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The Contingent Term Repo Facility: Lessons learned and an update

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Introduction

The Contingent Term Repo Facility (CTRF) is the Bank of Canada's standing facility that, when activated at the Bank's discretion, can respond to extraordinary and severe market-wide liquidity stress. It offers liquidity through repurchase agreements (repos) to eligible non-bank financial institution (NBFI) counterparties as well as primary dealers. The Bank introduced the CTRF in 2015 and first activated it in April 2020 in response to the COVID-19 pandemic; it was later suspended in April 2021. In 2024, the Bank reviewed and updated its CTRF policy, incorporating lessons learned from the pandemic and other global market developments, such as the 2022 UK gilt crisis.

This paper accompanies the March 17, 2025, Contingent Term Repo Facility market notice and provides background information and further details about the design of the revised CTRF policy. This paper also complements the staff discussion paper, "Will Asset Managers Dash for Cash? Implications for Central Banks" (Cimon et al. 2025).

The first section of this paper sets out the motivations for the policy update. The second discusses challenges and key considerations for central banks when designing liquidity facilities targeting the NBFI sector. The final section outlines the design of the Bank's revised CTRF policy and the rationale behind it.

Why an update is needed

Asset managers and other financial auxiliaries and intermediaries—referred to collectively as NBFIs in this paper and for the CTRF—are playing an increasingly important role in the global financial system (Fisher and Walsh 2024). In Canada, NBFIs held around $7 trillion in financial assets at the end of 2022, nearly matching the amount held collectively by banks and other deposit-taking institutions (Cimon et al. 2025).

During times of stress, NBFIs facing liquidity mismatches may be forced to sell assets in a deteriorating market to meet redemptions or other liquidity needs (e.g., margin calls), leading to further downward pressure on asset prices (i.e., fire sales). Furthermore, faced with greater illiquidity and volatility in markets, some asset managers may sell assets as a precaution, exacerbating pressures on fixed-income market liquidity and, in extreme cases, potentially leading to a dash for cash (Cimon et al. 2025). In the past, the Bank has provided liquidity to primary dealers through its market operations, expecting liquidity to be distributed to market participants such as NBFIs. However, relying on dealers to redistribute liquidity to the broader financial system has become increasingly challenging because their willingness and ability to lend may be limited during periods of stress due to balance sheet constraints and risk limits. When dealers' limited balance sheet capacity gets overwhelmed in a severe dash-for-cash scenario, even traditionally liquid assets like treasury bills and government bonds can become illiquid, warranting central bank interventions (see Cimon et al. 2025 for more details).

Recent episodes of domestic and global stress have highlighted this vulnerability in the NBFI sector. During the pandemic, Canadian bond funds were large net sellers of fixed-income securities (Fontaine et al. 2021). In 2022, liquidity stress from the UK's liability-driven investment (LDI) fund sector evolved into severe liquidity stress in the gilt market, which ultimately required the Bank of England to step in. With the growth of the NBFI sector and the rising potential demand for liquidity outpacing dealers' capacity and willingness to supply it, the Bank of Canada recognized the need for effective liquidity tools in its tool kit to directly address potential market disruptions originating from or concentrated in the NBFI sector.

Although the CTRF was launched in 2020 for counterparties beyond primary dealers, it was not originally positioned as a liquidity tool specifically targeting NBFIs. The 2020 CTRF had the following limitations:

- It was treated as a lender-of-last-resort facility that would be activated only as the final stage of the expanded term repo facility.
- Counterparties were onboarded after the CTRF was activated, which could result in uncertainty around onboarding delays. Although this was not a limitation of the 2020 CTRF, uncertainty around onboarding delays could lead to precautionary asset sales in times of stress (Cimon et al. 2025).
- Only primary dealers and significant federally or provincially regulated pension funds, insurance companies and small and medium-sized banks (SMSBs) were eligible counterparties. Private asset managers such as LDI funds and mutual funds were ineligible for the CTRF.

