PAYMENTS CANADA

RULE L3

COLLATERAL

2025 CANADIAN PAYMENTS ASSOCIATION

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IMPLEMENTED

March 12, 2018

Amendments

1. New Rule approved by the Board, November 30, 2017, effective March 12, 2018.
2. Amendment to subsections 4(c) and 7(e) respectively, to reflect change in confidence level from 97% to 99% and in the Business Days for the calculation of the ACSS collateral pool from 255 Business Days to 510 Business Days. Approved by the Board November 29, 2018 and effective February 13, 2019.
3. Amendments to accommodate changes to the Interim Credit Risk Model. Approved by the Board June 18, 2020, effective August 17, 2020.
4. Amendments to calculate the Multiplier from annually to quarterly. Approved by the Board September 21, 2020, effective November 2, 2020.
5. Consequential amendments to accommodate the planned replacement of the LVTS with Lynx and the coordinated usage period for those systems, approved by the Board June 23, 2021, effective August 23, 2021.
6. Amendments to change the methodology to calculate Collateral for a new Direct Clearer, approved by the Board December 2, 2021, effective January 31, 2022.
7. Consequential amendments to accommodate the removal of LVTS, approved by the Board May 13, 2022, effective November 21, 2022.
8. Amendments to clarify the effective date of the quarterly Multiplier and other editorial amendments, approved by the Board March 7, 2024, effective May 6, 2024.
9. Amendments to accommodate the ACSS clean-up exercise, approved by the Board September 18, 2025, effective November 24, 2025.

Introduction

1. This Rule outlines the procedures for pledging Collateral for ACSS purposes.

Scope and Application

2. This Rule applies to the pledging of Collateral for ACSS purposes by Direct Clearers and Group Clearers.

   For greater certainty, where this Rule requires that past Multilateral Net Debit Positions (MNDPs) or other information associated with a Direct Clearer from a given Business Day period be used, and the Direct Clearer was an Indirect Clearer for all or part of that period, the MNDPs or other information from the entire period must be used as though the Direct Clearer had been a Direct Clearer for the entire period.

Definitions

3. In this Rule, unless the context otherwise requires:

   a. "ACSS Collateral Pool" means the aggregate amount of Collateral, as determined in accordance with subsection 4(b)(i) of this Rule and pursuant to s. 34.1(1) of *By-law No. 3 - Payment Items and ACSS*, that is required to be pledged by all Direct Clearers;

   b. "Collateral" means any form of security that is designated by the Bank of Canada, in written communications with Direct Clearers, 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;

   c. "Collateral Pool Pledge" means the amount of Collateral, as determined in accordance with this Rule, that each Direct Clearer is required to continuously pledge to the Bank of Canada and allocate for ACSS purposes in accordance with s. 34.1(2) of *By-Law No. 3 – Payment Items and ACSS*;

   d. "Direct Clearer" means a Member, other than the Bank of Canada, that on its own behalf Exchanges Items and makes entries into the ACSS. For greater certainty, references to Direct Clearers in this Rule include Group Clearers;

   e. "Default" means the default of a Direct Clearer within the meaning of s. 53(1)(a) or (b) of *By-Law No. 3 – Payment Items and ACSS*;

   f. "Multilateral Net Debit Position" or "MNDP" means the Clearing Balance of a Direct Clearer or Indirect Clearer that is in a net owing position, as that Clearing Balance is established by the ACSS in the case of a Direct Clearer or by an Indirect Clearer's Clearing Agent;

   g. "Multiplier" means a factor applied in the ACSS Collateral Pool calculation; and

   h. "Settlement Exchange Transaction" or "SETs" means a transaction Exchanged to deal with the dislocation of Settlement funds between the ACSS and Lynx.

