Bank of Canada Announces New Term PRA Facility for Private Sector Instruments

Notice - Monday, February 23, 2009, 08:30 (ET)

As part of its provision of liquidity to support the efficient functioning of the market for private-sector securities, the Bank of Canada announced today a new Term Purchase and Resale Agreement (PRA) Facility for Private Sector Instruments. The new Facility will include eligible corporate bonds and will replace the existing Term Purchase and Resale Agreement (PRA) Facility for Private Sector Money Market Instruments. The proposed structure is detailed in the Terms and Conditions and below.

Eligibility
Eligible PRA Facility for Private Sector Instruments will be transacted with eligible market participants on an indirect basis through primary dealers (PDs). Eligible indirect bidders will consist of institutions which are subject to Federal or Provincial regulation and which can demonstrate significant activity in the Canadian dollar private sector money and/or bond markets.

Eligible Securities
The eligible securities for these transactions will consist of Canadian dollar-denominated:
- 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, including that 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;
- Asset-backed commercial paper 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;
- Corporate bonds with a minimum long-term issuer credit rating of A (low) by DBRS, or A- by S&P, or A3 by Moody’s.

Securities issued or guaranteed by affiliates are not eligible, with the exception of bank-sponsored ABCP which has met the Bank of Canada’s criteria.

Margins
Margins will be the same as those used in existing Term PRA operations.

Bidding Process
Bids from each indirect participant must be submitted through a single PD. All settlement of indirect bidder bids will be undertaken through the PDs submitting those bids.

Bidding Limits
Each participating institution will have a bidding limit of 25 per cent of the auctioned amount. Entities that do not have a strict arm’s-length relationship with one another (i.e. affiliates of the entity) are considered one bidder for the purpose of term PRA operations. The minimum bid amount will be $25 million. The minimum amount of any individual security offered will be $10 million.

Application Process
Eligible counterparties interested in participating in the term PRA Facility for Private Sector Instruments as an indirect bidder will be required to complete an application form and, if the application is accepted, to sign the Bank’s PRA agreement at least two business days prior to the PRA operation in which the counterparty wishes to participate.

Schedule of Operations
The schedule of term PRA operations will be adjusted so that the regular term PRA auctions are conducted on Mondays (Tuesdays currently) and the private sector term PRA operations will be conducted on Tuesdays going forward.

Minimum Bid Rate
The minimum bid rate will be announced prior to each operation, and will be calculated on the basis of a spread over the OIS curve. The spread will be calculated based on the results of the preceding regular term PRA operation, subject to a minimum spread of 25 basis points.

Term to Maturity
The term to maturity may be one or three months, corresponding to the term of the preceding Term PRA operation.

Enquiries and comments can also be directed via email to pspra@bankofcanada.ca.

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2. Definition of affiliated party can be found in the Terms and Conditions.