For these reasons, the Bank reviewed the CTRF to ensure it remains an effective liquidity tool to address potential market disruptions from the growing NBFI sector.

Challenges and key considerations

Providing liquidity to the NBFI sector is more challenging than providing it to banks or primary dealers. This is due to the NBFI sector's heterogeneity and lack of data transparency compared with the banking sector, and the fact that NBFIs are not traditional central bank counterparties.

This section outlines a number of challenges—such as heterogeneity, operationalization, moral hazard and stigma as well as challenges specific to NBFI liquidity facilities—and how the Bank plans to address these challenges

Heterogeneity

NBFIs are heterogeneous and could have different risk profiles, legal structures and ownership of the assets they manage. They could be either regulated by various types of authorities and market regulations or non-regulated. Because of this, a one-size-fits-all design approach for a liquidity facility is not well suited to specifically target the various NBFIs that exist.

Given this difficulty, the Bank has incorporated a certain amount of flexibility into its policy design to accommodate different types of NBFIs while retaining discretion on which institution is ultimately approved as an eligible counterparty to the CTRF. For instance, the Bank conducts significance tests and risk assessments of potential counterparties (see Eligible participants section) to determine if potential counterparties align with the Bank's objectives. To balance this need for flexibility with the need for rigour to ensure the Bank does not expose itself to undue risk, the Bank has implemented an internal governance process that involves a member of Governing Council and a member of Executive Council.[1] Through this process, all counterparties are reviewed beyond the initial assessment. This is done in case some counterparties are facing other mitigating factors that Bank staff are unaware of and that should be considered.

Operational readiness

When it activated the CTRF during the pandemic, the Bank learned that ad-hoc facilities such as the CTRF can be operationally intensive and should be designed with greater efficiency and resilience. During normal business times while the CTRF is suspended, operational readiness and resilience should be ensured in case another crisis arises. This involves, among other things, making sure that approved counterparties are onboarded and set up in the system(s), adequate resources are available to staff the facility, and delegation of authority and signing authorities are in place.

To that end, the Bank plans to:

- onboard counterparties before the CTRF is activated again
- conduct test transactions with approved counterparties to ensure processes are functioning effectively (see Frequency of operation section)

Moral hazard

Moral hazard is one of several important considerations when determining the form and quantity of liquidity that a facility will provide, especially for facilities that target the NBFI sector, which is not a segment of the financial system with whom central banks normally transact. Unlike for banks, assessing solvency and liquidity positions for NBFIs can be more complicated. Monitoring NBFI counterparties can also be challenging due to their heterogeneous business models and the lack of transparency in reporting. Moreover, some NBFIs (e.g., investment funds) may take on greater risk—especially when using leverage—compared with those NBFIs that provide a public service.

[1] See the Bank's website for more detail on Governing Council and Executive Council.

The updated CTRF includes several design considerations to mitigate moral hazard:

- The program will be activated only when the Bank needs to address liquidity stress (see Activation section). As a result, during normal times, NBFI market participants cannot rely on the CTRF to fund their leveraged positions.
- The repo under the CTRF is conducted exclusively with high-quality securities that are either issued or guaranteed by the federal or provincial government (see Eligible securities section), and it is offered at a penal interest rate (see Pricing section). This reduces credit risk for the Bank and discourages participants from overdrawing liquidity from the CTRF.
- The Bank conducts holistic risk assessments before accepting any NBFIs into the CTRF (see Eligible participants section).
- The Bank also conducts readiness tests as part of its ongoing monitoring of CTRF counterparties (see Frequency of operation section).

Lack of data transparency

Unlike banks, which are subject to stringent reporting requirements, NBFIs may face less rigorous obligations regarding their disclosure of financial activities and operational data. Certain types of NBFIs are exempt from any regulatory disclosure obligations in Canada.

