

CANADIAN PAYMENTS ASSOCIATION

LVTS RULE 13

DEFAULT AND NON-VIABILITY

LVTS Rule 13, December 1998: as amended October 2000, March 1, 2010 and November 22, 2016.

DEFAULT AND NON-VIABILITY

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DEFAULT AND NON-VIABILITY

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| PROCEDURE ON DEFAULT | 13.1 | This Rule outlines the requirements for notification with respect to implementing sections 56 to 63 of the LVTS By-law. These sections of the LVTS By-law respectively deal with (sections 56 to 61) the default of a Participant and (sections 62 and 63) a federal or provincial regulator or other supervisory body taking control of a Participant or its assets or making a declaration that the Participant is unable to meet its liabilities as they become due. The sections are reproduced in Appendix I. |
| NOTICE | 13.2 | Notification of a default of a Participant shall be given by telephone confirmation by the Bank of Canada to the President immediately upon the Bank of Canada becoming aware of the default. The President shall, immediately upon receipt of such notification from the Bank of Canada, notify all Participants of any such default. |
| NON-VIABILITY | 13.3 | If, during an LVTS Cycle, a federal or provincial regulator or other supervisory body takes control of a Participant or its assets or makes a declaration in respect of a Participant, that the Participant is considered to be no longer viable or that the Participant is unable to meet its liabilities as they become due, the President shall, immediately upon becoming aware of such an action having been taken or such declaration having been made, suspend such Participant from further participation in the then current LVTS Cycle, and shall notify all of the Participants of such fact. The cycle Bilateral Credit Limits granted to all Participants shall be set at zero, by the central system, at the commencement of the next LVTS Cycle. |
| LOSS OF CONTROL | 13.4 | If, after the termination of an LVTS Cycle and before the opening of the next LVTS Cycle, a federal or provincial regulator or other supervisory body takes control of a Participant or its assets or makes a declaration in respect of a Participant, that the Participant is considered to be no longer viable or that the Participant is unable to meet its liabilities as they become due, the Participant against which such action is taken shall have its status for the next LVTS Cycle suspended unless otherwise indicated by the President and the President shall, notify each Participant of such fact. |

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| PARTICIPANT OBLIGATIONS | 13.5 | Upon receipt of the notice in sections 13.1, 13.2 or 13.3 above, each Participant shall be responsible for notifying each person within its organization which requires notification. |
| PAYMENT MESSAGE STATUS | 13.6 | Upon a Participant becoming non-viable, any payment sent from/to the non-viable Participant, which had not already passed the required Risk Control Tests, will have its status changed to <i>Expected Debit</i> or <i>Expected Credit</i> and will be rejected at the end of the current cycle. |

DEFAULT AND NON-VIABILITY

BY-LAW PROVISIONS

PROCEDURE ON DEFAULT

Default of a Participant

56. (1) A participant is in default for the purposes of the LVTS if, immediately on demand by the Bank of Canada or within such time period as may be specified by the Bank of Canada, it fails, for any reason whatsoever to obtain a discretionary advance from the Bank of Canada to enable it to settle its negative multilateral net position.

(2) The Bank of Canada shall notify the President of any participant in default and the President shall notify all participants of any such default.

(3) On the default of any participant the provisions of sections 57, 58 and 60 apply to ensure that settlement occurs.

Defaulting Participant

57. (1) If a participant is in default for failure to settle its negative multilateral net position as set out in section 56, the Bank of Canada shall provide an advance of funds to the defaulting participant solely for the purpose of permitting it to settle.

(2) The advance shall be in an amount equal to the lesser of

(a) the absolute value of the defaulting participant's negative multilateral net position less the amount of funds in the defaulting participant's settlement account, and

(b) the sum of the defaulting participant's maximum ASO and the absolute value of its Tranche 1 net debit cap.

(3) The absolute value of the defaulting participant's Tranche 1 net debit cap is calculated in accordance with sections 19, 20 or 21, as applicable.

(4) If the amount of the advance is sufficient to enable settlement of the defaulting participant's negative multilateral net position, the Bank of Canada shall immediately debit the participant's settlement account to effect settlement of its negative multilateral net position and shall simultaneously effect settlement of all other participants' multilateral net positions.

