

Securities eligible as collateral under the Bank of Canada standing liquidity facility

The Bank of Canada, through its standing liquidity facility (SLF), provides access to liquidity to those institutions that participate directly in the Large Value Transfer System (LVTS) and the Automated Clearing Settlement System (ACSS). Under the provisions of the Bank of Canada Act, the Bank's LVTS advances (commonly referred to as overdraft loans) and ACSS advances are required to be made on a secured basis. The collateral used to secure these advances must be acceptable to the Bank and is valued at market value less an appropriate margin that reflects various risk factors. The list of eligible collateral is comprised of the following:

- Securities issued by the Government of Canada
- Government of Canada stripped coupons and residuals
- Securities guaranteed by the Government of Canada (this category includes Canada Mortgage Bonds and NHA mortgage-backed securities with a minimum pool size of \$75 million)
- Securities issued or guaranteed by a provincial government
- 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 and short-term municipal paper, including those 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
- Corporate, municipal and foreign issuer bonds with a minimum long-term issuer credit rating of A (low) by DBRS or A- by S&P or A3 by Moody's
- Special Deposit Accounts held at the Bank of Canada

The following conditions will be applied to the use of these securities as collateral:

- (i) Only Canadian dollar securities are eligible to be pledged as collateral.
- (ii) Securities used as collateral must be pledged using CDSX of The Canadian Depository for Securities Ltd., or be physically delivered to the Bank of Canada in certificated form.
- (iii) No more than 20 per cent of the value of the collateral pledged by an institution should be the obligation of a single private sector, municipal, foreign issuer or related party. This condition does not apply for borrowings of less than \$50 million.
- (iv) Securities issued by the pledgor of collateral (or any related party) cannot be used as collateral by the pledgor.
- (v) The Bank must be notified 24 hours in advance (with a deadline of 3:00 p.m. Ottawa time) by the borrowing institution the first time it intends to pledge any private sector, municipal or foreign issuer security for use as collateral the next day. At the time of notice the institution must also provide the relevant credit ratings of the security.
- (vi) The security must not have an embedded option or carry a right of conversion into equity securities.

- (vii) A minimum principal amount of \$1 million of an individual security is required.

The following margin requirements will be applied (note that, for securities with up to one year to maturity, the margins are adjusted by term divided by 365):

Collateral Type	Maturity				
	up to 1 year	>1-3 years	>3-5 years	>5-10 years	>10 years
Securities issued by the Government of Canada, including stripped coupons and residuals	1.0%	1.0%	1.5%	2.0%	2.5%
Securities guaranteed by the Government of Canada (including Canada Mortgage Bonds and NHA MBS)	1.5%	2.0%	2.5%	3.0%	3.5%
Securities issued by a provincial government	2.0%	3.0%	3.5%	4.0%	4.5%
Securities guaranteed by a province	3.0%	4.0%	4.5%	5.0%	5.5%
Bankers' acceptances, promissory notes, commercial paper and short-term municipal paper, including those of foreign issuers (rated A-1 (high) by S&P or R-1 (mid) or better by DBRS)	7.5%				
Bankers' acceptances, promissory notes, commercial paper and short-term municipal paper, including those of foreign issuers (rated A-1 (mid) by S&P or R-1 (low) by DBRS or P1 by Moody's)	12.0%				
Corporate, municipal and foreign issuer bonds (AAA rated)	4.0%	4.0%	5.0%	5.5%	6.0%
Corporate, municipal and foreign issuer bonds (AA rated)	7.5%	7.5%	8.5%	9.0%	10.0%
Corporate, municipal and foreign issuer bonds (A rated)	12.0%	12.0%	13.0%	13.5%	15.0%