

CANADIAN PAYMENTS ASSOCIATION

LVTS RULE 10

FINALITY AND RETURN

LVTS Rule 10, December 1998: as amended October 2000, November 19, 2001, November 25, 2002, March 31, 2003, September 7, 2004, January 26, 2009, August 16, 2010, December 13, 2010, July 6, 2011, January 1, 2012, January 28, 2013, August 12, 2013, March 2, 2015, November 22, 2016, January 1, 2017 and September 28, 2019.

FINALITY AND RETURN

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FINALITY AND RETURN

BRANCH OF ACCOUNT

- 10.1 For the purposes of paragraph 44(1)(a) of the LVTS By-law the amount of time prior to the close of business of the Branch of Account for the then current Business Day as contemplated by that paragraph is three (3) hours.

Note: As a general rule the LVTS By-law requires in section 43 that the amount of any LVTS payment received be made available to the Payee before the end of the then current LVTS Cycle. By designating three (3) hours as the applicable time period for the purposes of paragraph 44(1)(a) of the LVTS By-law the following exception applies to this “general rule.”

Where in the Receiving Participant’s relationship with the Payee at the time the funds are to be made available, action is normally taken by the Branch of Account in order for the funds to be made available to the Payee and the Payment Message is received by the Participant within three (3) hours prior to the close of business of the Branch of Account for the then current Business Day, the Receiving Participant may make the amount of the Payment Message finally and irrevocably available to the Payee after the end of the then current LVTS Cycle, but in any event shall make the amount of the Payment Message available not later than the beginning of the next day that the Branch of Account is opened for the purpose of making such funds available or as soon after such time as is reasonably practical.

(A similar exception applies when the Branch of Account is closed on the day the Payment Message is received by the Receiving Participant.)

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Example (1):

- *Bank A receives an LVTS payment at 14:30 hours.*
- *In Bank A's relationship with the Payee at the time the funds are available, action is normally taken by the Branch of Account in order for the funds to be made available to the Payee.*
- *The Branch of Account closes at 15:00 hours.*
- *Notwithstanding the general rule of same-day availability, Bank A may make the amount of the Payment Message finally and irrevocably available to the Payee after the end of the then current LVTS Cycle but in any event not later than the beginning of the next day that the Branch of Account is opened for the purpose of making such funds available or as soon after such time as is reasonably practicable.*

Example (2):

- *Bank A receives an LVTS payment at 11:30 hours.*
- *In Bank A's relationship with the Payee at the time the funds are to be made available, action is normally taken by the Branch of Account in order for the funds to be made available to the Payee.*
- *The Branch of Account closes at 15:00 hours.*
- *The general rule of same-day availability applies and Bank A must make the amount of the payment available to the Payee before the end of the then current LVTS Cycle.*

END OF CYCLE

10.2 For the purposes of paragraph 44(1)(b) of the LVTS By-law the time as contemplated by that paragraph is the earlier of 17:00 hours or two and one half (2.5) hours prior to the end of the then current LVTS Cycle.

Note: *As a general rule the LVTS By-law requires in section 43 that the amount of any LVTS payment received be made available to the Payee before the end of the then current LVTS Cycle. By designating two and one-half (2.5) hours as the applicable time period for the purposes of paragraph 44(1)(b) of the LVTS By-law the following exception applies to this "general rule."*

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Where the Payment Message has been received by the Receiving Participant after the earlier of 17:00 hours or two and one-half (2.5) hours prior to the end of the then current LVTS Cycle the Receiving Participant may make the amount of the Payment Message finally and irrevocably available to the Payee after the end of the then current LVTS Cycle but in any event shall make the amount of the Payment Message available not later than the beginning of the next Business Day.