Monthly calculation of collateral

4. a. Procedures for monthly calculation:

   i. on the second Monday of each month, the Association will calculate the amount of the ACSS Collateral Pool and the amount of Collateral Pool Pledge of each Direct Clearer;

   ii. on the Tuesday immediately following its monthly recalculation of the amounts pursuant to paragraph (a)(i), the Association will notify the Bank of Canada of the recalculated amounts and will notify each Direct Clearer of the recalculated amount of the ACSS Collateral Pool and the recalculated amount of the Direct Clearer's Collateral Pool Pledge;

   iii. each Direct Clearer must pledge and allocate to the Bank of Canada Collateral in an amount at least equal to the recalculated amount of its Collateral Pool Pledge by no later than completion of Settlement (in accordance with Rule B1) of the ACSS Cycle on the Wednesday immediately following notification from the Association pursuant to paragraph (b)(ii) of the recalculated amount, or by such later time as may be communicated by the Association to the Direct Clearer;

   iv. in the event that the day on which the amounts of ACSS Collateral Pool and Collateral Pool Pledges are to be recalculated pursuant to paragraph (b)(i), notified pursuant to paragraph (b)(ii) or pledged pursuant to paragraph (b)(iii) falls on a day that is not a Business Day, the Association will adjust the dates of recalculation, notification or pledging accordingly and will notify the Bank of Canada and each Direct Clearer in advance of the adjustment; and

   v. immediately preceding the start of each year, the Association will provide the Bank of Canada and each Direct Clearer with a schedule of the monthly recalculations of the ACSS Collateral Pool and Collateral Pool Pledges for that year.

   b. Calculation of the amount of the ACSS Collateral Pool and the Collateral Pool Pledge of each Direct Clearer pursuant to paragraph (a)(i) must be in accordance with the following methods and formulas:

      i. the ACSS Collateral Pool is equal to the amount of the largest MNDP of any Direct Clearer at the end of any ACSS Cycle during the 510 Business Days immediately preceding the day of calculation, as adjusted to achieve a confidence level of 99% that the amount will be sufficient to cover any single Default of a Direct Clearer multiplied by the Multiplier calculated in accordance with subsection 5(b); and

      ii. a Direct Clearer's Collateral Pool Pledge is equal to the amount of the ACSS Collateral Pool multiplied by the Direct Clearer's average MNDP over the

previous 255 Business Day period, divided by the sum of the average of MNDPs for all Direct Clearers over that period:

Collateral Pool Pledge = $A \times \frac{B}{C}$

where

A = ACSS Collateral Pool

B = Direct Clearer's average MNDP

C = sum of average MNDP of all Direct Clearers

Quarterly Calculation of the Multiplier

5. a. Procedures for quarterly calculation of the Multiplier:

   i. on the first Monday of February, May, August and November, the Association will calculate the Multiplier;

   ii. on the Wednesday following the calculation of the Multiplier the Association will notify the Bank of Canada and each Direct Clearer of the Multiplier;

   iii. on the second Monday of March, June, September and December (the month following the calculation of the Multiplier), the Multiplier will come into effect; and

   iv. the Association may, with the concurrence of the Bank of Canada, recalculate the Multiplier between quarterly calculations.

   b. Calculation of the amount of the Multiplier must be in accordance with the following methods and formulas:

      i. the Multiplier is equal to the maximum value between one and the ratio of the average ACSS Collateral Pool excluding the Settlement Exchange Transactions (SETs) on the average ACSS Collateral Pool including the SETs adjusted to achieve a confidence level of 99% over the last 510 Business Days at the time of calculation:

      Multiplier = Max [1, A / B]

      where

      A = average ACSS Collateral Pool without SETs

      B = average ACSS Collateral Pool with SETs

Recalculation of Collateral upon a Default

6. a. Upon the Default of a Direct Clearer, the Association will recalculate the amount of the Collateral Pool Pledge of each of the remaining Direct Clearers.

