

CANADIAN PAYMENTS ASSOCIATION

LVTS RULE 1

INTERPRETATIONS

LVTS Rule 1, December 1998: as amended October 2000, July 30, 2001, November 19, 2001, upon CLS becoming operational (September 9, 2002), September 25, 2003, November 27, 2003, June 29, 2004, upon implementation of LVTS v5.0 (December 12, 2005), December 4, 2006; upon implementation of HABS (October 27, 2008), February 1, 2010, March 1, 2010, June 1, 2011, April 8, 2013, January 5, 2015, January 3, 2017 and November 27, 2017.

Board approved date: October 5, 2000
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- AUTHORITY** 1.1 This Rule, and all other rules relating to the LVTS, are made pursuant to CPA By-law No. 7 – Respecting the Large Value Transfer System (LVTS By-law).
- DEFINITIONS** 1.2 In this Rule, and all other rules relating to the LVTS, only the following definitions shall apply unless the context otherwise requires:
- “**ACSS**” means the Automated Clearing Settlement System
- “**Approved Payment Message**” means a Payment Message which has passed all required Risk Control Tests applicable to that Payment Message, as set out in the LVTS By-law;
- “**ASO**” or “**Additional Settlement Obligation**” means, for each Participant, that Participant’s obligation, pursuant to section 58 of the LVTS By-law, to advance funds, in the amount calculated in accordance with the provisions of sections 26 to 29 of the LVTS By-law, to ensure settlement in the event that another Participant is in default as defined in section 56 of the LVTS By-law;
- “**Association**” means the Canadian Payments Association;
- “**Bank Rate**” means the minimum interest rate which the Bank of Canada is prepared to charge in respect of advances, as made public in accordance with the *Bank of Canada Act*;
- “**Bilateral Credit Limit**” means the aggregate value of Tranche 2 Payment Messages that one Participant has indicated, at any time during the LVTS Cycle, it is willing to accept from another Participant in excess of the aggregate value of Tranche 2 Payment Messages sent to that other Participant by the first Participant;
- “**Board**” means the board of directors of the Association;
- “**Branch of Account**” means, in relation to each Payment Message, the branch or office of a financial institution where the amount of the Payment Message is to be made available to the Payee;
- “**Business Day**” means a day designated in these Rules that LVTS is operational;

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“**CBT**” means the (Computer-Based Terminal) hardware and software which provides the protocol, messaging and security interfaces to the SWIFT Network;

“**CDCS**” means the Canadian Derivative Clearing Service;

“**CDS**” means the Canadian Depository for Securities Limited;

“**CDSX**” means the debt clearing service provided by CDS or any successor to that service;

“**CDSX Payment Exchange**” means that period of time during the day (normally between 16:00 hours and 17:00 hours) when Participants in CDSX make and receive payments through the LVTS to and from the Bank of Canada for the account of CDS to settle net payment obligations in the CDSX;

“**CLS**” means the Continuous Linked Settlement foreign exchange system provided by CLSS;

“**CLSB or CLS Bank**” means the Continuous Linked Settlement Bank International, a special purpose bank formed under United States law, which provides settlement for transactions in CLS currencies;

“**CLS Payment Period**” means the LVTS hours of operation during which CLS-related payments are made, normally between 01:00 hours and 08:00 hours as well as between 12:00 hours and 15:15 hours;

“**CLSS**” means the Continuous Linked Settlement Service Ltd., a holding company for CLS Bank;

“**CPA Services Network**” or “**CSN**” means the network managed by the Association that is used by LVTS Participants to access the LVTS Application, and which may be used to transmit proprietary files on a bilateral basis, as agreed to by both parties. All Direct Network traffic is carried over the CSN;

“**Collateral**” means any form of security that is designated by the Bank of Canada, in written communications with the Participants, to be acceptable as security for advances of funds by the Bank of Canada and includes securities of a type designated by the Bank of Canada as acceptable as collateral for advances and funds on deposit with the Bank of Canada;

