

The LVTS-Canada's large-value transfer system

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Abstract

The LVTS is an electronic network for sending and receiving large-value payments. It is expected to become operational in the first half of 1999. Major chartered banks and other large deposit-taking institutions will provide access to the system for their clients in the financial, corporate, and government sectors. Canada's LVTS exceeds world standards for risk control in large-value systems. The author explains how this is achieved through the netting, bilateral and multilateral credit limits, collateral, loss-sharing procedures used in the event of a default and, as a last resort, a guarantee by the Bank of Canada. The LVTS gives participating institutions certainty of settlement for their LVTS positions every day, even if one or more participants default. This greatly reduces systemic risk in the financial system. Moreover, the LVTS supports finality of payment; that is, it makes funds unconditionally and irrevocably available to the receiver. Finality is highly desirable when the amount of the payment is substantial, or when exact timing is critical. Since the LVTS will carry the great majority of the value of all payments in Canada, it should be considered the core of the national payments system.

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