b. Upon recalculating the amount of each remaining Direct Clearer's Collateral Pool Pledge pursuant to subsection (a), the Association will notify the Bank of Canada of the recalculated amounts and notify each remaining Direct Clearer of the recalculated amount of the Direct Clearer's Collateral Pool Pledge.

c. Upon receiving notification from the Association pursuant to subsection (b), each remaining Direct Clearer must pledge and allocate such Collateral as may be necessary to make its Collateral Pool Pledge in the recalculated amount, within such time as is stipulated by the Association in the notification.

d. The Association will recalculate the amount of the Collateral Pool Pledge of each remaining Direct Clearer pursuant to subsection (a) in accordance with the following formula:

   i. the amount of the remaining Direct Clearer's Collateral Pool Pledge must be equal to the amount of the ACSS Collateral Pool, multiplied by the average MNDP of the remaining Direct Clearer over the 255 Business Day period immediately preceding the day of the recalculation, divided by the sum of the average of MNDPs of all Direct Clearers, except for the Defaulting Direct Clearer, over that period:

   Collateral Pool Pledge = $A \times \frac{B}{C}$

   where

   A = ACSS Collateral Pool

   B = Direct Clearer's average MNDP

   C = sum of average MNDP of all remaining Direct Clearers

Recalculation of Collateral upon Withdrawal of a Direct Clearer

7. a. If a Direct Clearer has its status as a Direct Clearer revoked or ceases to act as a Direct Clearer pursuant to *By-law No. 3 – Payment Items and ACSS* or Rule D1, the Association will recalculate the amount of the Collateral Pool Pledge of each of the remaining Direct Clearers.

   b. Upon recalculating the amount of each remaining Direct Clearer's Collateral Pool Pledge pursuant to subsection (a), the Association will notify the Bank of Canada of the recalculated amounts and notify each remaining Direct Clearer of the recalculated amount of the Direct Clearer's Collateral Pool Pledge.

   c. Upon receiving notification from the Association pursuant to subsection (b), each remaining Direct Clearer must pledge and allocate such Collateral as may be necessary to make its Collateral Pool Pledge in the recalculated amount, within such time as is stipulated by the Association in the notification.

d. The Association will recalculate the amount of the Collateral Pool Pledge of each remaining Direct Clearer pursuant to subsection (a) in accordance with the following formula:

i. the amount of the remaining Direct Clearer's Collateral Pool Pledge must be equal to the amount of the ACSS Collateral Pool, multiplied by the average MNDP of the remaining Direct Clearer over the 255 Business Day period immediately preceding the day of the recalculation, divided by the sum of the average of MNDPs of all Direct Clearers, except for the withdrawing Direct Clearer, over that period:

Collateral Pool Pledge = $A \times \frac{B}{C}$

where

A = ACSS Collateral Pool

B = Direct Clearer's average MNDP

C = sum of average MNDP of all remaining Direct Clearers

Calculation and Recalculation of Collateral upon Appointment of a New Direct Clearer

8. a. Upon the appointment as a new Direct Clearer pursuant to section 26 or subsection 29(1) of *By-law No. 3 – Payment Items and ACSS*, of a Member that was previously an Indirect Clearer, the Association:

i. will calculate the amount of the Collateral Pool Pledge of the new Direct Clearer in accordance with the following formula:

the new Direct Clearer's Collateral Pool Pledge is equal to the amount of the ACSS Collateral Pool multiplied by the new Direct Clearer's average MNDP over the 255 Business Day period immediately preceding the day of calculation, divided by the sum of the average of MNDPs for all Direct Clearers over that period:

Collateral Pool Pledge = $A \times \frac{B}{C}$

where

A = ACSS Collateral Pool

B = new Direct Clearer's average MNDP as an Indirect Clearer

C = sum of average MNDP of all Direct Clearers;

and

ii. may, at its discretion, recalculate the amount of the ACSS Collateral Pool and the Collateral Pool Pledge of each of the other Direct Clearers, using the formulas and methods pursuant to subsection 6(d).

