



Terms and Conditions for the Term Purchase and Resale Agreement (PRA) Facility for Private Sector Instruments

Effective 21 July 2009 to 27 October 2009

Operations details

- Auction date, amount, settlement date, term to maturity, and other information will be announced by the Bank of Canada ahead of each auction.
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Type of auction

- Multiple yield competitive auction for a fixed par Canadian dollar (CAD) amount.
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Eligible counterparties

- Eligible indirect bidders will consist of institutions which can demonstrate significant activity in the Canadian dollar private sector money and/or bond markets and which are subject to Federal or Provincial regulation.
 - Eligible counterparties wishing to participate in the Term PRA Facility for Private Sector Instruments as an indirect bidder will be asked 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.
 - Counterparties are generally expected to continue to fund the majority of their holdings of eligible securities through market sources.
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Affiliated entities

- Entities that do not have a strict arm's-length relationship with one another (i.e., affiliates) are considered one bidder for the purposes of this Term Facility.
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Bidding process

- Each bid must be submitted on a yield basis, to two decimal places.
 - A maximum of two bids can be submitted by each bidder.
 - Bids must be submitted through Canadian Primary Dealers (PDs) to the Bank of Canada via phone and confirmed by PDs in writing.
 - Indirect bidders must submit all their bids through a single PD.
 - The deadline for receiving bids will be announced by the Bank of Canada ahead of the auction.
 - Indirect bidders will be assigned an identification number to use when bidding at auction.
 - No bidder may bid directly or indirectly on behalf of, or in concert with, any other participants.
 - The Bank of Canada reserves the right to accept or reject any or all bids, in whole or in part, including, without limitation, the right to accept less than the total amount specified ahead of the auction.
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Minimum bid rate and amount

- The minimum bid rate will be the target overnight rate plus 25 basis points.
 - The minimum bid amount is \$25 million, with minimum increments of \$5 million.
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Allocation mechanism

- Funds will be allocated in descending order of bid yields. Bids at the highest yield will be accepted first, and subsequently bids at successively lower yields will be accepted until the total amount of funds auctioned have been allocated. Bids at the cut-off yield (minimum accepted yield) will be pro-rated, and rounded to the nearest \$1 million. Bids below the minimum bid rate will not be accepted.
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Maximum allocation

- Each indirect bidder will have a bidding limit of the greater of 25 per cent of the auctioned amount or \$250 million.
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Timing of results

- PDs will be notified of their indirect bidders' winning bids following the allotment.
- Results will be published on the Bank of Canada website as soon as possible following the auction.

- The total amount of assets acquired through each term PRA operation will be announced on the Bank of Canada's website on the settlement day by 16:45 (ET). These transactions will also be reflected on the Bank of Canada's balance sheet.
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Maturity

- The term to maturity will be one or three months.
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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 (ABCP) 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;
- Corporate bonds with long-term issuer credit ratings below A(low) by DBRS, A- by S&P and A3 by Moody's, so long as the minimum long-term issuer credit ratings are at least two of the following: BBB or higher by DBRS, BBB or higher by S&P or Baa2 or higher by Moody's.

Notwithstanding the eligibility criteria listed above, the Bank retains the right of refusal for any security, or for any program from which securities are issued.

The following conditions will be applied to the use as eligible security for all the securities listed above:

- Securities issued by the bidder (or any related party) cannot be used as eligible security by the same bidder, with the exception of Bank-sponsored ABCP meeting the Bank of Canada's criteria. The latter are eligible securities for Term PRAs on a temporary basis;
 - The security must not have an embedded option or carry a right of conversion into equity securities, with the exception of a non-financial feature (i.e. 'Canada Call');
 - The minimum principal amount of any individual security submitted as eligible security must be \$10 million.
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Notification of eligible securities to be used

- PDs must notify the Bank of Canada of the securities that will be offered, to the Bank, under this Term Facility by indirect bidders bidding through them, by the time specified by the Bank of Canada ahead of the auction.
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Substitution

- Substitution will be allowed on a bi-weekly basis. Substitution dates will be announced by the Bank. On substitution date, the participants will have the right to substitute the securities underlying any transaction subject to notice by noon two business days prior to the substitution date and in accordance with the Bank's Purchase and Resale Agreement.
 - In the event that the rating for a specific security used in any Purchase and Resale transaction falls below the minimum required rating level, a substitution will be required the same business day.
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Concentration limit

The following concentration limits will apply for eligible securities:

- At each operation, a single counterparty can offer up to \$100 million, par amount, of any single private sector or related party security. In the case of ABCP, this limit applies to the ABCP sponsored by a single institution;
 - Subject to the above restriction, a participating institution may offer to the Bank no more than 50% of the total size of a specific private-sector bond issue across all Term PRA for Private Sector Instrument operations.
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Margins

Eligible securities in these term PRA transactions will be subject to the same margin requirements as in the Standing Liquidity Facility. See [Margin Requirements](#)

For corporate securities rated "BBB", the following margins will apply (note that, for securities with up to one year to maturity, the margins are adjusted by term divided by 365):

- **Maturity up to 1 year:** 13.0%
 - **Maturity 1-3 years:** 13.5%
 - **Maturity 3-5 years:** 18.0%
 - **Maturity 5-10 years:** 18.5%
 - **Maturity > 10 years:** 25.0%
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Margin calls

- Transactions will be subject to margin calls if the value of the posted eligible securities falls below a threshold acceptable to the Bank of Canada. Margin calls to indirect bidders will be made through the original bidding PD.¹
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Interest calculation

- Interest on the funds will be calculated on an actual/365 day basis.
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Counterparty settlement

- All settlement of allotted indirect bids will be undertaken through the PDs submitting those bids.
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Instructions

- Eligible securities shall be delivered to the Bank of Canada by 3 p.m. (Ottawa time) through CDSX on settlement day of the auction. The eligible securities to be delivered shall be confirmed with and priced by the Bank of Canada after the auction and prior to delivery. A confirmation of the transaction will be provided by the Bank to the PD through which the indirect bid was received.
 - Bank of Canada CDS settlement CUID is BOCB.
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Legal arrangements

- Eligible counterparties must have made the appropriate legal arrangements with the Bank of Canada. Indirect bidders must sign the PRA agreement with the Bank of Canada and provide any additional legal documentation required by the Bank of Canada.
- The Bank of Canada reserves the right to change the terms of any subsequent Term PRA for Private Sector Instruments transaction by posting a revised version of these Terms and Conditions.
- Each bid 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.