When the Bank reviews a potential CTRF counterparty, it requests disclosures on various metrics, such as asset size, repo activity, asset holdings, leverage levels and use of derivatives. Qualitative information, such as an investment policy statement, may also be evaluated (see Eligible participants section). The Bank plans to review this information, as well as the ongoing eligibility of participants, on a regular basis to ensure the timeliness and accuracy of the data (see Frequency of operation section).

Stigma

As part of its review of the CTRF, the Bank conducted a targeted market outreach with previous and potential NBFI counterparties to gather their views on the use of the facility. The results indicated that some NBFIs are concerned about stigma associated with using the CTRF, even though the Bank does not disclose who accesses the facility. These NBFIs will need to evaluate whether their concerns outweigh the benefits of gaining access to the Bank's CTRF as a liquidity backstop in times of stress.

To mitigate stigma around the use of these facilities, it is crucial for a central bank to ensure confidentiality. In that regard, the identities of participants onboarding and using the Bank of Canada's CTRF are protected. The only disclosure made by the Bank is the overall usage of the CTRF, which is reported at an aggregate level on the Bank's Supplementary Information of Balance Sheet Loans and Receivables statement. However, certain NBFIs may face regulatory obligations to disclose their use of repos. The Bank plans to conduct regular tests of various sizes for operational readiness, which can further reduce market sensitivity regarding the use of liquidity facilities (see Frequency of operation section).

Resource and regulatory constraints

NBFIs are not the Bank's traditional counterparties. Onboarding as well as regularly monitoring and conducting test transactions with NBFIs may require considerable additional resources for a facility that is activated only in exceptional circumstances. Furthermore, regulatory constraints—which vary by jurisdiction—such as limitations on the ability to engage in repos, could prevent some NBFIs from accessing a central bank's NBFI-targeted liquidity facilities.

Given resource limitations, it is crucial for a central bank to find a balance between establishing appropriate yet flexible eligibility criteria and the central bank's operational capacity to support this facility.

A central bank can also enhance efficiency and improve operational readiness by automating transactions and minimizing manual processes. In this regard, the Bank of Canada explored how it could implement the CTRF—a standing, bilateral facility when activated—through its auction system. As a result, the Bank has decided to use a hybrid approach, combining the features of an auction and a bilateral standing facility, which mimics bilateral access but is delivered in an auction format.

The Bank is also collaborating with the various regulatory bodies and market participants to resolve any potential regulatory constraints that could impede NBFIs from accessing the Bank's NBFI-targeted liquidity facility.

Design and guiding principles of the updated CTRF

The CTRF is an extraordinary, market-wide liquidity facility that aims to address episodes of severe market dysfunction in Canadian core funding markets when the liquidity provided by the central bank to its regular counterparties isn't sufficient or sufficiently targeted. The Bank established five key principles for extraordinary liquidity intervention that guided both its original design and subsequent reviews and updates (Selody and Wilkins 2010):

- **The intervention should be targeted**. It should target market failures that are of system-wide importance.
- **The intervention should be graduated**. It should be done in a manner that is in proportion to the severity of the problem.
- **The intervention should be well designed**. It should be appropriately suited to the problem.
- **The intervention should be efficient**. It should minimize distortions and align with market conditions.

- **The Bank should mitigate moral hazard**. The Bank should strive to mitigate the moral hazard that could result from its intervention.

This section outlines the design of and rationale behind the revised CTRF policy.