Example (1):

- *Bank A receives an LVTS payment at 17:30 hours.*
- *The Payment Message was not received prior to 17:00 hours.*
- *Notwithstanding the general rule of same-day availability, Bank A may make the amount of the Payment Message finally and irrevocably available to the Payee after the end of the then current LVTS Cycle but in any event not later than the beginning of the next Business Day.*

Example (2):

- *Bank A receives an LVTS payment at 16:45 hours.*
- *Settlement of all Participants' Multilateral Net Positions is completed by the Bank of Canada by 19:00 hours, therefore this particular LVTS Cycle ends at that time.*
- *The Payment Message was not received at least two and one-half (2.5) hours prior to the end of the then current LVTS Cycle.*
- *Notwithstanding the general rule of same-day availability, Bank A may make the amount of the Payment Message finally and irrevocably available to the Payee after the end of the then current LVTS Cycle but in any event not later than the beginning of the next Business Day.*

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FOREIGN CURRENCY ACCOUNT

10.3 Where a Receiving Participant receives a Payment Message which identifies the Payee by a foreign currency (non-CDN \$) account number and/or by name, this may be considered by the Receiving Participant as an “error” in the Payment Message. The Receiving Participant may return the amount of any such Payment Message to the Sending Participant, stating that an error in the Payment Message has been made (foreign currency account number cited) or the Receiving Participant may otherwise make the amount of the Payment Message irrevocably available to the Payee.

RETURN OF PAYMENT MESSAGE

10.4 Where pursuant to the provisions of sections 46 or 47 of the LVTS By-law a Receiving Participant (in sections 10.4 to 10.8 of this Rule the “Returning Participant”) elects or is required to return the amount of a Payment Message (in sections 10.4 to 10.8 the “Original Payment Message”) to the Sending Participant (in this section the “Original Sending Participant”) the following procedures shall be followed:

- a. the Returning Participant shall, where the amount of the Payment Message is greater than twenty-five million dollars (\$25,000,000.00), notify by telephone the Original Sending Participant of its intention to return the amount of a Payment Message;
- b. the amount of the Original Payment Message shall be returned by way of a new LVTS Payment Message, using S.W.I.F.T. MT 205 or MT 103 Payment Reject/Return, stipulating in field :72: the reason for return including the transaction reference number, (in sections 10.4 to 10.8 of this Rule the “Returning Payment Message”) as soon as practicable after the decision to return the amount of the Original Payment Message has been made and, subject to section 10.5 and 10.6 in any event no later than the start of Pre-Settlement; and
- c. subject to section 10.5, the Returning Payment Message shall carry the same Tranche designation as the Original Payment Message if, at the time the Returning Payment Message is sent, the Returning Payment Message would pass all required Risk Control Tests applicable to that Returning Payment Message.

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FAILURE TO PASS RISK CONTROLS

- 10.5 If at the time the Returning Payment Message is to be sent, the Returning Payment Message would not pass all required Risk Control Tests applicable to that Returning Payment Message the following procedure shall apply:
- a. if the Returning Payment Message was to be designated as a Tranche 1 Payment Message the Returning Participant may return the amount of the Payment Message using Tranche 2, or increase its Tranche 1 Net Debit Cap in accordance with the provisions set out in the LVTS By-law by an amount sufficient to permit the Returning Payment Message to pass the required Risk Control Tests; and
 - b. if the Returning Payment Message was to be designated as a Tranche 2 Payment Message or if the Returning Payment Message is designated as a Tranche 2 Payment Message as a result of its failure to pass the required Risk Control Tests for Tranche 1 as permitted by paragraph 10.5a, the Original Sending Participant may increase the Bilateral Credit Limit it has imposed on the Returning Participant, and Pledge any additional Collateral required to cover any increase in its Maximum ASO, by an amount sufficient to permit the Returning Payment Message to pass the required Risk Control Tests.

LATE PAYMENT

- 10.6 If the Original Payment Message is received after 16:00 hours and pursuant to the provisions of sections 46 or 47 of the LVTS By-law the Returning Participant is required or elects to return the amount of the Original Payment Message to the Original Sending Participant, the Returning Participant shall use its best efforts to return the amount of the Original Payment Message to the Original Sending Participant prior to the start of Pre-Settlement failing which the Returning Participant shall return the amount of the Original Payment Message by Payment Message (MT 205 or MT 103 Payment Reject/Return) no later than two (2) hours after the commencement of the next LVTS Cycle, subject to the appropriate interest compensation.