b. Upon the appointment as a new Direct Clearer pursuant to section 26 or subsection 29(1) of *By-law No. 3 – Payment Items and ACSS*, of a Member that was not previously an Indirect Clearer, the Association:

   i. will calculate the amount of the Collateral Pool Pledge of the new Direct Clearer; and

   ii. may, at its discretion, recalculate the amount of the ACSS Collateral Pool and the Collateral Pool Pledge of each of the other Direct Clearers;

   using such formulas and methods as it reasonably deems to be appropriate in the circumstances subject to consultation with the Bank of Canada.

c. Upon calculating the amount of the Collateral Pool Pledge of a new Direct Clearer pursuant to paragraphs (a)(i), (b)(i) or (g), the Association will notify the new Direct Clearer and the Bank of Canada of the required amount of Collateral Pool Pledge and the new Direct Clearer must pledge and allocate the required amount within such time as is stipulated by the Association in the notification.

d. Upon recalculating the amount of Collateral Pool Pledge to be made by another Direct Clearer pursuant to paragraphs (a)(ii), (b)(ii) or (h), the Association will notify the other Direct Clearer and the Bank of Canada of the recalculated amount of the Direct Clearer's Collateral Pool Pledge and the Direct Clearer must pledge and allocate the recalculated amount within such time as is stipulated by the Association in the notification.

e. In order to facilitate the Association's calculation of a new Direct Clearer's Collateral Pool Pledge pursuant to paragraph (a)(i), a Member that applies to the Board to become a Direct Clearer must, as part of the application procedures set out in sections 4 and 5 of Rule D1, provide the Association with such information as the Association may require regarding the Clearing Balances of the Member with its Clearing Agents over the 510 Business Day period immediately preceding the day of the calculation.

f. Subject to subsection (g) and despite the requirement at section 4 that the Collateral Pool Pledge of a Direct Clearer be recalculated on a monthly basis, such monthly recalculation of the Collateral Pool Pledge of a new Direct Clearer that was not previously an Indirect Clearer must begin on the first monthly recalculation date that follows 255 Business Days of ACSS participation by that new Direct Clearer.

g. Despite anything in this Rule, at the discretion of the Association and in consultation with the Bank of Canada, the Association may, at any point during the first 255 Business Days of ACSS participation by a new Direct Clearer that was not previously an Indirect Clearer, recalculate the Collateral Pool Pledge of the new Direct Clearer using such formulas and methods as the Association reasonably deems to be appropriate in the circumstances (for example using actual Clearing Balances of the new Direct Clearer).

h. Where the Association has opted to recalculate the Collateral Pool Pledge of a new Direct Clearer in accordance with subsection (g), the Association may also

recalculate the ACSS Collateral Pool and the Collateral Pool Pledge of each other Direct Clearer, in accordance with the formulas and methods set out in subsection 4(b).

Valuation of Collateral

9. All Collateral pledged by Direct Clearers pursuant to this Rule and *By-law No. 3 – Payment Items and ACSS* is subject to valuation by the Bank of Canada. All references to amounts of Collateral in this Rule and *By-law No. 3 – Payment Items and ACSS*, are to the value of the Collateral as determined by the Bank of Canada.

10. a. If, on valuation by the Bank of Canada of the Collateral pledged by a Direct Clearer, the value assigned, which includes appropriate margin requirements, by the Bank of Canada to that Collateral pledged is less than the amount that is required to be pledged, the Bank of Canada will notify the Direct Clearer of the shortfall in accordance with the terms and conditions of the agreements between the Direct Clearer and the Bank.

    b. Where a Direct Clearer receives a notification under subsection (a) the Direct Clearer must pledge and allocate additional Collateral to meet the Collateral Pool Pledge amount as soon as possible and no later than the completion of Settlement (in accordance with Rule B1) of the ACSS Cycle that ends on the day the Collateral shortfall occurs, unless otherwise notified by the Association.