Activation

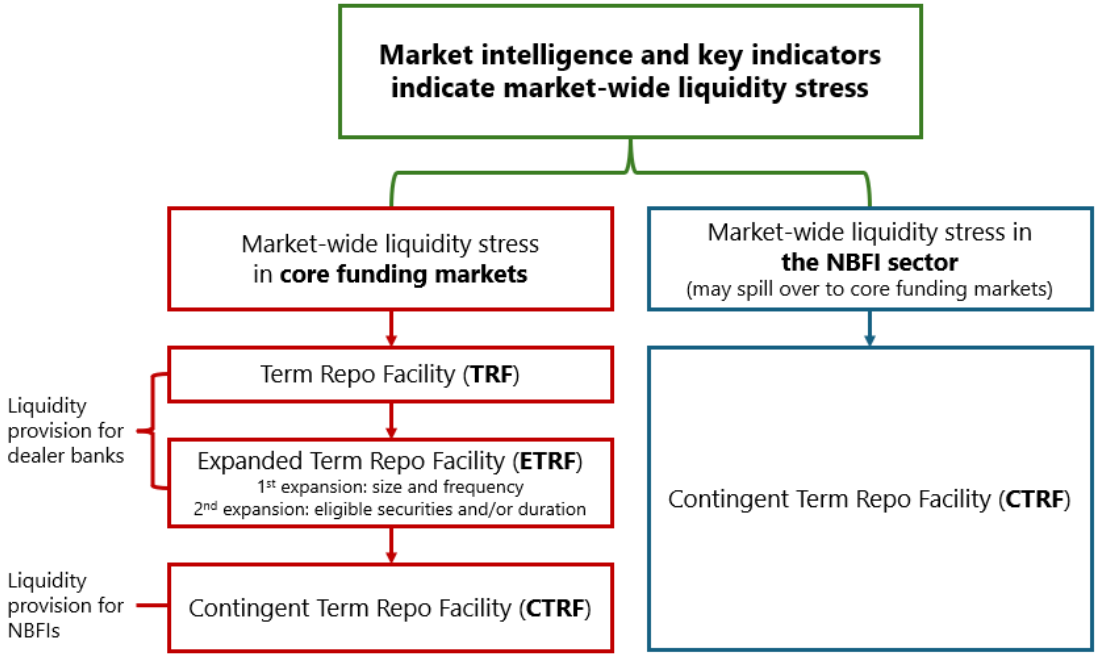
The CTRF is activated solely at the Bank's discretion during periods of severe market-wide liquidity stress or when market-wide liquidity stress (e.g., frictions in the GoC bond market) arises from the NBFI sector. This is because it is specifically designed to address systemic market failures rather than isolated, idiosyncratic liquidity events.

Figure 1 illustrates the sequence of events for CTRF activation in two scenarios: when there is stress in core funding markets and when there is stress in the NBFI sector. When there is market-wide dysfunction, the CTRF can be activated as the final expansion of the extended term repo operations (ETRF).[2] Alternatively, when the liquidity stress emanates from the NBFI sector, the CTRF could be activated ahead of or in parallel with other potential central bank liquidity facilities to effectively target the NBFI sector. However, the CTRF is activated only when the liquidity stress reaches a significant level. In other words, the bar for activation remains high.

The Bank's decision to activate the CTRF is based on information from market intelligence and various market indicators that the Bank monitors. These indicators include, but are not limited to, repo rates, bid-ask spreads, money market instrument rates and inventories, and trading volumes.

[2] For more details on the ETRF, see T. Gravelle, "The Bank of Canada's market liquidity programs: Lessons from a pandemic" (speech delivered at the National Bank Financial Services Conference, Montréal, Quebec, March 29, 2023).

Figure 1: Steps the Bank of Canada can take to respond to market-wide liquidity stress



Note: NBFI is non-bank financial institution.

Term and duration

The duration of the CTRF, or the period for which the CTRF would be activated, will be determined at the Bank's discretion when it activates the facility. During the pandemic when it launched the facility, the Bank had set the duration of the CTRF to be 12 months and had terms of up to one month, at the participant's discretion. Lessons learned from this CTRF deployment suggest that a relatively short initial duration (e.g., three months) followed by decisions to either extend or wind down the facility is preferable (Johnson 2023).

Pricing

The CTRF provides liquidity at a predetermined penal interest rate. The penal rate is equal to the overnight index swap (OIS) rate plus either (i) 35 bps or (ii) the highest OIS rate spread on the most recent term repo with the closest tenor, whichever is higher, or as determined by the Bank.

