

Bank of Canada Announces Term PRA Transaction

Notice - Tuesday, May 27, 2008, 09:30 (ET)



As part of its provision of liquidity in support of the efficient functioning of financial markets, the Bank of Canada announced today that it will enter into a 28-day term purchase and resale agreement (PRA) as follows:

Amount	Transaction and Settlement	Maturity
\$1 billion	29 May 2008	26 June 2008

The list of eligible securities for these transactions is comprised of the following:

- Securities issued by the Government of Canada
- Securities guaranteed by the Government of Canada (this category includes Canada Mortgage Bonds and NHA mortgage-backed securities with a minimum pool size of \$75 million)
- Securities issued or guaranteed by a provincial government
- Bankers' acceptances and bearer deposit notes, having a remaining term to maturity not exceeding one hundred and eighty days

Securities used in the term PRA transactions will be subject to the same margin requirements as those applicable in SLF transactions.

The results of this operation will be announced on the Bank's web site at 10:15 (ET). The total amount of assets acquired on any day through term PRA operations will be announced on the Bank's web site by 16:45 (ET). The assets will also be reported on the Bank of Canada's balance sheet.

This \$1 billion term PRA operation represents a net reduction of \$1 billion in the outstanding amount of term financing provided by the Bank of Canada (the \$2 billion May 1 Term PRA matures on May 29). The decision to reduce the amount of term financing outstanding reflects the general improvement in market conditions since the end of April, including funding conditions out to three months. Indicative measures of bank funding costs (such as the spread between the 3-month CDOR and the expected overnight rate as measured by 3-month overnight index swaps) have fallen markedly and are well below those in a number of other major currencies. The May 15 term PRA results, including the narrow spread between the high and low yields accepted, and the wide range of securities used in the operations, and the continuing low spread between the average yield received and the OIS rate, are consistent with this assessment.

The case for further operations will continue to be reviewed in light of conditions in financial markets.

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