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### Canadian Lenders Assurance Facility

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## Canadian Lenders Assurance Facility

Claire E. Simon<sup>1</sup>

January 16, 2019

### Abstract

Following a meeting of the G7 leaders in October 2008, the Canadian Minister of Finance announced the creation of a new Canadian Lenders Assurance Facility (CLAF). The facility would enable federally regulated deposit-taking financial institutions to access government insurance of up to three years for newly issued senior unsecured wholesale debt. This mirrored similar programs abroad in order to ensure that Canadian financial institutions were not competitively disadvantaged in the wholesale debt market. This competitive disadvantage never materialized, and the facility was allowed to expire on December 31, 2009 without ever being used.

**Keywords:** backstop, wholesale debt, insurance

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# Canadian Lenders Assurance Facility

## At a Glance

In early October 2008, leaders from the G7 countries met and established a plan of action that aimed to stabilize financial markets, restore the flow of credit, and support global economic growth. In line with these goals, the Canadian Minister of Finance announced that the government would begin guaranteeing Canadian banks' medium and long term borrowing through a new Canadian Lenders Assurance Facility (CLAF). Though CLAF emerged as a result of the G7 meeting, the driving concern that led to the facility's creation was that similar programs in other countries would inhibit Canadian banks' ability to secure financing in international credit markets.

Fearing this "competitive disadvantage," the Minister of Finance announced CLAF on October 23, 2008. The facility allowed any federally-regulated Canadian financial institution to purchase insurance at commercial rates on newly created debt instruments with a minimum 3 month maturity for up to three years. If participating financial institutions failed to meet obligations under the terms of the guaranteed instrument, beneficiaries could immediately demand payment from the Canadian government.

CLAF was formally opened on February 25, 2009. Earlier in 2009, the issuance window of the facility was extended to December 31, 2009 from April 31, 2009. It was always intended to serve as a temporary backstop, and was allowed to expire on December 31, 2009. During this time, Canadian banks were successful in raising funds in international credit markets without a government guarantee, so the facility was never used.

## Summary Evaluation

CLAF has not been studied or written about extensively, likely due to its lack of use. Despite this, the Canadian government has argued that its existence nonetheless supported confidence in the market.

Summary of Key Terms	
<b>Purpose:</b>	To ensure that financial institutions in this country are not put at a competitive disadvantage when raising funds in wholesale markets to lend to consumers and businesses
<b>Announcement Date</b>	October 23, 2008
<b>Operational Date</b>	February 25, 2009
<b>Date of First Guaranteed Debt Issuance</b>	N/A
<b>Issuance Window Expiration Date</b>	Originally April 31, 2009; later extended to December 31, 2009
<b>Program Size</b>	No cap
<b>Usage</b>	Unused
<b>Outcomes</b>	N/A
<b>Notable Features</b>	Initially funded through alternative purchase commitments prior to formal legal authority; fee lowered to make CLAF more competitive

**Contents**

- I. Overview..... 1**
- II. Key Design Decisions..... 2**
  - 1. The CLAF was part of a broader package of crisis response measures, called the Canadian Extraordinary Financing Framework.....2
  - 2. The CLAF was initially funded by alternative purchase commitments, and then according to the Financial Administration Act after the passage of the Budget Implementation Act 2009.....2
  - 3. The Program was administered by the Bank of Canada. ....3
  - 4. There was no cap on the amount CLAF could guarantee .....3
  - 5. Only federally regulated deposit-taking institutions were automatically eligible, while provincially regulated institutions had to be approved.....3
  - 6. CLAF could guarantee new senior unsecured marketable wholesale debt instruments, and had to adhere to certain minimum issuance requirements based on participation limits and currency denomination. ....4
  - 7. Eligible instruments had to have maturities of at least three months, and the guarantee lasted for a maximum of three years .....4
  - 8. Guarantees were restricted to instruments denominated in Canadian dollars, US dollars, Euros, Sterling, or Yen .....4
  - 9. Institutions maximum allowed amount was either (i) 125% of wholesale debt maturing during the six-months beginning November 1, 2008 or (ii) 20% of Canadian deposits as of October 31, 2008.....5
  - 10. The government charged a market-based guarantee fee that varied by credit rating.....5
  - 11. There do not appear to have been any further conditions for participation.....5
  - 12. Payment was triggered by an institution’s failure to pay a guaranteed obligation and the beneficiary’s demand submitted to the Department of Finance. ....6
  - 13. The issuance window closed on December 31, 2009, after being extended from April 30, 2009.....6
- III. Evaluation..... 6**
- IV. References..... 6**
- V. Key Program Documents..... 8**

## I. Overview

### Background

On October 10, 2008, Finance Ministers and Central Bank Governors of the Group of 7 (G7) met to address the Global Financial Crisis (GFC) and formulate a collective plan of action that would inform each country's policy response. Though Canada was weathering the GFC better than other G7 countries, its Minister of Finance, in a statement following the G7 meeting, expressed concern that interventions abroad could affect Canadian markets. As a result, he announced that "the Government stands ready to take appropriate action to avoid unintended consequences from policy measures by other countries that would put wholesale borrowing in Canada at a competitive disadvantage," ([Statement by Minister of Finance on Implementation of G7 Plan of Action](#)). At the time of the announcement, programs to backstop the wholesale debt market existed in multiple countries, including the United States, Australia, and Sweden ([Carmichael 2008](#)).