The penal rate serves as a "last resort" rate and is designed to not distort market rates. Additionally, the penal rate encourages NBFI market participants to access the CTRF for emergency liquidity use only and to reduce or discontinue its use as market conditions improve, thereby mitigating moral hazard.

Frequency of operations

The CTRF is deactivated during periods of non-stress. However, the Bank will onboard potential CTRF counterparties before the facility is activated and will conduct test trades to ensure operational readiness. The Bank will need to consider the likelihood of activating such a facility and balance the desired level of operational readiness against its policy objectives and available resources.

Eligible securities

The provision of liquidity through the CTRF is fully covered by the amount of eligible securities a counterparty presents to the Bank. Eligible securities include high-quality securities issued or guaranteed by the Government of Canada or provincial governments. These securities are subject to the same margin requirements as those for the Bank's Standing Liquidity Facility. The list of eligible securities for the CTRF can be expanded to other asset classes should the Bank deem this necessary.

Eligible participants

Eligible CTRF participants include primary dealers, pension funds, insurance companies, private asset managers and certain investment funds that demonstrate significant activity in the Canadian fixed-income market and that pass the Bank's risk assessment.

A market participant's eligibility is based on the Bank's holistic review of results from its:

- significant activity—how significant the participant is as a stand-alone entity or in aggregate relative to the market
- regulation—whether the participant is subject to federal or provincial/territorial bodies or subject to market regulation
- risk assessment—the risks of including or excluding the participant

Significant activity

When determining significance, the Bank considers both the size of the participant's assets (eligible securities) and the participant's market activity (repo volume). The Bank sets internal eligibility thresholds for both asset size and repo volume and requires CTRF counterparties to pass at least one of these thresholds. This aids in effectively targeting the CTRF to market participants that could have a material impact on Canadian core funding markets during periods of stress.

Regulation

The Bank considers an eligible counterparty's regulatory status when determining CTRF eligibility. The regulation test is used to determine which of the Bank's risk assessments a counterparty would be subject to.

Risk assessment

The Bank considers several factors in its risk assessment of the participant that include, but are not limited to, the participant's:

- asset allocation
- leverage
- exposures to derivatives and short-selling
- investment objectives and mandates
- investors or clients

Notably, NBFIs that are not regulated by federal or provincial/territorial bodies or subject to market regulation are still potentially eligible for the CTRF. These NBFIs must pass the Bank's comprehensive risk assessment, which is more thorough than the regular risk assessment for regulated participants.

Hybrid auction–bilateral format

Should the CTRF be activated again in the future, counterparties will be able to access liquidity at a specific time of day (as determined by the Bank) for a predetermined set term—one, two, three or four weeks—that most closely meets their needs. This format allows the Bank to leverage its auction system to mimic a bilateral facility. Furthermore, the auction will be set up as a fixed rate, full allotment and therefore there is no limit to the liquidity a counterparty can request, as long as it is backed by the after-margin value of the counterparty's eligible securities. In this way, it mimics bilateral access since CTRF counterparties do not have to compete with others on the basis of price for a set amount of liquidity, as they would have to do in an auction.

Conclusion

The Contingent Term Repo Facility is an important tool for the Bank of Canada to address potential liquidity stresses emanating from the growing NBFI sector. Incorporating lessons learned from the COVID-19 pandemic and global market events, the Bank has updated the CTRF policy so that it:

- enhances operational readiness through pre-approved counterparties and regular testing
- clarifies eligibility criteria to ensure the CTRF remains an effective liquidity tool to address potential market disruptions from the growing NBFI sector
- establishes a formal risk assessment and governance process to determine the suitability of counterparties

The Bank will also continue to collaborate with other regulatory bodies and engage with market participants to bridge data gaps and further enhance the effectiveness of the CTRF to better support the Canadian financial system.

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