

Details on Bond Buyback Operations

(Effective 2 April 2012)

This document presents the operational details pertaining to bond buyback operations. Please refer to the Standard Terms of each buyback operation for further information.

The valuation approach for purchasing decisions at buybacks is regularly refined and upgraded to be consistent with best practices and to meet overall program objectives. It incorporates an internally developed zero-coupon curve model, with reference to the swap and treasury bill curves where appropriate. In general, purchasing decisions consider the recent price history of the liquid bonds that are eligible for repurchase.

1. Cash-Management Bond Buybacks (CMBBs)

Objective: The CMBB program helps to manage the government's cash requirements by reducing the high levels of government cash balances needed on key coupon and maturity payments dates. This program also helps to smooth variations in the issuance of treasury bills over the year.

Timing: CMBB operations are held at 11:15 on most Tuesdays. The results page of each CMBB operation will include the date of the next operation. Results are released on a "best-efforts basis," subject to a maximum turnaround time of 10 minutes.

Eligible Bonds:

- Government of Canada bonds with a term to maturity of up to 18 months on those dates where the total amount of maturing bonds is greater than \$8 billion. Once the outstanding amount of bonds maturing on one maturity date falls under \$8 billion, those bonds will no longer be eligible for CMBB operations.

Repurchase Threshold:

- The maximum amount of any single bond that will be repurchased will be the lesser of the amount outstanding or the amount physically held in CDSX, provided by the Canadian Depository for Securities Limited (CDS). This latter limit could apply in cases where the bond has been reconstituted.

2. Bond Buybacks on a Cash Basis

Objective: The bond buyback program on a cash basis aims to enhance market liquidity and maintain new bond issuance at auctions in the primary market for Government of Canada securities by purchasing bonds with a remaining term to maturity of 12 months to 25 years.

Timing: Bond buybacks on a cash basis are typically held on Wednesdays following a nominal bond auction; however, nominal bond auctions do not necessarily have bond buyback operations tied to them. The offering deadline is at 12:20, which is 20 minutes after the bidding deadline for nominal bond auctions. Results are released on a “best-efforts basis,” subject to a maximum turnaround time of 10 minutes.

Eligible Bonds:

- The bond buyback program targets both illiquid high-coupon bonds and certain large, off-the-run issues (including their fungible counterparts).
- Bonds specifically excluded from buybacks include issues that are currently being built as benchmarks in the 2-, 3-, 5-, or 10-year sectors, the current benchmark issues in these sectors, the preceding benchmark issue in the 10-year sector, as well as bonds with maturities greater than or equal to 25 years.
- Bonds included in the basket of eligible bonds for buyback operations in the 30-year sector can also be included in the basket of eligible bonds for buyback operations in the 10-year sector.
- The decision on specific bonds to be included in buyback operations takes into account the views of market participants and is announced at the Call for Tenders.

Repurchase Threshold:

- The maximum amount of any single bond that will be repurchased will be the lesser of the amount outstanding or the amount physically held in CDSX, provided by CDS. This latter limit could apply in cases where the bond has been reconstituted.

3. Bond Buybacks on a Switch Basis

Objective: The program aims to enhance liquidity and maintain new issuance in the primary market for Government of Canada securities by providing market participants with more frequent access to building benchmark bond issues and by reducing participants' market risk at repurchase operations. Bond buyback operations on a switch basis involve the exchange, on a duration neutral basis, of less-liquid bonds with a remaining term to maturity of 12 months to 25 years, for building benchmark bonds.

Timing: Switch operations are usually held at 10:30 on Wednesdays, but can also be conducted on Thursdays when appropriate Wednesdays are not feasible. Results

are released on a “best-efforts basis,” subject to a maximum turnaround time of 10 minutes.

Eligible Bonds:

- The rules pertaining to the list of eligible bonds for buyback operations on a cash basis also apply to buyback operations on a switch basis.

Repurchase Threshold:

- The rules pertaining to the repurchase threshold for buyback operations on a cash basis also apply to buyback operations on a switch basis.