

RULE 3000

CODE OF CONDUCT FOR DEALING IN REPO MARKETS

Introduction

This policy creates a standard set of trading practices that should not only increase the transparency of the Repo markets, but also help promote liquidity and efficiency.

Dealers and inter-dealer brokers should also refer to Rule 2800, Code of Conduct for Trading in Domestic Debt Markets, and specifically the provisions relating to confidentiality of dealings in the domestic debt market with customers and counterparties. Rule 2800 is intended to reinforce the integrity of the secondary markets, covering all domestic debt markets, including repo and security lending.

Definitions

For the purpose of this Rule 3000:

“**Best Efforts**” means a trade where the buyer assumes the risk that the seller will not be able to make the delivery within the time frame requested by the buyer;

“**Forward Repo**” means a trade that settles in a longer time frame than next day settlement;

“**Inter-dealer Broker**” means an organization, whether or not incorporated, that provides information, voice or non-electronic trading and communications services in connection with trading in wholesale financial markets among customers of the organization; and

“**Odd Lot**” means:

- (a) A lot less than \$25 million for overnight and term general collateral; or
- (b) A lot less than \$25 million for specials (terms and overnights).

A. Confidential Nature of Transactions

1. Confidentiality

- (a) It is the responsibility of all dealers and inter-dealer brokers to maintain confidentiality of the names of parties to a trade. Dealers and inter-dealer brokers shall not ask or answer any questions aimed at discovering the identity of any party to a trade, such as any characteristics of the counterparty.
- (b) Despite subparagraph (a), the identity of parties to a trade through an [inter-dealer broker](#) may be disclosed
 - (i) After the trade is completed, and
 - (ii) Only to the counterparties to that trade.
- (c) An [inter-dealer broker](#) may inform a dealer that it does not have a line of credit with the other side before a market is made, provided that no other indication is given as to the identity of the party in question.
- (d) Nothing in this Rule shall be construed as preventing dealers or inter-dealer brokers from asking and/or answering questions aimed at discovering the size of the offer/bid.

2. Name Give-Up

The full names of counterparties shall be disclosed immediately at the time of trade in order to ensure that proper credit procedures are followed.

B. Screen Guidelines

1. Life of Bid

Unless otherwise specified, all bids and offers are good until cancelled, or the end of the business day, whichever comes first.

2. Going “Subject”

At 11:30 a.m. (Toronto time) all cash settlements will go “subject” and the inter-dealer brokers will contact the dealers to renew them.

3. Off-Screen Trading

- (a) Off-screen markets shall be cleared with on-screen accounts.
- (b) All off-screen trades shall be flashed on-screen within 15 minutes of completion of the transaction.
- (c) If an off-screen number is to be shown only to the bid/offer, the account should specify that it is a one-time (“on a call”) show.

4. Open Trades

Upon request, inter-dealer brokers may notify the repo community of repo roll rates.

5. Backing Up Into First Place

- (a) If a market trades at a different rate, then the aggressor is allowed to take priority on-screen provided they match the existing market.
- (b) If the market is topped for a minimum of five minutes and subsequently backed off, without trading, the market maker that topped the bid shall assume market priority.
- (c) If the market is topped for less than five minutes and subsequently backed off, without trading, the original market maker shall maintain priority.

6. Priority of Bids

- (a) Once the market has been established on-screen joining of the bid/offer shall not be permitted.
- (b) The first party to declare as second buyer/seller shall take over a priority once the original buyer/seller has been filled.

7. Minimum Increments

Markets may be topped in a *minimum* of one (1) basis point increments.

8. Interruptions

If one market participant is hitting a bid, a second participant cannot swing in and lift an offer, while the bid is being filled.

9. Declaring Intentions

The aggressor and the market maker shall declare their intentions within five seconds of the time of trade.

10. Board Lots & Trading in Odd Lots

- (a) The need for [odd lot](#) trading before 10:00 a.m. (Toronto time) is recognized, but the handling of this matter is left with the business judgement of each [inter-dealer broker](#).

(b) Inter-dealer brokers may consider the following suggestion in regards to [odd lot](#) trading before 10:00 a.m.:

- (i) If, before 10:00 a.m., there is no market, meaning no bid or no offer, in a particular security, a dealer should be able to show an [odd lot](#) on the screens with the understanding that if a round lot comes in before the [odd lot](#) is traded, the round lot would take precedence over the [odd lot](#) regardless of rate.

11. “Line Full”/“No Line”

(a) When a market is made and “line full” or “no line” flashes on the screen, no trade has taken place and all bids and offers should be renewed by those interested in market making the particular security.