“**Data Centre**” means the CPU's, premises, hardware, operating systems at that site including contingency or back-up facilities utilized for LVTS purposes;

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“**Direct Network**” means the network over which the Association and the Participants submit queries and commands from their Participant Workstations to the LVTS central system, and over which the response is returned by the LVTS central system;

“**Emergency Committee Guidelines**” means the resource document developed by the Association for use in the event that an emergency situation in connection with the operation of the LVTS arises;

“**Excess Value**” means for each Participant the value of Collateral Pledged to the Bank of Canada for LVTS purposes which has not been apportioned to cover the Participant’s Tranche 1 Net Debit Cap or Maximum ASO;

“**FIN Copy**” means the SWIFT FIN Service which is to be used in Y-Copy mode whereby specific SWIFT formatted messages exchanged within the LVTS Closed User Group are copied to the LVTS and whose delivery to their destination is subject to prior authorization by LVTS;

“**HABS**” means the Bank of Canada’s High Availability Banking System;

“**Jumbo Payment**” means for each Participant a high-value payment in an amount equal to or greater than the LVTS Jumbo Payment Threshold or such larger amount as may be set by the Participant in the Participant Jumbo Payment Threshold;

“**Local Time**” means the time at the place where a Participant’s Principal LVTS Operations in Canada are located;

“**LVTS**” means the funds transfer system owned and operated by the Association by which Participants may electronically exchange payment messages between themselves and in which the receipt by Participants of such payment messages creates payment obligations that are netted on a multilateral net basis, settled on a multilateral net basis directly on the books of the Bank of Canada and supported by collateral pledged to the Bank of Canada as security for any advances to enable Participants to settle their payment obligations arising from the system;

“**LVTS Application**” means the graphical user interface through which LVTS Users login and access the LVTS from their Participant Workstations.

“**LVTS Cash Management Committee**” or “**CMC**” means a representative group of cash managers or relevant equivalents whose duties is focused on cash, liquidity and collateral management topics;

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“LVTS Closed User Group” or “Message User Group” means the SWIFT FIN Copy closed user group being a subset of SWIFT users made up of the Participants and the Association;

“LVTS Cycle” means the period of time beginning with the initialization of the LVTS on a Business Day and ending with the next settlement at the Bank of Canada of all Participants’ Multilateral Net Positions;

“LVTS Emergency Committee” means a representative from CPA’s Payments Services team, a representative from the Bank of Canada, the Cash Management Committee representative from each Participant, and representative(s) from Canadian financial market infrastructures (e.g. CDS), as appropriate;

“LVTS Help Desk” means the team providing first line support to the LVTS Participants and the Association, on a twenty-four (24) hour seven (7) day a week basis, concerning the operation and performance of the LVTS;

“LVTS Jumbo Payment Threshold” means such dollar amount, representing the minimum dollar amount which a Participant may set as its Participant Jumbo Payment Threshold (refer to Rule 2.4);

“LVTS User” means a representative from a Participant whom the Participant has authorized to access the LVTS Application on its behalf.

“LVTS Working Group” or “LWG” means a representative user group of Participants whose duties is focused on the execution of the day-to-day operations of the payments cleared and settled via the LVTS;

“Maximum ASO” means, for each Participant, the largest amount, calculated in accordance with the provisions of section 28 of the LVTS By-law, that the Participant could be required to pay in any single LVTS cycle by reason of its additional settlement obligations;

“Member” means a member of the Association;

“Multilateral Net Position” means, for each Participant, at any time during an LVTS cycle, the value obtained by subtracting (i) the sum of all Approved Payment Messages sent by the Participant to all other Participants during that LVTS cycle, from (ii) the sum of all Approved Payment Messages sent to the Participant from all other Participants during the LVTS cycle;

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“Multilateral Net Tranche 1 Position” means for each Participant, at any time during an LVTS cycle, the value obtained by subtracting (i) the sum of all Approved Payment Messages sent by the Participant to all other Participants as Tranche 1 Payment Messages during that LVTS cycle, from (ii) the sum of all Approved Payment Messages sent to the Participant from all other Participants as Tranche 1 Payment Messages during that LVTS cycle;

