



# Assets Eligible as Collateral under the Bank of Canada's Standing Liquidity Facility

April 9, 2020

The Bank of Canada (the Bank), through its Standing Liquidity Facility (SLF), provides access to liquidity to those institutions that participate directly in the Large Value Transfer System (LVTS). Under the provisions of the Bank of Canada Act, the Bank's LVTS advances (commonly referred to as overdraft loans) are required to be made on a secured basis. The collateral used to secure these advances must be acceptable to the Bank, and an appropriate margin is applied to reflect various risk factors. This collateral policy is also used to support any other collateral requirements related to payment system activity, such as the intraday credit provided to LVTS participants. Notwithstanding the eligibility criteria listed below, the Bank retains the right to reject or accept any asset at its discretion, and/or to impose additional risk mitigants such as higher margins or further concentration limits.

A list containing eligibility information and decisions to impose additional risk mitigants for provinces whose securities are either directly issued or guaranteed, is provided for on the [Bank's website](#).

The list of eligible collateral comprises 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).
- Government of Canada guaranteed stripped coupons and residuals.
- Securities issued or guaranteed by a provincial government that meet the criterion of sufficiently high quality as determined by the Bank.
- Stripped coupons and residuals of securities issued or guaranteed by a provincial government that meet the criterion of sufficiently high quality as determined by the Bank.
- Other Public Sector securities will include securities issued by foreign governments, central banks, supranationals, foreign government related entities and domestic entities that are owned, controlled either fully or partially, or sponsored by a provincial or the federal government(s) such as Canadian federal and provincial pension plans that are of sufficiently high quality as determined by the Bank. Sufficiently high quality for these securities will be broadly equivalent to a rating of AA-.
- Securities issued by a municipal government that meet the criterion of sufficiently high quality as determined by the Bank. Sufficiently high quality for

these securities will be broadly equivalent to a rating of A-.

- Bankers' acceptances and promissory notes, including those of foreign issuers but excluding those of LVTs participants and related entities (maximum term, 364 days) that meet the criterion of sufficiently high quality as determined by the Bank. Sufficiently high quality for these securities will be broadly equivalent to a rating of A-.
- Commercial paper, including those of foreign issuers (maximum term, 364 days) that meet the criterion of sufficiently high quality as determined by the Bank. Sufficiently high quality for these securities will be broadly equivalent to a rating of A-.
- Covered bonds from programs that are registered with the Covered Bond Registrar and are compliant with the federal legislative framework for covered bonds. These securities must meet the criterion of sufficiently high quality as determined by the Bank. Sufficiently high quality for these securities will be broadly equivalent to a rating of AAA.
- Corporate and foreign-issuer bonds, excluding those of LVTs participants and related entities that meet the criterion of sufficiently high quality as determined by the Bank. Sufficiently high quality for these securities will be broadly equivalent to a rating of A-.
- Special Deposit Accounts held at the Bank.
- Term Asset-Backed Securities (ABS) that meet the criterion of sufficiently high quality, as determined by the Bank. Sufficiently high quality for these securities will be broadly equivalent to a rating of AAA. The Bank will consider a number of factors in its assessment, including but not limited to: the type of underlying assets, the structure of the program and bankruptcy remoteness of the assets, the number and geographical distribution of the obligors, the availability of information from credit rating agencies, the transparency of the program, and the credit quality of the sponsor and other significant service providers. The Bank reserves the right to subsequently decide that a security is no longer eligible even if it has initially been accepted.
- Asset-backed commercial paper (ABCP) of eligible programs that meet the criterion of sufficiently high quality as determined by the Bank. Sufficiently high quality for these securities will be broadly equivalent to a rating of AAA.
- Marketable securities issued by the United States Treasury (bills, notes, and bonds, including TIPS).
- Assignment of the non-mortgage loan portfolios (NMLPs) of LVTs direct participants. Eligible non-mortgage loans are loans made to individuals for non-business purposes (e.g., consumer loans) and to individuals and others for business purposes (e.g., business loans). All eligible non-mortgage loans must be in Canadian dollars, be made to Canadian residents and not be collateralized by any form of real property (e.g., land or buildings).
  - For banks, eligible non-mortgage loans are found in OSFI's M4 Consolidated Monthly Balance Sheet return, Section I, Memo Item 20 - Non-mortgage loan portfolio (a) loans to individuals for non-business purposes (iii) secured by other than real property and (iv) not secured; and (b) loans to individuals and others for business purposes (iii) secured by other than real property and (iv) not secured. The NMLP value is then reduced by the amount of securitized loans that have been brought onto the balance sheet (also presented in the M4 return under Section I, Memo Item 20: (a)(iii)(A), (a)(iv)(A), (b)(iii)(A), and (b)(iv)(A)). Canadian dollar, non-resident loan amounts are also removed using OSFI's A2 Non-Mortgage Loans return: Section 5, subtotal 5; and Section 6, subtotals (a) and (b)(i) through (xii).

