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# Uncollateralized overnight lending in Canada

Scott Hendry & Nadja Kamhi

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## Notes

<sup>1</sup> For further information on the overnight market in Canada, see Lundrigan and Toll ([1997/98](#)) and Reid ([2007](#)).

<sup>2</sup> Occasionally, there may be a few late-day collateralized loan payments sent via the LVTS but this is done infrequently and only when CDS is unable to process the trade before the close of the day.

<sup>3</sup> This information was communicated to the Bank of Canada during the meetings with major financial market players in Canada which took place between April and May 2006.

<sup>4</sup> See Reid

<sup>5</sup> When the Bank of Canada issues securities, it typically issues a range of

<sup>6</sup> There is a range of \$150-\$4

<sup>7</sup> See 

<sup>8</sup> CORN Index Sv <http://www> in Overnight

<sup>9</sup> The data shows that a majority of Canadian banks could not be ident

<sup>10</sup> D'Souza ([2007](#)) finds that the average transaction in the CAD-USD market is 2 000 000 USD with very little variation around this value.

<sup>11</sup> The true number of overnight loans during this period is probably larger since some transactions are 'clean-up' loans allowing a participant to achieve a zero closing balance. These loans are usually not rounded to the nearest dollar which is one of the criteria we use in selecting potential loans.

<sup>12</sup> The fact that we have loans at interest rates equal to the upper and lower bounds of our permissible range implies that there may be overnight loans that are being excluded by the interest rate criteria. We do not believe, however, that this is a significant risk or bias given the small number of loans already observed between 25 and 50 bps, above or below the target.

<sup>13</sup> See Reid ([2007](#)) for a more complete analysis of the recent developments with respect to the movements in OMMF and CORRA.

<sup>14</sup> There is still a possibility of collateralized trades after 4:00 pm using the pledge function in CDS. This involves pledging securities in CDS against a flow of funds in LVTS.

<sup>15</sup> Reid ([2007](#)) finds that the overnight rate derived from partially collateralized morning, Receiver General auctions, does not have a material impact on CORRA so it is likely to be a small component of the overall liquidity. These figures do not include the



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