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As Part of the G7 Action Plan, Bank of Canada Introduces New Measures to Provide Liquidity to the Canadian Financial System

Notice - Tuesday, October 14, 2008, 09:00 (ET)



The Bank of Canada strongly welcomes the decisive actions announced today by the U.S. authorities. These significant and timely measures are part of the implementation of the G7 Action Plan agreed last Friday. Today's U.S. measures and the actions announced yesterday by the Euro Area countries and the United Kingdom will be pivotal in restoring global financial stability and resuming the flow of credit to support global economic growth. Canada's economy and strong financial system will benefit directly from these initiatives.

Consistent with its commitments under the G7 Action Plan, the Bank of Canada indicated yesterday that it will provide exceptional liquidity to the Canadian financial system as long as conditions warrant. Following are the details of further actions that the Bank is taking:

- First, to provide significant term liquidity to the financial sector, the amount of the 27-day Term PRA to be auctioned on 15 October has been set at \$10 billion. (See [appendix](#) for further details)
- Second, to enhance the distribution of liquidity, effective the 21 October auction, term PRAs will be transacted with direct participants in the Large Value Transfer System (LVTS) as well as with Primary Dealers until further notice.
- Third, to enhance the functioning of money markets, the Bank of Canada will, on a temporary basis, offer a new Term PRA facility for primary dealers on a direct basis and other money market participants on an indirect basis. (See [appendix](#) for further details)
- Fourth, to give institutions greater flexibility in managing their collateral, effective 20 October for a temporary period, the Bank of Canada will accept an assignment of non-mortgage loan portfolios as eligible collateral for LVTS and standing liquidity facility purposes. (See [appendix](#) for further details)
- On 10 October the federal government announced that it will purchase up to \$25 billion in National Housing Act Mortgage-Backed Securities (NHA-MBS) insured mortgage pools through Canada Mortgage and Housing Corporation (http://www.fin.gc.ca/news08/data/08-075_1e.html). In light of this, the Bank announces that counterparties that have used NHA-MBS in any outstanding Term PRA operations will have the right to substitute other eligible assets for them on Monday 20 October, subject to providing notice to the Bank by noon on Friday 17 October.

In addition to these exceptional liquidity initiatives, the Bank of Canada, as always, stands ready to provide overnight SPRAs to the extent required to maintain liquidity in the overnight market and to reinforce its target for the overnight interest rate.

The Bank of Canada Act gives the Bank considerable additional flexibility to provide broad access to liquidity. In addition, the Bank can activate its US\$30 billion swap facility with the Federal Reserve, if required.

The Bank notes the statement on 13 October by the Minister of Finance that "the Government stands ready to take appropriate action to avoid unintended consequences from policy measures by other countries that would put wholesale borrowing in Canada at a competitive disadvantage."

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