- For non-banks, eligible non-mortgage loans are defined equivalently as for banks and would be reported directly from the LVTs participant to the Bank of Canada.

For use as collateral, the assets listed above are subject to the following conditions:

1. Only Canadian-dollar assets are eligible to be pledged as collateral, with the exception of securities issued by the United States Treasury in U.S. dollars.
2. Securities used as collateral must be pledged using CDSX or CDS Clearing and Depository Services Inc., or be physically delivered to the Bank in certificated form.
3. No more than 5 per cent of the total value of the collateral pledged by an institution may be the obligation of a single corporate, municipal, or foreign private sector issuer, or related entity.<sup>1,2</sup> The combined amount of covered bonds, term ABS and ABCP originated or sponsored by a single institution pledged by an LVTs participant cannot be more than 5 per cent of the total value of all the collateral pledged by that participant. This condition does not apply for borrowings of less than \$10 million.
4. For participants that use NMLP, no more than 20% of the total value of the collateral pledged by an institution may be comprised of municipal government or private sector securities (including corporate bonds, covered bonds, banker's acceptance commercial paper, term ABS and ABCP). For participants that do not use NMLP, this limit is increased to 40% of the total value of collateral pledged by an institution.
5. No more than 20% of the total value of the collateral pledged by an institution may be the NMLP. The Bank will consider temporarily lifting this 20 per cent limit in exceptional cases, for a very limited period, to accommodate the liquidity needs of individual LVTs participants when there are extremely large payment flows. Written requests for an increase in the limit must be submitted to the Bank at least 48 hours in advance.<sup>3</sup>
6. Securities issued by the pledgor of collateral (or any related entity, including covered bonds) cannot be used as collateral by the pledgor. For term ABS and ABCP, the pledgor of collateral may not be the originator or sponsor, nor the financial services agent, administrative agent, or similar service provider for the term ABS or ABCP program. Nor can the pledgor provide liquidity support to the program.
7. The Bank will require two weeks to complete the eligibility review of an ABCP program and term ABS program. At the time of the request for review, the institution must provide all required information for that ABCP or term ABS program.
8. The Bank must be notified a minimum of 24 hours in advance (with a deadline of 15:00 Ottawa time) by the borrowing institution the first time it intends to pledge any security with the exception of those issued by the Government of Canada for use as collateral the next day.
9. The security must not have an embedded option or carry a right of conversion into equity securities, with the exceptions being:
  1. non-financial calls (i.e., 'Canada call')
  2. 'soft bullets' (in the case of covered bonds)
  3. 'clean up calls'<sup>4</sup> (in the case of term ABS), so long as the call is not exercisable while the securities are pledged to the Bank.
10. The security must not mature on or before the following business day.

11. For term ABS, only the most senior tranche of a program meeting the Bank's criteria will be accepted.<sup>5</sup>
12. For ABCP, only the most senior tranches will be accepted.
13. A minimum principal amount of \$1 million of an individual security is required.
14. LVTs participants will be required to sign the appropriate legal documentation in the Bank's form, granting security in the assets pledged as collateral. The Bank may also choose to register its security in the personal property security registries of the appropriate jurisdictions. The Bank will also need to be assured that its security is registered in the personal property registry of the participant's home jurisdiction, thereby giving the Bank a first priority security interest.

