

CANADIAN PAYMENTS ASSOCIATION

LVTS RULE 4

COMMENCEMENT

LVTS Rule 4, December 1998: as amended July 30, 2001, November 19, 2001, October 6, 2003, November 24, 2003, March 29, 2007, December 13, 2010, March 2, 2015, and August 21, 2017.



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COMMENCEMENT

- START OF DAY** 4.1 Each Business Day the Association shall send the “Hello” dialogue to each Participant at the start of initialization.
- INITIALIZATION PARTICIPANT** 4.2 Following receipt of such notice, each Participant and the Association, as applicable, shall complete the following steps prior to 00:15 if processing payment messages at 00:30, but no later than 07:45 hours:
- a. each Participant that is active in the LVTS shall indicate to the Association that it is able to communicate with the LVTS and ready to participate in the LVTS Cycle;
 - b. the Association shall advise all Participants of which Participants have indicated their ability to communicate with the LVTS and readiness to participate in the LVTS Cycle;
 - c. each Participant, except the Bank of Canada, shall set its Tranche 1 Net Debit Cap as well as any Bilateral Credit Limit that it is willing to establish for each of the other Participants. Specifically, Participants must either confirm their standing information (via a *Standing Information Request* query) or make changes for the current cycle (via a *Collateral Request* query and/or *Bilateral Limit Request* query). Any changes to standing information (via a *Standing Collateral Request* query and/or a *Standing Bilateral Limit Request* query) are only effective at the start of the next cycle;
 - d. the Association shall calculate and confirm each Participant’s Maximum ASO and Tranche 2 Net Debit Cap; and
 - e. each Participant, other than the Bank of Canada, shall, if it has not already done so, Pledge Collateral to the Bank of Canada and shall indicate to the Association the apportionment of such Collateral to reflect its Tranche 1 Net Debit Cap and its Maximum ASO. (note: the LVTS will automatically apportion the proper amount of Collateral to cover a Participant’s Maximum ASO).



COMMENCEMENT**INITIALIZATION
BANK OF CANADA**

- 4.3 Following completion of the steps set out in section 4.2, the Bank of Canada and the Association, as applicable, shall complete the following steps prior to 00:30 hours:
- a. the Bank of Canada shall provide to the Association a valuation for the aggregate amount of each Participant's Collateral that has been pledged to the Bank of Canada for LVTS purposes. Valuation by 00:30 hours will be dependent on each Participant's ability to pledge the collateral to the Bank of Canada as soon as possible after 23:00 hours and prior to 00:15 hours;
 - b. the Association shall verify that the value of the Collateral apportioned by a Participant for LVTS purposes does not exceed the value of the Collateral pledged by the Participant to the Bank of Canada for LVTS purposes, as valued by the Bank of Canada; and
 - c. where the value of the Collateral apportioned by a Participant for LVTS purposes would exceed the value of the Collateral pledged by the Participant to the Bank of Canada for LVTS purposes, as valued by the Bank of Canada, the absolute value of the Participant's Tranche 1 Net Debit Cap shall be reduced by an amount equal to such difference. If the absolute value of the Participant's Tranche 1 Net Debit Cap is reduced to zero and the value assigned by the Bank of Canada to the Collateral is less than the Participant's Maximum ASO, the Bilateral Credit Limits established by the Participant shall be reduced such that the Participant's Maximum ASO is not greater than the value assigned to the Collateral by the Bank of Canada.

Example 1 (Apportionment then Valuation)

Assumptions: A's largest bilateral established is \$3 billion, TR1 CAP is \$500 mm and Collateral is then valued by the Bank of Canada at \$500 mm. With a system Wide Percentage of 24% (for the purposes of this example) A's Max ASO would be \$720 mm (3 billion x 24%). As A has only pledged Collateral of value equal to \$500mm, and A's TR1 CAP and Max ASO add up to \$1.22 billion, LVTS will automatically lower A's TR1 CAP to \$0 and lower A's largest bilateral (may require lowering of more than 1 bilateral) to \$2.083 billion (\$2.083 billion x 24% = \$500 mm (value of Collateral pledged)).

In this case the largest bilateral had to be lowered, as lowering the TR1 CAP was not sufficient to ensure that the sum of the TR1 CAP and the Max ASO did not exceed the value of the Collateral pledged.



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INITIALIZATION BANK OF CANADA (continued)

Example 2 (Valuation then Apportionment)

Assume the Collateral of Participant A has been valued by the Bank of Canada at \$700mm. A then attempts to set its TR1 CAP at \$500 mm and the largest Bilateral Credit Limit it tries to establish is \$1 billion. With a System Wide Percentage of 24% (for the purposes of this example) this would require A to collateralize a Max ASO of \$240 mm (\$1 billion x 24%). As A has only pledged Collateral of a value equal to \$700 mm and the TR1 CAP and Max ASO add up to \$740 mm the LVTS will not allow A to confirm its apportionment A must either:

1. reduce its TR1 apportionment; and/or
2. reduce its largest Bilateral Credit Limit; and/or
3. pledge and apportion more Collateral.

SWIFT CBT

- 4.4 Each Participant which is active in the LVTS and has indicated to the Association that it is able to communicate with the LVTS and ready to participate in the then current LVTS Cycle shall ensure at a minimum that its SWIFT CBT connection is open for receiving incoming transactions at 00:30 if processing payment messages at 00:30, but no later than 08:00 hours.

CENTRAL CBT

- 4.5 The Association shall ensure that the LVTS SWIFT CBT Connection is open for receiving and sending of transactions at 00:30 hours. The Association shall send a cycle state change notice over the Direct Network to each Participant that the LVTS cycle state has changed from *Initialization* to *Open for Payment Processing*.

LVTS STATUS REPORT

- 4.6 Once the Participant has responded to the "Hello" dialogue and the LVTS cycle state has been changed from Initialization to Open for Payment Processing, prior to releasing any payments, each Participant shall generate an LVTS Status Report in order to check the status of each other Participant. Participants may release payments only to other active Participants.

