



BANK OF CANADA
BANQUE DU CANADA

Core Functions

- **Monetary Policy**
- **Financial System**
 - **Regulatory Oversight of Designated Clearing and Settlement Systems**
 - **Services Provided by the Bank of Canada**
 - **Lender of Last Resort**
 - **The Bank of Canada's Risk-Management Standards for Designated FMIs**
 - **Canada's Major Payment Systems**
 - **Clearing and Settlement Systems**
 - **The Bank's Contributions to the International Financial System**
- **Currency**
- **Funds Management**

Services Provided by the Bank of Canada

Settlement Assets, Liquidity, and Collateral and Settlement-Agent Services

The Bank of Canada provides the following services to certain clearing and settlement systems and their participants:

- **Settlement Assets**

Participants in the **Large Value Transfer System (LVTS)** use **claims** on the Bank of Canada to settle net payment obligations among direct participants. (That is, payments are made from account balances held by the participants at the Bank.) Because Bank of Canada deposits are risk free, this mechanism provides greater safety to participants. Since the Bank of Canada can supply virtually unlimited amounts of these deposits, sufficient balances will always be available for settlement purposes under all circumstances.

- **Standing Liquidity Facility**

The Bank of Canada provides collateralized advances to **direct participants** in the LVTS through its Standing Liquidity Facility. These virtually automatic advances provide participants with access to a reliable backup source of liquidity should they need to fund their end-of-day payment obligations, thus helping them to transfer value efficiently among themselves during the day.

An **LVTs advance** is a secured loan provided by the Bank of Canada to cover a net amount owed by the institution in its end-of-day LVTs position. The interest rate on the one-business-day loan is set at the upper limit of the Bank of Canada's operating band for the overnight interest rate: the Bank Rate.

See also the Bank of Canada's policies governing its activities as **lender of last resort**.

• Collateral Services

The Bank of Canada performs several functions concerning collateral in the LVTs. The LVTs participants pledge their collateral security to the Bank. The Bank establishes the list of asset types acceptable for pledging. The Bank provides the LVTs system operator with valuations of securities when they are pledged as collateral. The Bank has built a specialized computer system (the High-Availability Banking System) to manage and value quickly and accurately the collateral pledged by the participants in the LVTs.

• Settlement-Agent Services

The Bank of Canada provides accounts and acts as settlement agent, or "banker," for the Continuous Linked Settlement (CLS) Bank, Canadian Derivatives Clearing Corporation (CDCC) and CDS Clearing and Depository Services Inc. (CDS) ¹, CLS, CDCC and CDS receive LVTs payments into their accounts at the Bank of Canada from participants that owe money and make LVTs payments to participants entitled to receive money. [More . . .](#)

With the Bank acting as settlement agent, so-called "banker risk" is mitigated for CLS, CDCC, CDS and their participants. Banker risk refers to the possible failure of a private sector institution acting as settlement agent for a clearing and settlement system, which would then expose the system participants and the operator to credit risk. The Bank of Canada incurs no liquidity risk and credit risk is mitigated in carrying out this function because the LVTs is used to make payments, and the Bank will make an LVTs payment only if there is a sufficient balance in the system operator's account to cover the amount of the payment.

Footnotes

1. CLS Bank settles payment instructions for foreign exchange (FX) transactions in seventeen currencies, including the Canadian dollar. CDS owns and operates CDSX, which clears and settles Canadian-dollar-denominated debt, equity and fixed income transactions. Through its clearing system, called the Canadian Derivatives Clearing Service (CDCS), CDCC provides a central counterparty (CCP) service for equity, index and interest rate derivatives and fixed income transactions. [[←](#)]