## **Program Eligibility Criteria for the Use of ABCP as Collateral**

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- The ABCP program must be sponsored by a deposit-taking institution that is federally or provincially regulated and its credit quality is one of several factors listed below that are considered for eligibility.
- 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 transparency requirements also apply:

- The Bank must receive, at the time of a request to review an ABCP program, a single concise document that is provided by and validated by the sponsor, and that includes all relevant investment information.
- This document must be accessible to all investors.
- The sponsor must agree to provide timely disclosure to all investors and the Bank of any significant change to the information contained in this document.

At a minimum, the relevant investment information to be disclosed in this document must include:

- The identity of the sponsor, the financial services agent, administrative agent, or similar service provider, as well as the liquidity provider(s).
- The range of assets that may be held by the program, including maximum or minimum proportion, if applicable.
- The manner in which the ABCP program gains exposure to each of the underlying assets – for example, via a note, loan, or direct purchase.
- For any second-level assets held by the ABCP program: (i) a brief description of such assets and the securitization programs issuing them, and (ii) any other relevant information, such as the identity of the sponsor, the financial services agent, administrative agent, or similar service provider, and the liquidity provider (if applicable), subject to confidentiality agreements.
- A statement that the assets supporting the ABCP do not and will not include, directly or indirectly (including through second-level assets): CDOs or other highly structured products; synthetic assets or similar assets that directly or indirectly involve the transfer of credit risk by means of credit derivatives.
- Characteristics of the asset pools, including, at a minimum: composition, foreign-currency exposures, performance measures, credit ratings (if applicable) and credit enhancements, number of sellers and obligors, average remaining term, and hedging methods. (Other information, such as current payment speeds and geographic locations, should be disclosed if relevant to the investor.)
- Where the investor can obtain updates of relevant investment information.
- The nature of the liquidity facilities, including the amount of support from each liquidity provider.
- The nature and amount of program-wide credit enhancements.
- Asset-performance triggers and their consequences for investors.
- The flow of funds for the ABCP program, including payment allocations, rights, and distribution priorities; and for second-level assets, the ranking of the ABCP program in priority of payments.
- Schematic diagrams or flow charts that set out the basic structure of the ABCP program and its cash flows in simplified form.

## Eligibility Requirements for Term Asset-Backed Securities

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- The sponsor must agree to provide continuous and timely disclosure of information about the term ABS program and the underlying assets and of any

significant changes to all investors.<sup>6</sup>

- For term ABS that are issued by offering memorandum, at a minimum, the relevant investment information to be disclosed should be aligned with those issued under prospectus and therefore include:
  - information on the issuer's business and identification of other key stakeholders involved in the transaction (e.g., sponsor, servicer);
  - description and illustration of the structure of the notes;
  - cash waterfall;
  - credit enhancements / level of subordination;
  - information and statistics on the performance of the aggregate pool of assets backing the term ABS; and
  - information and statistics on the individual assets within the pool of assets backing the term ABS.
- The program must not contain any actual or potential exposure to:
  - Highly structured products such as collateralized debt obligations (CDOs) or similar highly structured products.
  - 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 or credit default swaps.
  - Securities that have leveraged derivative exposures.
- The security can be backed by various assets, including residential mortgages, but must not be backed by commercial mortgages.
- A market price acceptable to the Bank must be available for the security.

