastern Time, on a Business Day and prior to or concurrent with submission of the loan application.

- (c) All collateral pledged to the Bank by an LVTS participant as security for LVTS Advances or Other Advances shall be recorded by the Bank as a pool of collateral available to secure LVTS Advances and Other Advances, as well as to support the participant's intraday multilateral net position in the LVTS. LVTS participants that pledge collateral to the Bank must allocate, using the HABS, amounts of the total value of the collateral pool for specific purposes (including LVTS and Other Advances).
- (d) All collateral pledged to the Bank by an ACSS direct clearer or group clearer as security for ACSS Default Advances shall be recorded by the Bank as a pool of collateral available to secure ACSS Default Advances. ACSS direct clearers and group clearers must allocate, using the HABS, the amount of the total value of the collateral pledged for ACSS Default Advances, in accordance with the ACSS By-law.

Notwithstanding 8 (c) above, the Bank, at its sole discretion, may announce to participants in the LVTS and ACSS direct clearers and group clearers that certain types of collateral shall not be included in the collateral pool or that collateral granted as security for certain types of Advances shall be outside of the pool of collateral.

The market value of securities pledged to the Bank as collateral security for advances shall equal not less than the principal amount of the loan, plus any interest payable over the term of the loan, plus any margin requirement for that collateral that may be stipulated by the Bank at its sole discretion.

9. SAFEKEEPING OF SECURITIES

Financial institutions and FMIs eligible to apply for advances from the Bank may lodge securities at the Bank for use as collateral to secure borrowings from the Bank. Securities held in safekeeping that are not subject to a security interest in favour of the Bank may be withdrawn at any time on reasonable notice. There is currently no charge for this safekeeping service.

10. RELEASE OF COLLATERAL

A financial institution or FMI that has granted collateral security to the Bank in the form of securities or SDA and that is entitled by the Loan Facility Agreement, the Security Agreement, the Security Agreement for Loan Advances and Advances of Bank Notes, the

General Security Agreement, the Deed of Hypothec, or any other agreement governing collateral for the advance to a release of the collateral, may request a release of the collateral:

- (a) in respect of collateral that is securities in CDSX, initiating in CDSX a trade of the securities at any time that CDSX is available to complete a transfer of the securities back to the financial institution or FMI;
- (b) in respect of collateral that is securities not in CDSX, submitting a request for release to the Bank through the HABS on any Business Day between the hours of 8:30 a.m. and 4:00 p.m., Eastern Time;
- (c) in respect of collateral that is the financial institution's SDA, by submitting a request for release to the Bank by fax on any Business Day prior to completion of the LVTS cycle for that day; or
- (d) in respect of other collateral, as determined by the Bank at the time the collateral is no longer required and by the Bank making an entry in its records indicating that an amount of collateral equal to the amount released back to the Borrower is no longer granted as security against a particular Advance.

The Bank's release of collateral in response to a request for release is subject to the applicable terms and conditions of the Security Agreement, Security Agreement for Loan Advances and Advances of Bank Notes, Loan Facility Agreement, Loan Facility Agreement for ELA Advances, General Security Agreement, Deed of Hypothec, or any other agreement governing the pledging of the collateral to the Bank, as well as the ACSS By-law and related rules of the Canadian Payments Association.

11. REQUIREMENTS FOR PARTICIPATION IN THE LVTS AND ACSS

- (a) The entering by the Bank into a Loan Facility Agreement and a Security Agreement for Loan Advances and Advances of Bank Notes with a financial institution satisfies any requirement: (i) in the CPA bylaws or rules governing the LVTS that the institution, in order to become a participant in the LVTS, must enter into agreements with the Bank governing the provision of advances for LVTS purposes and the pledging of collateral to secure those advances; (ii) in the CPA bylaws or rules governing the ACSS that the institution, in order to become a direct clearer or group clearer in the ACSS, must enter into agreements with the Bank governing the provision of advances for ACSS purposes and the pledging of collateral to secure those advances.
- (b) The decision as to whether to enter into any of the above-mentioned agreements with a financial institution shall be at the sole discretion of the Bank.

12. EFFECTIVE DATE AND AMENDMENTS

This version of the Rules is effective from the date first noted above. Upon the day that these Rules become effective, the version of the Rules Governing Advances to Financial Institutions that became effective on December 3, 2015, and any subsequent revisions thereto, shall cease to have effect except in respect of any advances that were made pursuant to those Rules and that remain outstanding. The Bank may amend or replace these Rules at any time, but will give financial institutions and FMIs as much notice as possible.