“Multilateral Net Tranche 2 Position” means, for each Participant, at any time during an LVTS cycle, the value obtained by subtracting (i) the sum of all Approved Payment Messages sent by the Participant to all other Participants as Tranche 2 Payment Messages during that LVTS cycle, from (ii) the sum of all Approved Payment Messages sent to the Participant from all other Participants as Tranche 2 Payment Messages during that LVTS cycle;

“Operating Band” means the interest rate range set by the Bank of Canada for the overnight rate. The top of the band is the rate charged by the Bank on LVTS advances to financial institutions. The bottom of the band is the rate paid by the Bank on any LVTS balances held overnight by those institutions;

“Operational Risk” means all forms of risk to payments in the LVTS system except credit risk;

“Participant” means the Bank of Canada and each other Member that has been admitted to participate in the LVTS whose status as a Participant has not been revoked in accordance with the provisions of section 15 of the LVTS By-law and that has not withdrawn in accordance with the provisions of section 17 of the LVTS By-law;

“Participant Jumbo Payment Threshold” means an amount, not less than the LVTS Jumbo Payment Threshold, which will be used for determining which of a Participant’s outgoing Payment Messages (i.e. any Payment Message greater than or equal to the threshold) are considered as Jumbo Payments in each queuing option (except “no queuing”) and in the Jumbo Algorithm. If a Participant does not want to use Jumbo Payments in the LVTS queuing option for an LVTS Cycle it may set its Participant Jumbo Payment Threshold at “0” in its Participant Profile which has the effect of setting the threshold at infinity. This will result in no outgoing payments being designated as “Jumbos” for the Participant;

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“Participant Profile” means for each Participant the standing information provided by the Participant to LVTS as set out in Rule 2.5;

“Participant Workstation” means the computing device that meets the minimum requirements set out in the LVTS Service Level Description and is used by an LVTS User to access the LVTS Application over the Direct Network. The Participant Workstation provides the facility for queries, commands and responses for LVTS;

“Payee” means in relation to a Payment Message received by a Receiving Participant, the person, including the Receiving Participant or another financial institution, to whom the amount of the Payment Message is to be paid or credited, whether or not that person is the ultimate beneficiary of the amount of the Payment Message;

“Payment Confirmation Reference Number” or “PCRN” means an alpha-numeric reference number to be assigned by LVTS to each Payment Message upon passing the Risk Control Tests identifying the payment as one that has passed all Risk Control Tests applicable to that payment;

“Payment Message” means an electronic message sent through the LVTS, in the format set out in these Rules, from one Participant to another instructing the Receiving Participant to pay a fixed amount of money to a Payee;

“Payment Message Exchange Period” means such period, referred to in the LVTS By-law, following completion of the initialization period, during which Participants may send through the LVTS both Payment Messages (MT 103 and MT 205) which originate from the payment orders of third parties or the Participants themselves;

“Payment Processing Capabilities” means the ability of a Participant to execute payment instructions as a sender and receiver;

“Payment Processing Centres” means the physical location where Payment Messages are processed and/or handled including the contingency or back-up processing centre;

“Payment Queue” means the Payment Message storage mechanism by which Payment Messages that have been tried against but have not passed the applicable Risk Control Tests may be stored until such time as the Payment Messages are delivered to the Receiving Participants or returned to the Sending Participants in accordance with the provisions of the LVTS By-law and these Rules;

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“Pledge” means a grant to the Bank of Canada of a security interest in Collateral as security for any advances of funds that the Bank of Canada may make for the purposes described in section 30 of the LVTS By-law and includes a grant of a security interest in which the Bank of Canada does not take possession of the Collateral;

“Pre-Settlement” means the inter-participant payment message exchange period which is such period, referred to in the LVTS By-law, following completion of the Payment Message Exchange Period when only Payment Messages which originate with the Participants themselves (MT 205's), rather than with third parties, may be sent through the LVTS;