(b) If “no line” is flashed on screen three times, the market is then worked off-screen.

12. “Hit When”/“Lift When” Clear

A market maker who is informed during the clearing time period of being “hit when clear”/“lifted when clear” by a third party should treat that as a valid execution in the event that the market maker is cleared.

13. Screen Notations

(a) Markets incorporating unusual provisions shall be denoted on an [inter-dealer broker](#)’s screen;

(b) Examples of elements that shall be denoted include:

- (i) Non-payment of intervening coupons (NIC),
(ii) Anything other than price plus accrued interest for open and overnight trades,
(iii) Right of substitution, and
(iv) Trades done on a “[best efforts](#)” basis.

14. Items That Should Appear On Separate Lines

Markets with stipulations or ‘all or nothing trades’ should appear on separate lines on an [inter-dealer broker](#)’s screen.

15. Partial Fills

If ‘all or nothing’ is not specified, dealers making markets in amounts greater than the standard board lot shall accept transactions in board lot increments.

16. Monitoring Screen

It is up to the [individual inter-dealer broker](#) to monitor their screen. An [inter-dealer broker](#)’s screen shall clearly state whether they are ‘live’ or ‘subject’. This is especially the case immediately following the release of new economic data.

C. Assumptions as to Manner of Settlement

1. General

(a) Unless the parties to a trade otherwise agree

- (i) All trades, except overnight and open trades, done before 11:30 a.m. (Toronto time) are assumed to be cash trades, and

- (ii) All trades, except overnight and open trades, done after 11:40 a.m. (Toronto time) are assumed to be next day settlement trades.
- (b) Unless the parties to a trade otherwise agree, all overnight and open trades are assumed to be cash trades until the relevant cut-off time.

2. Assumption for “Best Efforts”

- (a) It is assumed that
 - (i) The buyer in a trade done on a “[best efforts](#)” basis before the dealer-to-dealer cut-off time seeks delivery before the close of the dealer-to-dealer cut-off time, and
 - (ii) The buyer in a trade done on a “[best efforts](#)” basis before the dealer-to-customer cut-off time seeks delivery before the close of the dealer-to-customer cut-off time.
- (b) It is generally understood that an [inter-dealer broker](#)’s screen will flash “[best efforts](#)” five minutes and 59 seconds before the relevant cut-off time.

3. All other Trades Done for Regular Settlement

All other trades, including general collateral and mortgage securities term trades, general collateral and mortgage securities overnight trades, and off-the-run specials, settling “regular” shall be priced and descriptions of the collateral shall be given by 9:00 a.m. (Toronto time) of the following morning.

4. Cash Trades Up to 11:00 a.m.

Unless the parties to a trade otherwise agree, all term and overnight trades executed through inter-dealer brokers and settling “cash” done up to and including 11:00 a.m. (Toronto time) shall be priced and a description of the collateral shall be given by 12:00 p.m. (Toronto time).

5. Cash Trades After 11:00 a.m.

- (a) Unless the parties otherwise agree, all term and overnight trades executed through inter-dealer brokers and settling “cash” done by 12:30 p.m. (Toronto time) shall be priced and a description of the collateral shall be given within 30 minutes of the time that the trade is done.
- (b) Subparagraph (a) applies for both the Treasury bill and the bond markets.

6. General Collateral

General collateral consists of Government of Canada [debt](#) that is DCS eligible. Any non-standard conditions should be specified before completing the transaction.

7. Value Dates

All market participants shall adhere to standard day counts, as outlined in the chart below, for all trades, specifically term trades. Any participant that wishes to trade to an odd date must specify at the time the order is given to the [inter-dealer broker](#).

8. Term Contracts

The Standard Day Count chart below provides the number of days in each standard contract. Contracts shall roll over a weekend or statutory holiday. Market participants shall specify prior to dealing if they wish to deal to a different date.

Standard Day Count

Contract	Number of Days
1 month	30
2 month	60
3 month	91
4 month	121
5 month	151
6 month	182
7 month	212
8 month	242
9 month	273
10 month	303
11 month	333
12 month	364

D. Marking to Market

1. Margin Calls

- (a) Unless the parties to a trade otherwise agree, margin calls on all dealer-to-dealer repo transactions shall be met with transfers of collateral and/or cash.
- (b) If the party being marked chooses to meet its margin call with cash, such cash shall not be used to change the economic substance of the trade, but will bear interest at a rate to be determined between the two parties.
- (c) If the party being marked chooses to meet its margin call with collateral, the collateral shall have
 - (i) Characteristics similar to, or better than, the collateral being repoed,
 - (ii) Reasonably acceptable to the counter-party, and
 - (iii) Applied on a reasonable basis
- (d) A maximum of one piece of collateral per one million should be delivered.