### Program Description

In an effort to proactively avoid Canadian banks being disadvantaged in international wholesale debt markets, the government of Canada announced the Canadian Lenders Assurance Facility (CLAF) on October 23, 2008. The facility, which was voluntary, allowed Canadian banks to access insurance for up to three years on newly issued wholesale debt instruments. Participation was limited to federally regulated deposit-taking institutions, which were automatically deemed eligible up to a specified participation limit determined by their maturing wholesale debt or deposits. This participation limit was used to determine a minimum issuance size per instrument eligible for guarantee under CLAF. Insurance was provided at commercial rates, with the government charging a market-based guarantee fee based on the institution's credit rating. Insurance was available for debt instruments denominated in Canadian dollars, US dollars, Euros, Sterling, or Yen, but any insurance issued on non-Canadian dollar denominated debt incurred an additional fee. Payment to beneficiaries by the Canadian government was triggered by any missed payment of a guaranteed obligation, at which point beneficiaries were required to give notice to the Department of Finance in writing. CLAF was designed to be temporary, and initially insurance would only be issued through April 2009 ([Backgrounder, Canadian Lenders Assurance Facility](#)).

In its 2009 budget, the Canadian Department of Finance announced a new stimulus plan, the Canadian Economic Action Plan (CAEP). This included the Extraordinary Financing Framework (EFF), which budgeted up to \$200 billion to support lending to households and businesses. The newly created CLAF was absorbed into the EFF as part of the government's larger stimulus efforts. At this time, the Department of Finance also announced that CLAF's issuance window would be extended through the end of 2009 ([Canada's Economic Action](#)

Plan). In March 2009, the Canadian Parliament passed the Budget Implementation Act 2009, which allowed the Minister of Finance to make payments under the terms of CLAF out of the Consolidated Revenue Fund ([Bill C-10, Section Amending the Financial Administration Act, Division 1, Part 5](#)). Previously, any payments made to beneficiaries were required to be made through alternative purchase commitments ([Canadian Lenders Assurance Facility Guarantee – Section 3.5](#)).

## Outcomes

CLAF was allowed to expire on December 31, 2009. It was never used. In closing the facility, the Canadian government cited improved conditions in funding markets and Canadian banks' ability to raise debt financing without government insurance ([Improving Access to Financing and Strengthening Canada's Financial System](#)).

## II. Key Design Decisions

### **1. The CLAF was part of a broader package of crisis response measures, called the Canadian Extraordinary Financing Framework**

The CLAF was one component of the broader Canadian Extraordinary Financing Framework (EFF), which sought to “strengthen the capacity of Canadian financial institutions to expand credit and to respond to gaps in credit markets.” Other programs in the EFF included the Insured Mortgage Purchase Program, in which the government expressed intent to buy *National Housing Act* Mortgage-Backed Securities (NHA MBS), the Canadian Secured Credit Facility, which the government could use to purchase up to \$12 billion of term asset-backed securities (ABS) backed by loans and leases on vehicles and equipment, and other budgetary increases to expand access to financing for Canadian businesses ([Canada's Economic Action Plan](#)).

### **2. The CLAF was initially funded by alternative purchase commitments, and then according to the Financial Administration Act after the passage of the Budget Implementation Act 2009**

When the CLAF was first announced, the Canadian Parliament had not yet authorized the Minister of Finance to make payments under the guarantee from the Consolidated Revenue Fund, as required by sections 26 and 29(1) of the Financial Administration Act. To ensure that payments could be made even if the facility opened before such permission had been granted, the legal documentation of the CLAF included a provision allowing payments through alternative purchase commitments. Through these commitments, if a beneficiary made a demand for payment under the guarantee, the Minister of Finance would purchase from the beneficiary “all or an undivided interest in the related Guaranteed Instrument... for a purchase price equal to the amount required to be paid under the Demand” ([Schedule 1.1\(16\), Canadian Lenders Assurance Facility Guarantee, Section 3.5](#)).

The need for alternative purchase commitments under the terms of CLAF was rendered obsolete by the passage of Bill C-10, An Act to implement certain provisions of the budget tabled in Parliament on January 27, 2009 and related fiscal measures (Budget Implementation Act 2009). This act, which was passed on March 12, 2009, amended the Financial Administration Act to allow the Minister of Finance to guarantee any debt, obligation, or financial asset in an effort to promote financial stability, and to pay any amounts owed resulting from such a guarantee out of the Consolidated Revenue Fund ([Bill C-10, Section Amending the Financial Administration Act, Division 1, Part 5](#)).

