



# Bankers' Acceptance Purchase Facility: Terms and Conditions

March 23, 2020

## Operational details

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- Reverse auction date, purchase amount, reserve rate, settlement date, maturity range of Bankers' Acceptances eligible for purchase and other information will be announced by the Bank of Canada ahead of each operation.
- The purchase amount and reserve rate (minimum yield) for the Bankers' Acceptance Purchase Facility (BAPF) will be based on prevailing market conditions.

## Type of transaction

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- To support the continuous functioning of financial markets, Bankers' Acceptances will be purchased outright by the Bank of Canada through the BAPF.

## Type of auction

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- The purchase of Bankers' Acceptances will be conducted through a multiple-rate competitive reverse auction for a fixed Canadian-dollar par-value amount.

## Term

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- Purchases will consist of Bankers' Acceptances with a term to maturity of up to approximately 3 months. Exact maturities of Bankers' Acceptances eligible for purchase will be confirmed ahead of each operation. At the Bank of Canada's discretion, the maturity of Bankers' Acceptances purchased may be adjusted depending on market conditions.

## Eligible counterparties

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- Canadian primary dealers in Government of Canada securities.
- The Bank of Canada has sole discretion to remove a primary dealer from the list of approved eligible counterparties for the BAPF. The Bank of Canada is also able to cap or limit a counterparty's offer(s) in a reverse auction or otherwise cease purchasing Bankers' Acceptances from that counterparty for any reason.

## Tender process

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- All BAPF transactions will normally be conducted at 8:30 (EST) with a deadline of 9:00 (EST) for participants to submit offers. The Bank of Canada reserves the right to conduct these transactions earlier or later in the day, with an approximate 30-minute offer submission deadline to be set by the Bank of Canada.
- Tenders must be submitted in the Bank provided submission spreadsheet and be sent to [operations@bankofcanada.ca](mailto:operations@bankofcanada.ca). The tender must specify the following:
  - offer rate submitted on a yield basis with up to two decimal places;
  - offer amount on a par-value basis;
  - securities details, including ISIN, issuing financial institution and maturity date; and
  - short-term credit rating of each Bankers Acceptance offered.
- A maximum of ten (10) offers total can be submitted by each participant.
- The reserve rate (minimum yield) is based on the overnight index swap (OIS) rate for the equivalent maturity of the Bankers' Acceptance being purchased plus a spread as determined by the Bank of Canada. The reserve rate may be adjusted to reflect prevailing market conditions. The Bank of Canada will announce the minimum bid rate 30 minutes before the auction deadline.
- Tender amounts are subject to maximum allocation limits. The minimum tender amount is \$10 million, with minimum increments of \$5 million.
- The Bank of Canada reserves the right to accept or reject any or all offers, in whole or in part, including, without limitation, the right to accept less than the total amount specified ahead of the reverse auction.

## Allocation mechanism

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- Tenders with the highest offered rate will be accepted and allocated first. Tenders with successively lower offer rates will continue to be accepted until the auction is completely allocated. The lowest accepted offer rate is the cut-off rate. If the sum of the tender amounts at the cut-off rate exceeds the amount available to allocate, these tenders will be allocated on a pro-rated basis and rounded to the nearest \$1 million.

## Maximum offer limit

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- For each BAPF operation, participants may offer up to a maximum of 25 percent or 12.5 percent of the total purchase amount put forward by the Bank for each transaction.. This limit is based on each institution's annual average market share in the primary, secondary and repo markets for Government of Canada bonds and treasury bills, as determined by the Bank of Canada, and will be reviewed at least annually. No aggregate limit applies to BAPF operations. Dealers will be informed bilaterally of their maximum offer limit (as a percentage) but are responsible for calculating their maximum dollar amount offered for each transaction.

## Timing of results

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- Winning counterparties will be notified by telephone or email following the allotment of the reverse auction. The Bank of Canada will email or fax a confirmation to each winning participant, setting out the specific terms of the transaction.
- Results will be published on the Bank of Canada's website as soon as possible following the auction. The Bank will announce the amount purchased and the weighted average yield of the operation.

## Eligible securities

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- Bankers' Acceptances with a remaining term to maturity of up to 76 Canadian business days from the settlement date of the BAPF operation will be eligible for purchase. The exact maturity range will be provided by the Bank of Canada ahead of each operation.
- Bankers' Acceptances offered must be issued and guaranteed by any Canadian bank and of sufficiently high quality, broadly equivalent to a minimum short-term credit rating of R-1 (low). Eligible Bankers' Acceptances must also be issued in Canadian dollars.
- Bankers' Acceptances issued by Schedule 1, 2 and 3 banks are eligible so long as they meet the minimum credit rating and are issued in Canada and in Canadian dollars.
- Eligible Bankers' Acceptances originated by the offering primary dealer or their affiliates will be eligible for purchase.
- If pledging Bankers' Acceptances originated by non-LVTS members, primary dealers must provide the ISINs and short-term credit ratings one business day prior to the operation for pre-screening.

## Counterparty settlement instructions

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- Bankers' Acceptances shall be delivered to the Bank of Canada by 16:00 (EST) through CDSX on the settlement day of the purchase, on a delivery of securities versus payment of funds basis. Securities to be delivered shall be confirmed with and priced by the Bank of Canada after the auction and prior to delivery.
- The counterparty is to create instructions in CDSX within one hour of delivery of securities.
- The Bank of Canada's CDS settlement customer unit identifier (CUID) is BOCB.
- Settlement of purchases will occur two days after the transaction date (T+2).

## Legal arrangements

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- The Bank of Canada reserves the right to change the terms of subsequent BAPF operations by posting a revised version of these terms and conditions.
- Each tender shall be unconditional and shall be received by the Bank of Canada not later than the time, and on the auction day, announced ahead of the

auction.