# Canadian Banks - Further Liquidity Relief

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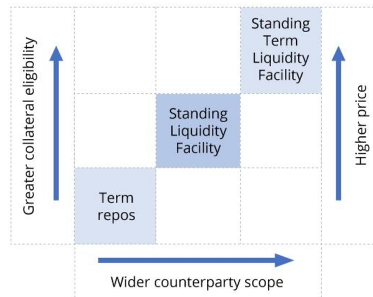
In our last note, we highlighted recent measures the Bank of Canada ("BoC") has taken to pump liquidity into the Canadian financial system (see note here). Below we discuss additional measures the BoC has taken since then and what it means for the Canadian Banks.

1) Further amendments to the **Term Repo Program.** Eligible securities for the program was previously expanded to include collateral that matches the requirements of the Standing Liquidity Facility. Eligible securities will now also include own-name covered bonds, Term ABS and ABCP, but exclude the non-mortgage loan portfolio. Term repo operations will occur at least weekly as long as it is necessary.

2) Launch of the **Bankers' Acceptance Purchase Facility ("BAPF").** Starting on March 23, 2020, the Bank of Canada will conduct secondary market purchases of 1-month Bankers' Acceptances issued and guaranteed by any Canadian bank and of sufficiently high quality, broadly equivalent to a minimum short-term credit rating of R-1 (low).

**Bank of Canada Liquidity Provision Toolkit**




Source: Bank of Canada

3) Introduction of the **Standing Term Liquidity Facility ("STLF").** The BoC had previously announced its intention to introduce the STLF back in November 2019 and was likely expedited given current market challenges. The STLF will become effective on March 30, 2020. In addition to the existing Standing Liquidity Facility (SLF), the STLF provides access to a broader set of eligible counterparties against a broader set of collateral.

Last week on Friday March 20th, **TD** became the first of the Big 6 to take advantage of the recent change with regards to the Term Repo program. TD issued two tranches of C$ covered bonds aggregating to $10B ($5B FRN due Mar-23-2023 and $5B FRN due Sep-23-2021). We think other banks will likely follow suit with similar covered bond issuances.

As a reminder, OSFI implemented changes with regards to the calculation of covered bond limits for the Canadian banks back in May 2019. In short, the new calculation method take into account the overcollaterization requirement. Previously, the cap on the amount of covered bonds that can be issued by federally regulated deposit taking institutions was set at 4% of total assets. Under the new calculation, 1) the ACM (Assets to Capital Multiple) proxy of total assets was replaced with on-balance sheet assets, 2) the overcollateralization requirement was included in the numerator, and 3) the ratio was increased to 5.5% from the previous 4%.

**New Covered Bond Limit**

$$\frac{\mathit{Covered\ Bonds\ Outstanding}}{\mathit{ACM\ Proxy\ of\ Total\ Assets}} < 4\% \quad \rightarrow \quad \frac{\mathit{Total\ Assets\ Pledged\ for\ Covered\ Bonds}}{\mathit{Total\ On{-}Balance\ Sheet\ Assets}} \leq 5.5\%$$

Source: BMO Capital Markets, OSFI

The maximum level of overcollateralization for the Big 6 Banks is 125%. Based on this and latest available figures, below are the remaining capacity for the Big 6 Banks.

**Big 6 - Covered Bond Capacity**

| (C$ mm) | BMO | BNS | CM | NACN | RY | TD | Total |
|---|---|---|---|---|---|---|---|
| Total Assets | 879,720 | 1,154,022 | 672,118 | 289,191 | 1,476,304 | 1,457,429 | 5,928,784 |
| Covered Bond Capacity | 38,708 | 50,777 | 29,573 | 12,724 | 64,957 | 64,127 | 260,866 |
| Covered Bonds Outstanding | 25,266 | 29,393 | 18,763 | 9,612 | 42,775 | 50,316 | 176,125 |
| **Remaining Capacity** | **13,442** | **21,384** | **10,810** | **3,112** | **22,182** | **13,811** | **84,741** |

Source: BMO Capital Markets, Bloomberg, CMHC, Company Reports, OSFI

In our view, the combination of all these measures will help to provide funding relief for the banks, particularly as liquidity has dried up in the front end of the curve. We think this should help provide some support for spreads over the near term. In the U.S., the Fed has already further extended its support to provide liquidity in the front end by announcing its return to the commercial paper market last week (click here for note from our US Strategists). We think this could remain an option for us here in Canada as well.

**Upcoming Term Repo Operations**

| Auction Type | Offered Amount (C$ millions) | Operation Date | Settlement Date | Term (Days) | Maturity Date |
|---|---|---|---|---|---|
| Regular | 4,000 | 24-Mar-20 | 26-Mar-20 | 175 | 17-Sep-20 |
| Regular | 8,000 | 24-Mar-20 | 26-Mar-20 | 357 | 18-Mar-21 |
| NHA MBS | 4,000 | 26-Mar-20 | 30-Mar-20 | 87 | 25-Jun-20 |
| Regular | 8,000 | 26-Mar-20 | 30-Mar-20 | 360 | 25-Mar-21 |

Source: Bank of Canada

**Upcoming BA Purchase Facility Operation**

| Auction Type | Offered Amount (C$ millions) | Operation Date | Settlement Date | Eligible Maturity Range |
|---|---|---|---|---|
| Regular | 15,000 | 23-Mar-20 | 25-Mar-20 | Up to May 4, 2020 |

Source: Bank of Canada

## Contacts

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