“President” means the President of the Association or, in the absence or incapacity or incompetence of the President, the person or persons authorized by the Board to perform the duties of the President;

“Principal LVTS Operations” means for each Participant the place in Canada from which the majority of the Participant's LVTS Payment Message volume is sent;

“Qualified LVTS Payment Message” means a Payment Message formatted in accordance with the criteria set out in these Rules;

“Receiving Participant” means a Participant that receives a Payment Message from another Participant;

“Reserved Collateral” means collateral pledged to the Bank of Canada for the sole purpose of collateralizing Type R Payment Messages;

“Risk Control Tests” means such tests as set out in sections 39 and 40 of the LVTS By-law for Tranche 1 Payment Messages and Tranche 2 Payment Messages respectively;

“Sending Participant” means a Participant that sends a Payment Message to another Participant;

“Senior Operational Committee” or “SOC” means a representative group of management personnel whose duties is focused on the day-to-day operations of the clearing and settlement core payment systems (e.g., LVTS);

“Severity 1 Incident” means a Participant's LVTS services are affected in such a way that processing is severely degraded for more than five (5) minutes such that the Participant is unable to send or receive payment messages or the settlement of CLS, ACSS, CDCS, CDSX or LVTS is impacted.

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“Severity 2 Incident” means an unplanned interruption or a reduction in the quality of LVTS services lasting more than five (5) minutes and which prevents a Participant from sending or receiving payment messages at a normal capacity. (e.g., a Participant may be able to continue to process some payments by way of a workaround either manually or by automated means).

“Standing Bilateral Credit Limit” means the Bilateral Credit Limit granted by a Participant to another Participant which will be in effect at the commencement of each LVTS Cycle until the Participant granting the Standing Bilateral Credit Limit changes it. Any increase or decrease in the Standing Bilateral Credit limit shall only take effect at the beginning of the next LVTS Cycle;

“SWIFT” means the Society for Worldwide Interbank Financial Telecommunication;

“Tranche 2 Payment Message” means a Payment Message sent by a Participant that is designated by the Participant to be subject to its Tranche 2 Net Debit Cap and to the Bilateral Credit Limit established for the Sending Participant by the Receiving Participant;

“Type R Payment Message” means a Tranche 1 Payment Message sent by a Participant to the Bank of Canada which is designated by the Participant to be subject to that portion of its Tranche 1 Net Debit Cap collateralized by Reserved Collateral for the sole purpose of making a payment to CDS during CDSX Payment Exchange; and

“Unqualified LVTS Payment Message” means a Payment Message which is not formatted in accordance with the criteria set out in these Rules and which requires manual repair by the Receiving Participant before the amount of the Payment Message can be made available to the Payee.

REFERENCE TO TIME

- 1.3 Where in the LVTS Rules reference is made to the time of day, such time shall be “Eastern Time” (as tracked by the LVTS central system) unless otherwise specifically stated.

INTERPRETATIONS

REFERENCE MATERIAL	1.4	The President may update or otherwise amend reference material contained in the Rules, and such amendments shall come into force as specified by the President.
REVISIONS AND CORRECTIONS OF ERRORS	1.5	The President may alter the numbering, arrangement and format of any Rule; may make such alterations in language and punctuation as are requisite to obtain a uniform mode of expression; and may make such amendments as are necessary to correct clerical, grammatical or typographical errors; and such amendments shall come into force as specified by the President.
INTERPRETATION OF RULES	1.6	<p>The President may, at the request of a Member or on his own initiative, give interpretations concerning the meaning or applicability of Rules.</p> <p>Such interpretations shall be recorded, tabled with the Senior Operational Committee and the Board, and shall be authoritative unless and until altered by the President himself or by the Board.</p>
COMPLIANCE	1.7	All matters relating to compliance shall be dealt with in accordance with the procedures outlined in By-law No. 6 respecting Compliance.
EFFECTIVE DATE	1.8	Unless otherwise requested by the Senior Operational Committee, any given Rule or Rule amendment shall come into force sixty (60) days following approval of the Board.