



# LVTS

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MARCH 29, 2010

# *What is LVTS?*

- Large Value Transfer System
- An electronic funds transfer system
  - a system in Canada for electronic wire transfers of large sums of money
  - in a normal business day, it clears and settles around CAD \$146 billion
- Operated by the Canadian Payments Association (CPA)
- Introduced in February 1999

# *Benefits of LVTS*

- No risk of reversal due to stop payment orders, insufficient funds, or forged endorsement
  - cannot be revoked
- *FAST*
  - Funds transferred via LVTS are immediately available to the payee upon request

# *Benefits of LVTS continues...*

- *What happens if a corporation making an LVTS payment fails?*
  - All payments processed through LVTS are final and irrevocable.
  - If the payers were to fail,
    - Then the sending institution is legally responsible for providing funds for all payments it sends.
    - Payers do not share any burdens AT ALL!!!!!!

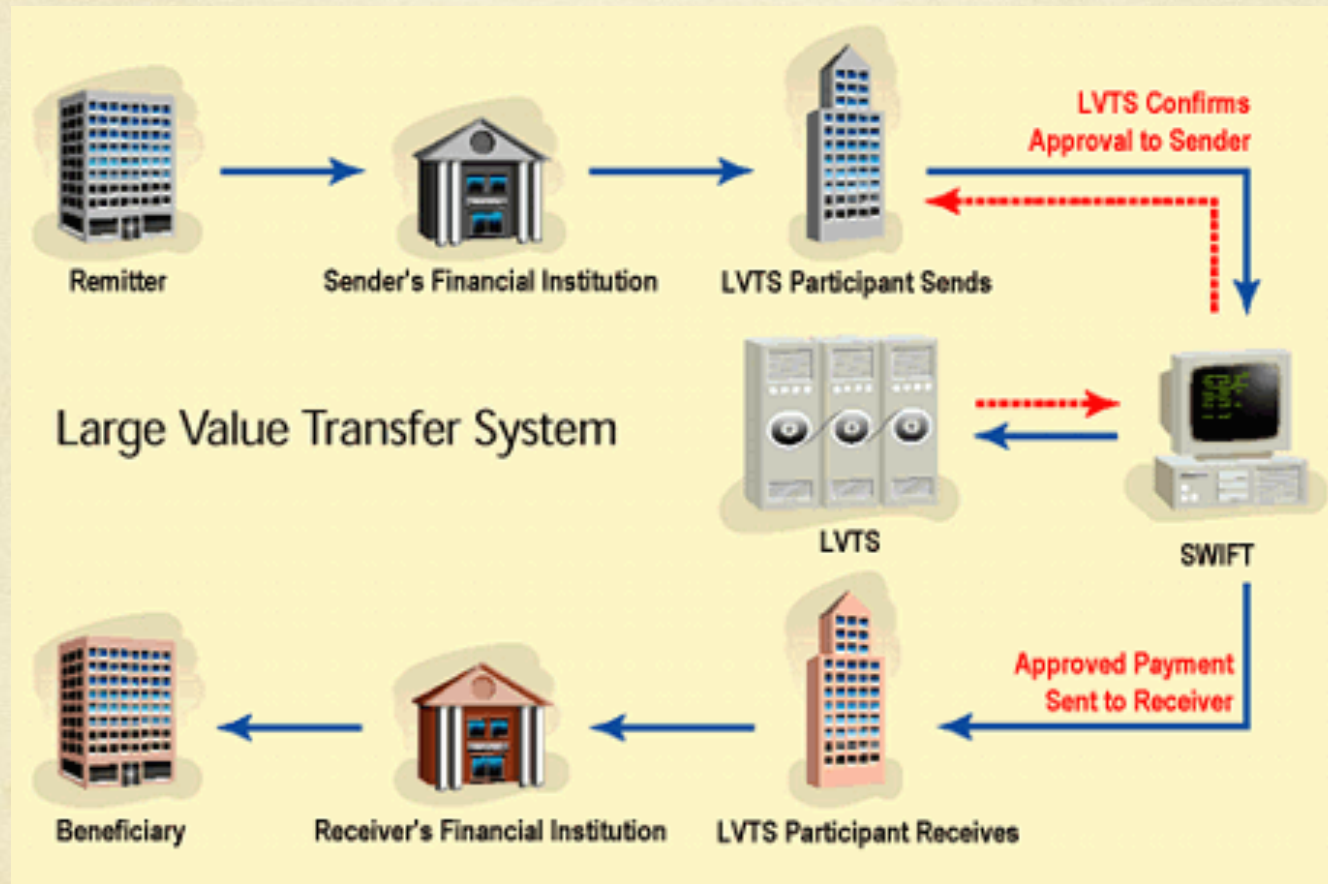
# *Making an LVTS Payment*

- How do customers arrange to make an LVTS payment?
  - through their CPA member financial institutions
  - BUT!!!!!!
    - Only within Canada and in Canadian dollars can be made via LVTS

# Direct Access to LVTS

- Does *all* CPA members have direct access to LVTS?
- NO!!!!!!
- Each CPA member has to consider its own business case for participating directly in LVTS.
- All CPA members can offer LVTS payment services, even if they do not participate directly in the system.

# How Does the System Work?



# Attraction

- *If LVTS is only for Canadian dollar payments, why would it make our financial system more attractive internationally?*
- Many international transactions are composed of several key parts.
- LVTS permits the Canadian dollar leg of such transactions to be completed with the assurance that it is final and irreversible.

# Attraction continues...

- IN ADDITION.....
  - LVTS makes investments and other business dealings more attractive in Canada, and thereby making a significant contribution to the stability of the Canadian financial system.
    - Because LVTS significantly reduces systemic risk

# Pre-settlement Trading

- The LVTS will have a pre-settlement trading period of half an hour, after the close of client business.
- It allows every participant to achieve close to a zero balance.
- Someone will be in surplus position, while others will be in deficits.
  - Lending is then generated in order to constrain the movements in interest rates by the limits of the operating band.