2. Notification of Marks

- (a) A party wishing to mark-to-market its counterparties shall do so by 11:30 a.m. (Toronto time).
- (b) The mark-to-market should be done on a net basis rather than marking on an issue specific basis.

3. Periodic Review

Unless the parties to a trade otherwise agree, margins shall be reviewed periodically to determine their appropriateness given the remaining term to maturity.

4. Mechanism for Meeting Margin Calls

Margins maintenance shall be achieved through margin calls. In particular, substitutions should not be the mechanism for margin maintenance.

5. Validation of Pricing

- (a) If a dispute arises between counterparties, current mid-market prices shall be used to determine the mark-to-market price variance.
- (b) Composite prices on an [inter-dealer broker](#)'s screen shall be used to arrive at the mid-market price.

6. Substitution of Margin Collateral

A party wishing to substitute previously pledged margin collateral shall do so by 11:30 a.m. (Toronto time).

E. Confirmations of Forward Repos

1. Timing and Content

- (a) Confirmations shall be sent on forward repos on the day on which the trade takes place.
- (b) In addition to any [applicable](#) regulatory requirements, the confirmation shall specify at a minimum:
 - (i) The money or the par amount, as appropriate,
 - (ii) The start date,
 - (iii) The end date,
 - (iv) The rate of interest,
 - (v) The type of collateral, and
 - (vi) Whether there are any rights of substitution.

2. Confirming Transactions

All forward settlement transactions shall be confirmed on the "Eltra"/DCS system.

F. Obligation to Make Coupon Payment

1. Definition of "All in Price"

A repo seller is entitled to receive the income payment from the repo buyer to the same extent that it would have been entitled to receive income had it not entered into repurchase transactions on the securities.

2. Definition of "Clean Price"

A repo buyer is not obligated to transfer an income payment to the repo seller. The income payment is applied to reduce the amount to be transferred to the repo buyer upon termination of the transaction. This methodology is consistent with the definition found in Section 4 of the Corporation Repurchase/Reverse Repurchase Transaction Agreement. All transactions are priced using the "clean price" method unless otherwise agreed upon before dealing.

G. General Collateral Repo Allocations

The repo market allocates general collateral transactions based on the type of transactions executed. The following describes the allocation methods generally used for cash settlements, forward settlements, and replacement transactions when substitutions occur:

1. Money-Fill Transactions

It is common practise in Canada that all general collateral transactions be completed on a money-fill basis unless otherwise specified.

- (a) Cash – When a transaction is executed on a money-fill basis, the loan or principal amount allocated shall be equal to the loan amount transacted. Collateral allocation on a money-fill basis will be no more than two issues to make \$50 million.
- (b) Forward Settlement – Same as cash.
- (c) Substitutions – Same as cash.

2. Par Transactions

- (a) Cash Settlement – When a transaction is executed on a par basis, the allocated amount shall equal the par amount transacted.
- (b) Forward Settlement – Same as cash settlement.
- (c) Substitutions – When a transaction is executed on a par basis, the replacement transaction shall be done on the basis of the par amount originally transacted.

H. Special Repo Trades

It is current market convention to allocate special repo trades on a par basis.

I. Substitution

1. “Best Efforts”

If collateral has been passed for an overnight or term trade, any substitutions shall be accepted on a “[best efforts](#)” basis only.

2. Specifying Substitution

Unless specified prior to initiation of the transaction, the purchaser is under no obligation to allow substitution of collateral.

3. Timing of Collateral Substitutions

- (a) Unless the parties to a trade otherwise agree, counterparties to trades with rights of substitution shall be notified of the substitution by 10:00 a.m. (Toronto time) and provided with the description of the substituted collateral by 11:00 a.m. (Toronto time).
- (b) If the trade was executed through an [inter-dealer broker](#), the collateral seller is required to notify the executing [inter-dealer broker](#) of the substituted collateral within the time frame defined in subparagraph 3(a).
- (c) The executing [inter-dealer broker](#) is then required to immediately notify the customer of the substituted collateral.

J. Application and Enforcement

- (a) Dealer Members are expected to conduct their business to ensure compliance with this Rule.

- (b) Failure to comply with this Rule may subject a Dealer Member to sanctions pursuant to the enforcement and disciplinary [Rules](#) of the Corporation.