## Margin Requirements<sup>7</sup>

Collateral type	Remaining Maturity						
	up to 3 months	>3-12 months	>1-3 years	>3-5 years	>5-10 years	>10-35 years	>35 years
<b>Securities issued by the Government of Canada</b>	0.25%	0.5%	1.0%	1.5%	2.0%	3.0%	3.5%
<b>Government of Canada – stripped coupons and residuals</b>	0.25%	0.5%	1.0%	1.5%	2.0%	4.0%	11.5%
<b>Securities guaranteed by the Government of Canada (excluding NHA mortgage-backed securities)</b>	0.5%	1.0%	1.5%	2.0%	2.5%	4.0%	4.5%
<b>NHA mortgage-backed securities</b>	1.5%	2.0%	2.5%	3.0%	3.5%	5.0%	5.5%
<b>Government of Canada guaranteed – stripped coupons and residuals</b>	0.5%	1.0%	1.5%	2.5%	4.0%	5.5%	13.0%
<b>Securities issued by a provincial government</b>	1.0%	1.5%	2.0%	2.5%	3.0%	4.0%	6.0%
<b>Provincial government – stripped coupons and residuals</b>	1.0%	1.5%	2.0%	3.0%	4.5%	6.0%	17.0%
<b>Other Public Sector</b>	1.0%	2.0%	2.5%	3.0%	3.5%	4.5%	6.5%
<b>Securities guaranteed by a provincial government</b>	1.0%	2.0%	2.5%	3.0%	3.5%	4.5%	6.5%
<b>Provincial government guaranteed – stripped coupons and residuals</b>	1.0%	2.0%	2.5%	3.5%	5.0%	6.5%	17.5%
<b>Securities issued by a municipal government</b>	1.25%	2.5%	3.0%	3.5%	4.0%	5.0%	7.0%
<b>Bankers' acceptances, promissory notes, commercial paper, including those of foreign issuers</b>	1.5%	3.0%					
<b>Term Asset-Backed Securities</b>	3.75%	7.5%	8.0%	9.0%	12.0%	15.0%	17.0%
<b>Asset-backed commercial paper</b>	3.75%	7.5%					
<b>Covered bonds</b>	2.0%	3.0%	3.5%	4.0%	6.5%	8.5%	9.0%
<b>Corporate and foreign-issuer bonds</b>	2.0%	3.0%	3.5%	4.0%	6.5%	8.5%	9.0%
<b>Securities issued by the United States Treasury<sup>8</sup></b>	1.0%	1.0%	1.0%	1.5%	3.0%	5.0%	

Collateral type	Remaining Maturity						
	up to 3 months	>3-12 months	>1-3 years	>3-5 years	>5-10 years	>10-35 years	>35 years

Non-mortgage loan portfolio: The Bank will provide a collateral-to-portfolio value based on a weighted- average margin based on the following categories of non-mortgage loans within the portfolio:

- Unsecured consumer loans 85%
- Secured consumer loans 70%
- Unsecured business loans 50%
- Secured business loans 30%

Content Type(s): **Collateral Policy**  
Footnotes

1. While issuers in the Other Public Sector category are not formally subject to concentration limits, the Bank will monitor pledging of securities issued by any single Canadian federal and provincial pension plan to ensure its usage is within risk tolerances of the Bank. The Bank does not expect securities issued by Canadian federal and provincial pension plans to constitute a substantial part of a participant's pledged collateral.[←]
2. For mergers and acquisitions, the Bank will consider two issuers to be related as follows: i) in the case of an announcement by both issuers of their mutual intention to merge, the earlier of a) 15 days immediately following the day on which both of the parties have announced their mutual intention to merge and b) the day on which the merger or acquisition is legally finalized, or ii) in the case of an attempt of one of the issuers to acquire the other issuer without the other issuer's consent or agreement, the day on which the acquisition is legally finalized. The same will apply to ABCP and ABS when a merger or acquisition occurs between two ABCP or ABS sponsors or trusts.[←]
3. The Bank would also consider lifting this limit in exceptional circumstances related to liquidity needs associated with the settlement of the same-day U.S./Canadian-dollar cycle for CLS Bank. Requests of this nature would be accepted on a same-day notice basis.[←]
4. Clean-up calls provide the issuer the right to redeem, typically at par, the residual amount of the securities outstanding once the remaining principle balance reaches a low threshold, often 10 per cent of the original amount.[←]
5. The Bank will consider accepting multiple senior tranches from a single ABS program provided it can be established that those tranches have equal rights and under no circumstances are sub-ordinate to any other tranche. Provided it met the Bank's other criteria, the Bank would also consider a previously subordinated tranche where, due to the maturity or removal of a previously outstanding senior tranche, that tranche had become the most senior outstanding.[←]
6. Pledgors will be required to notify the Bank of any material changes to the term ABS or its underlying assets as soon as this information becomes publicly available.[←]
7. Notwithstanding the margin requirements listed, the Bank retains the right to apply additional margins for securities without a reliable market price.[←]
8. An additional 4% will be added to the margin requirements for securities issued by the United States Treasury to account for foreign exchange risk.[←]