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- CONTRARY AGREEMENT** 10.7 The procedures set forth in section 10.4 to 10.6 are subject to any agreement to the contrary by the Original Sending Participant and the Returning Participant regarding the return of the amount of the Original Payment Message. Notwithstanding the above, where the Bank of Canada is the Returning Participant, the Returning Payment Message may be designated as a Tranche 1 Payment Message or a Tranche 2 Payment Message regardless of the Tranche designation of the Original Payment Message.
- RETURN AT REQUEST OF SENDING PARTICIPANT** 10.8 A Sending Participant may request that a Receiving Participant return the amount of a Payment Message because of an error, in accordance with section 46 of the LVTS By-law, made by the Sending Participant. Upon receipt of such a request, if the Receiving Participant has not yet made the amount of the Payment Message available to the payee, the Receiving Participant may return the amount of the Payment Message to the Sending Participant. The Receiving Participant may request from the Sending Participant an indemnity in a form acceptable to the Receiving Participant to be received via S.W.I.F.T. (examples of which are set out in Appendix I). This form is optional and the Sending Participant and Receiving Participant may agree upon any indemnity that is acceptable to them.
- DUPLICATE MESSAGES** 10.9 The LVTS will reject any Payment Message which S.W.I.F.T. has indicated is a possible duplicate message (PDM) or a possible duplicate emission (PDE) and provide the Sending Participant with the appropriate notification by way of a S.W.I.F.T. MT 019. The S.W.I.F.T. MT 019 will indicate the reason for rejection as being PDM or PDE.
- PROPER ACCOUNT NUMBER** 10.10 For the purpose of the provisions of section 49 of the LVTS By-law, the account number format may include a transit number (may be alpha-numeric in field :57:), branch number or client number where appropriate. For examples, without limitations, see Appendix II.

(Note: Once a Payment Message has been made finally and irrevocable available to a payee, the Sending Participant or indicated payor may rely upon the provisions of section 51 of the LVTS By-law [Rights of Recourse] if an error has occurred.)

FINALITY AND RETURN

PROPER
ACCOUNT
NUMBER (cont'd)

Section 49 of the LVTS By-law is as follows:

Misdirection of Payee

49(1) *If a payment message received by a receiving participant specifies an account number, in the form that may be set out in the rules, in identifying the payee to whom the amount of the payment message is to be made available, the receiving participant may rely in that account number in making the amount of the payment message available.*

(2) *If the receiving participant makes the amount of the payment message available to the payee by relying on the account number, the receiving participant has satisfied its obligations to the payee under sections 43 to 48 and 50 even if the account number identifies a person different from the person identified by name in the payment message, provided that, where an individual acting on behalf of the receiving participant is directly involved in making the amount of a payment message available to the payee, that individual has no knowledge, prior to the amount of the payment message being made available to the payee, that the account number identifies a person different from the person identified by name.*

(3) *If the individual referred to in subsection (2) has the prior knowledge referred to in that subsection, the receiving participant is, in accordance with section 46, relieved of its obligations set out in section 43(1) to (3).*

(4) *The receiving participant has no duty to detect any such inconsistency in identification even when it does not rely on an individual in making the amount of a payment message available to a payee.*

FINALITY AND RETURN

FORM OF INDEMNITY

**Indemnity Agreement¹ with respect to
Request to Return the Amount of an LVTS Payment Message**

MT 198 OR 298

20: _____ (INSERT FIELD 20: REF # FROM MT 103 OR 205)
12: SUB-MESSAGE TYPE _____

77E: RECEIVED PART: _____ TEL: _____
CONFIRMATION OF TELEPHONE REQUEST AND AGREEMENT TO INDEMNITY
PAYMENT: _____ CAD \$ _____ DATE _____
REF-TRN _____ PCRN _____
PAYEE: _____ ORDERING CUSTOMER: _____