# Neutralization

- What is Neutralization?
  - Neutralizing certain public sector flows that affect the financial system.
  - These includes all receipts and disbursements of the federal government as well as the Bank of Canada's own transactions and those of its clients
- Why is it need?
  - In aiming at a zero settlement balance for the system each day.

# How to Neutralize?

- The transfer of government deposits is the traditional instrument for neutralizing public sector flows.
- It can also set the level of settlement balances in Canada.
- However, the current drawdown and redeposit mechanism for transferring government deposits must be changed.
  - Since on a day with a net disbursement by the government, the Bank will not be able to “draw down” the government’s account with a participant.

# How to Fix the Problem?

- Daily Auctions of Government Deposits
  - It is used to effect the transfer.
  - In other words, the required change in the level of government deposits held by financial institutions will equal the difference between the total amount of government balances auctioned and the total amount maturing.

# The Market Timetable

- 9 a.m. Announcement of change in operating band (if any).
- 9:15 a.m. Cutoff time for bids for Receiver General (RG) term deposit auction.
- 9:30 a.m. Release of RG term deposit auction results
- 11:45 a.m. SPRAs or SRAs offered and transacted (if any)
- 3 p.m. Cutoff time for presentation of government items to Bank of Canada

# Timetable continues...

- 4 p.m. Payment exchange for DCS
- 4:15 p.m. Cutoff time for bids for RG deposit auction
- 4:30 p.m. Release of RG auction results
- 6 p.m. Close of LVTS client (third-party) transactions
- 6 - 6:30p.m. Pre-settlement trading
- 8 p.m. Settlement of LVTS balances at the Bank of Canada or earlier

# Retroactive Settlement

- Paper-based payment items such as cheques are currently cleared overnight, using the Automated Clearing Settlement System (ACSS).
- This system will remain in place.
- The institutions concerned indicated to the Bank of Canada a strong preference for retaining retroactive settlement for cheques.

# Payment Cycle

- The daily timetable of the payments system under the LVTS and retroactive settlement for the ACSS is illustrated in the figure on next page.
- Paper-based payment items delivered to participants for credit on a given day will result in changes in the balances held at the Bank of Canada dated that same day, even though the clearing results won't be available, and settlement not completed, until midday the next day.

# Payment Cycle (Figure)