(5) If the amount of the advance is insufficient to enable settlement of the defaulting participant's negative multilateral net position, that position shall be settled according to the procedures set out in section 58.

DEFAULT AND NON-VIABILITY

BY-LAW PROVISIONS (continued)

(6) The repayment of any advances made by the Bank of Canada to the defaulting participant and the Bank of Canada's rights with respect to the defaulting participant's collateral are governed by the agreements between the defaulting participant and the Bank of Canada.

Remaining Participants

58. (1) If the amount of the advance made by the Bank of Canada under section 57 is not sufficient to permit settlement of the defaulting participant's negative multilateral net position, the remaining participants are obligated to meet their ASOs, as set out in section 27, by advancing funds to the defaulting participant, within the time limit and in the manner that are specified by the Bank of Canada.

(2) To the extent that a remaining participant has funds available in its settlement account with the Bank of Canada, the Bank of Canada shall effect payment of that participant's ASO by transferring funds from the remaining participant's settlement account to the settlement account of the defaulting participant.

(3) To the extent that there is an insufficient positive account balance in a remaining participant's settlement account to discharge the remaining participant's ASO, the Bank of Canada shall provide the remaining participant with an advance of funds, by crediting the remaining participant's settlement account, to enable it to pay its ASO, and shall effect payment of the remaining participant's ASO by transferring funds from the remaining participant's settlement account to the settlement account of the defaulting participant.

(4) Immediately on transferring sufficient funds from the settlement accounts of the remaining participants to enable settlement of the defaulting participant's negative multilateral net position, the Bank of Canada shall debit the settlement account of the defaulting participant to effect settlement of all participants' multilateral net positions.

(5) The repayment of any advances to remaining participants and the Bank of Canada's rights with respect to the remaining participants' collateral are governed by agreements between the participants and the Bank of Canada.

Debt of the Defaulting Participant to Remaining Participants

59. A defaulting participant is obligated to reimburse a participant for the amount that the participant advanced to the defaulting participant because of the participant's ASO, and that amount constitutes a debt of the defaulting participant that survives irrespective of whether the defaulting participant has its status as a participant suspended or revoked.

DEFAULT AND NON-VIABILITY

BY-LAW PROVISIONS (continued)

Bank of Canada Commitment to Settle Accounts

60. (1) If in an LVTS cycle more than one participant is in default for failure to settle as set out in section 56, the procedures on default set out in sections 57 and 58 shall be followed for each of the defaulting participants and the remaining participants are obligated to meet their ASOs as set out in section 29, subject to their respective maximum ASOs.

(2) Despite any maximum ASO that the Bank of Canada may have, if, after such procedures on default have been followed, the negative multilateral net positions of all participants that are in default have not been settled, the Bank of Canada shall advance funds to the defaulting participants to enable settlement of the negative multilateral net positions of those participants and the termination of the LVTS cycle.

Debt of Defaulting Participant to the Bank of Canada

61. A defaulting participant is obligated to reimburse the Bank of Canada the amount that is advanced to it by the Bank of Canada in accordance with section 60 and that amount constitutes a debt of the defaulting participant that survives irrespective of whether the defaulting participant has its status as a participant suspended or revoked.

DECLARATION ON STATUS OF A PARTICIPANT

Declaration Made during an LVTS Cycle

62. If, at any time during an LVTS cycle, a federal or provincial regulator or other supervisory body takes control of a participant or its assets or makes a declaration, in respect of a participant, that the participant is considered to be no longer viable or that the participant is unable to meet its liabilities as they become due, the President shall, immediately on becoming aware of such an action having been taken or such declaration having been made, suspend the participant from further participation in that LVTS cycle and notify all the participants of that fact.

Declaration Made Outside of an LVTS Cycle

63. If, after the termination of an LVTS cycle and before the opening of the following LVTS cycle, a federal or provincial regulator or other supervisory body takes control of a participant or its assets or makes a declaration, in respect of a participant, that the participant is considered to be no longer viable or that the participant is unable to meet its liabilities as they become due, the participant shall have its status for the following LVTS cycle suspended, unless otherwise indicated by the President.