WE REQUEST THAT THE CAPTIONED PAYMENT BE RETURNED TO US AS A RESULT OF (ERROR DESCRIPTION - REASON): _____

FUNDS SHOULD BE RETURNED VIA MT 205 WITH OURSELVES AS PAYEE (NAME OF REQUESTING INSTITUTION). IN CONSIDERATION OF XXX (INSTITUTION "A") RETURNING THE PAYMENT MESSAGE, XXX (INSTITUTION "B") COVENANTS AND AGREES:

1. TO SAVE HARMLESS AND INDEMNIFY A, ITS SUCCESSORS AND ASSIGNS, FROM AND AGAINST ANY LIABILITY WHICH A MAY INCUR IN CONNECTION WITH ITS RETURN OF THE PAYMENT MESSAGE TO B (EXCEPTING ALWAYS ANY LIABILITY FOR A RETURN OF THE PAYMENT MESSAGE THAT IS NOT IN ACCORDANCE WITH THE LVTS BY-LAW), PROVIDED THAT B SHALL NOT BE LIABLE TO PAY ANY AMOUNTS WHICH EXCEED THAT TOTAL AMOUNT PAID BY A TO B, PLUS ANY COSTS OR EXPENSES INCURRED BY A IN DEFENDING, COMPROMISING OR OTHERWISE DEALING WITH ANY CLAIM WITH RESPECT TO THE RETURNED PAYMENT MESSAGE.

2. THIS INDEMNITY AGREEMENT IS SUBJECT TO THE FOLLOWING TERMS AND CONDITIONS:

A) A WILL NOTIFY B IN WRITING OF ANY CLAIM BEING ASSERTED BY ANYONE IN RESPECT OF THE RETURNED PAYMENT MESSAGE, WITHIN FIVE BUSINESS DAYS OR RECEIPT BY A OF ANY SUCH CLAIM OR NOTICE OF CLAIM.

B) A SHALL NOT PAY ANY AMOUNT TO ANY CLAIMANT IN RESPECT OF SUCH CLAIM AND SHALL NOT COMPROMISE DEAL WITH SUCH CLAIM WITHOUT FIRST OBTAINING THE PRIOR WRITTEN APPROVAL OF B.

C) B SHALL HAVE THE RIGHT TO TAKE SUCH ACTION, INCLUDING THE DEFENSE OF ANY ACTION INSTITUTED BY ANYONE WITH RESPECT TO THE RETURNED PAYMENT MESSAGE, AS IT MAY DEEM APPROPRIATE, AT ITS OWN COST AND EXPENSE.

FOR ANY FURTHER CORRESPONDENCE ON THIS MATTER, CONTACT _____.

QUOTING OUR REFERENCE _____.

NAME: _____ TEL: _____

TITLE: _____

¹ To be sent using S.W.I.F.T. message MT 198 (re: MT 103) or MT 298 (re: MT 205)

