



# 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. The Bank will seek the views of market participants on this proposal through consultations to be conducted this week. Final details, including the schedule of operations to be conducted up to June 2009, will be announced following the completion of this consultation process.

## Eligibility

The Term PRA Facility for Private Sector Instruments will be transacted with eligible market participants on an indirect basis through primary dealers (PDs) <sup>1</sup>. 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 <sup>2</sup> are not eligible, with the exception of bank-sponsored ABCP which has met the Bank of Canada's criteria.

Margins will be the same as those used in existing Term PRA operations. <sup>3</sup>

Depending on the term to maturity of the operation, participants may have the right to substitute the securities underlying the transaction on specified dates.

Consideration will be given to extending eligible securities for all Bank of Canada Term PRAs to include corporate bonds with a minimum rating of BBB and term Asset-Backed Securities (ABS) in due course.

**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.

A maximum of two bids can be submitted by each participant. Bids must be submitted on a yield basis, to two decimal places, and funds will be allocated in descending order of bid yields.

**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 entities) 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 will be one or three months, corresponding to the term of the preceding Term PRA operation.

The Bank of Canada will continue to provide exceptional liquidity to the Canadian financial system as long as conditions warrant.

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Enquiries and comments can also be directed via email to [pspra@bankofcanada.ca](mailto:pspra@bankofcanada.ca).

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## Footnotes

1. Primary Dealers are listed at  
[https://www.bankofcanada.ca/en/markets/markets\\_auct.html](https://www.bankofcanada.ca/en/markets/markets_auct.html)[\[←\]](#)
2. Definition of affiliated party can be found in the Terms of Participation in Auctions at  
<https://www.bankofcanada.ca/en/auction/aucpa2v2.pdf>[\[←\]](#)
3. Margins limits can be found at:  
<https://www.bankofcanada.ca/en/financial/securities.pdf>[\[←\]](#)