FINALITY AND RETURN

FORM OF INDEMNITY

MT 198

20: _____ (INSERT FIELD 20: REF # FROM MT 103)
12: SUB-MESSAGE TYPE 103

{1:F01FINACA22ATOR00010000016}{2:| 103 FINBCA22AMTLN}{3:{103:CAD}{108:2}}

77E: RECEIVING PART: _____ TEL: _____
CONFIRMATION OF TELEPHONE REQUEST AND AGREEMENT TO IDEMNITY
PAYMENT: _____ CAD \$ _____ DATE _____
REF-TRN _____ PCRN _____
PAYEE: _____ ORDERING CUSTOMER: _____
WE REQUEST THAT THE CAPTIONED PAYMENT BE RETURNED TO US AS A RESULT OF (ERROR
DESCRIPTION - REASON): _____
FUNDS SHOULD BE RETURNED VIA MT 205 WITH OURSELVES AS PAYEE (NAME OF REQUESTING
INSTITUTION). IN CONSIDERATION OF XXX (INSTITUTION NAME "A") RETURNING THE PAYMENT
MESSAGE, XXX (INSTITUTION "B") COVENANTS AND AGREES:
1. TO SAVE HARMLESS AND INDEMNIFY A, ITS SUCCESSORS AND ASSIGNS, FROM AND
AGAINST ANY LIABILITY WHICH A MAY INCUR IN CONNECTION WITH ITS RETURN OF THE
PAYMENT MESSAGE TO B (EXCEPTING ALWAYS ANY LIABILITY FOR A RETURN OF THE PAYMENT
MESSAGE THAT IS NOT IN ACCORDANCE WITH THE LVTS BY-LAW), PROVIDED THAT B SHALL NOT
BE LIABLE TO PAY ANY AMOUNTS WHICH EXCEED THAT TOTAL AMOUNT PAID BY A TO B, PLUS
ANY COSTS OR EXPENSES INCURRED BY A IN DEFENDING, COMPROMISING OR OTHERWISE
DEALING WITH ANY CLAIM WITH RESPECT TO THE RETURNED PAYMENT MESSAGE.
2. THIS INDEMNITY AGREEMENT IS SUBJECT TO THE FOLLOWING TERMS AND CONDITIONS:
A) A WILL NOTIFY B IN WRITING OF ANY CLAIM BEING ASSERTED BY ANYONE IN RESPECT
OF THE RETURNED PAYMENT MESSAGE, WITHIN FIVE BUSINESS DAYS OR RECEIPT BY A OF ANY
SUCH CLAIM OR NOTICE OF CLAIM.
B) A SHALL NOT PAY ANY AMOUNT TO ANY CLAIMANT IN RESPECT OF SUCH CLAIM AND
SHALL NOT COMPROMISE DEAL WITH SUCH CLAIM WITHOUT FIRST OBTAINING THE PRIOR
WRITTEN APPROVAL OF B.
C) B SHALL HAVE THE RIGHT TO TAKE SUCH ACTION, INLCUDING THE DEFENSE OF ANY
ACTION INSTITUTED BY ANYONE WITH RESPECT TO THE RETURNED PAYMENT MESSAGE, AS IT
MAY DEEM APPROPRIATE, AT ITS OWN COST AND EXPENSE.
FOR ANY FURTHER CORRESPONDENCE ON THIS MATTER, CONTACT _____,
QUOTING OUR REFERENCE _____.
NAME: _____ TEL: _____
TITLE: _____

**FINALITY AND RETURN
FORM OF INDEMNITY**

MT 298

20: _____ (INSERT FIELD 20: REF # FROM MT 205)
12: SUB-MESSAGE TYPE 205

{1:F01FINACA22ATOR00010000016}{2: | 205FINBCA22AMTLN}{3:{103:CAD}{108:2}}
:20:
:32A:
:52A:
:57A: OR :57D:
:58A: OR :58D:
:72:
-} {5:{CHK:9B3E416E5733}}

77E: RECEIVING PART: _____ TEL: _____
CONFIRMATION OF TELEPHONE REQUEST AND AGREEMENT TO INDEMNITY
PAYMENT: _____ CAD \$ _____ DATE _____
REF-TRN _____ PCRN _____
PAYEE: _____ ORDERING CUSOMTER: _____
WE REQUEST THAT THE CAPTIONED PAYMENT BE RETURNED TO US AS A RESULT OF (ERROR
DESCRIPTION - REASON): _____
FUNDS SHOULD BE RETURNED VIA MT 205 WITH OURSELVES AS PAYEE (NAME OF REQUESTING
INSTITUTION). IN CONSIDERATION OF XXX (INSTITUTION NAME "A") RETURNING THE PAYMENT
MESSAGE, XXX (INSTITUTION "B") COVENANTS AND AGREES:
1. TO SAVE HARMLESS AND INDEMNIFY A, ITS SUCCESSORS AND ASSIGNS, FROM AND
AGAINST ANY LIABILITY WHICH A MAY INCUR IN CONNECTION WITH ITS RETURN OF THE
PAYMENT MESSAGE TO B (EXCEPTING ALWAYS ANY LIABILITY FOR A RETURN OF THE PAYMENT
MESSAGE THAT IS NOT IN ACCORDANCE WITH THE LVTS BY-LAW), PROVIDED THAT B SHALL NOT
BE LIABLE TO PAY ANY AMOUNTS WHICH EXCEED THAT TOTAL AMOUNT PAID BY A TO B, PLUS
ANY COSTS OR EXPENSES INCURRED BY A IN DEFENDING, COMPROMISING OR OTHERWISE
DEALING WITH ANY CLAIM WITH RESPECT TO THE RETURNED PAYMENT MESSAGE.
2. THIS INDEMNITY AGREEMENT IS SUBJECT TO THE FOLLOWING TERMS AND CONDITIONS:
A) A WILL NOTIFY B IN WRITING OF ANY CLAIM BEING ASSERTED BY ANYONE IN RESPECT
OF THE RETURNED PAYMENT MESSAGE, WITHIN FIVE BUSINESS DAYS OR RECEIPT BY A OF ANY
SUCH CLAIM OR NOTICE OF CLAIM.
B) A SHALL NOT PAY ANY AMOUNT TO ANY CLAIMANT IN RESPECT OF SUCH CLAIM AND
SHALL NOT COMPROMISE DEAL WITH SUCH CLAIM WITHOUT FIRST OBTAINING THE PRIOR
WRITTEN APPROVAL OF B.
C) B SHALL HAVE THE RIGHT TO TAKE SUCH ACTION, INCLUDING THE DEFENSE OF ANY
ACTION INSTITUTED BY ANYONE WITH RESPECT TO THE RETURNED PAYMENT MESSAGE, AS IT
MAY DEEM APPROPRIATE, AT ITS OWN COST AND EXPENSE.
FOR FURTHER CORRESPONDENCE ON THIS MATTER, CONTACT _____,
QUOTING OUR REFERENCE _____.
NAME: _____ TEL: _____
TITLE: _____

FINALITY AND RETURN
EXAMPLES OF ACCOUNT NUMBER FORMATS

Participant	Account Number Format - MT 103	Account Number Format - MT 205
Alberta Treasury Branches	14 digits: TTTTT AAAAAAAAA	same
Bank of America (National Association)	8 digits: AAAAAAAAA	same
Bank of Canada	8 digits: CCCCC-AAAA or CCCC AAA	same
Bank of Montreal	11 digits: TTTTAAAAAAAA; or - full BMO address in field :57d: & 7 digit payee acc't # in field :59:	11 digits: TTTTAAAAAAAA in field :58a:
Bank of Nova Scotia	12 digits: TTTTTAAAAAAAA	7 digits AAAAAAA
Banque Laurentienne	18 digits: BBBTTTTTAAAAAAAAA	same
BNP Paribas (Canada)	12 digits: AAAAAAAAAAAAA	same
Banque Nationale du Canada	7 digits: AA-AAA-AA	17 digits: AAAAAAAAAAAAAAAAA
Fédération des caisses Desjardins du Québec	17 digits: BBBTTTTTAAAAAAAAA	18 digits: AAAAAAAAAAAAAAAAA
Canadian Imperial Bank of Commerce	7 digits: AAAAAAA with field :57: present	7 digits: AAAAAAA in field :58:
Central 1 Credit Union	Not applicable	Not applicable
HSBC Bank Canada	BBB-AAAAAA-AAA	same
ICICI Bank Canada	9 Digits: AAAAAAAAA or 17 Digits: TTTTTAAAAAAAAA	12 Digits: TTTTT-AAAAAA
Royal Bank of Canada	ROYCCAT2 - Domestic 12 digits: TTTTT AAA AAA A	ROYCCAT2 - 7 digits: AAA AAA A, or 12 digits: TTTTT AAA AAA A
StateStreet	9 digits: AAAAAAAAA	9 digits: AAAAAAAAA
The Toronto-Dominion Bank	12 digits: TTTTTAAAAAAAA	same

A=account number B=branch number C=client
T=transit number