**3. The Program was administered by the Bank of Canada.**

**4. There was no cap on the amount CLAF could guarantee**

The Canadian government did not establish a cap for the amount of guarantees that could be issued through CLAF. CLAF was part of the larger Extraordinary Financing Framework, which was granted \$200 billion under Canada's Economic Action Plan, but there was no amount specifically allocated for CLAF ([Canada's Economic Action Plan](#)).

**5. Only federally regulated deposit-taking institutions were automatically eligible, while provincially regulated institutions had to be approved**

All federally regulated deposit-taking financial institutions were deemed eligible for participation in the facility. Any provincially regulated financial institution had to be specifically approved by the Minister of Finance ([Terms of Canadian Lenders Assurance Facility](#)). One provincially regulated central cooperative credit society, Caisse centrale Desjardins, did apply and was deemed eligible shortly after CLAF was announced. As part of the deal reached with the Minister of Finance for Quebec, Caisse centrale Desjardins could participate under the same commercial terms as the federally regulated institutions, but the Government of Quebec would be liable for any losses incurred by the Canadian government as a result of issuing any insurance on the bank's debt ([Government of Canada Agrees to Extend the Canadian Lenders Assurance Facility to Caisse centrale Desjardins](#)).

Though all of these institutions were deemed eligible, any financial institution wishing to access CLAF had to apply to participate. The application's focus was on establishing the maximum amount of instruments issued by an institution that could be guaranteed through the facility ([Terms of Canadian Lenders Assurance Facility](#)).

Once a financial institution's application was granted and its participation limit established, it was required to apply for separate guarantee certificates for each eligible instrument it sought to guarantee. Once the guarantee certificate was granted, the institution had to issue the instrument within thirty days, otherwise the guarantee would be withdrawn ([Terms of Canadian Lenders Assurance Facility](#)).

**6. CLAF could guarantee new senior unsecured marketable wholesale debt instruments, and had to adhere to certain minimum issuance requirements based on participation limits and currency denomination.**

Under the terms of the CLAF, the government agreed to guarantee new senior unsecured marketable wholesale debt instruments, including newly issued commercial paper, bearer notes and senior unsecured bonds and notes, and Bankers Acceptances ([Terms of Canadian Lenders Assurance Facility](#)).

The government also set a minimum issue size for instruments, which was tied to the maximum participation limit established by the financial institution’s application to CLAF and the currency denomination of the instrument, as outlined below ([Terms of Canadian Lenders Assurance Facility](#)).

<b>Currency denomination of Instrument</b>	<b>Institution’s Approved Participation Limit</b>	<b>Minimum Issuance Size per Instrument</b>
Canadian dollar	≥ \$10 billion	\$10 million
	\$5 billion -- \$10 billion	\$5 million
	< \$5 billion	\$1 million
US dollars, Euros, Sterling, Yen	All	\$10 million

**7. Eligible instruments had to have maturities of at least three months, and the guarantee lasted for a maximum of three years**

Instruments were only eligible for guarantee if they had a minimum three-month maturity. Instruments were guaranteed through their maturity, unless they had a maturity of over three years, in which case the guarantee would only cover the first three years ([Terms of Canadian Lenders Assurance Facility](#)).

**8. Guarantees were restricted to instruments denominated in Canadian dollars, US dollars, Euros, Sterling, or Yen**

The Canadian government permitted guarantees of instruments issued in Canadian dollars, US dollars, Euros, Sterling, or Yen. However, instruments issued in eligible currencies other than Canadian dollars were subject to additional requirements. No matter the institution’s participation limit, the minimum issuance size for instruments denominated in these currencies was set at \$10 million. Additionally, any institution applying for insurance on instruments issued in a currency other than Canadian dollars were charged a 20 bps surcharge ([Terms of Canadian Lenders Assurance Facility](#)).



**9. Institutions maximum allowed amount was either (i) 125% of wholesale debt maturing during the six-months beginning November 1, 2008 or (ii) 20% of Canadian deposits as of October 31, 2008.**

These limits all had to additionally be approved by an outside auditor.

**10. The government charged a market-based guarantee fee that varied by credit rating.**

For all institutions, the base pricing of the guarantee fee was the product of 110 bp, the term of the guarantee, and the gross proceeds of the instrument. This base pricing was augmented based on the institution's credit rating.

Institutions with senior unsecured medium-term debt obligations that had the following credit rating or higher from at least two rating agencies could pay the base price:

DBRS	Moody's	Standard & Poor's	Fitch
A low	A3	A-	A-

Source: [Terms of Canadian Lenders Assurance Facility](#)

Those that did not have credit ratings from two agencies that met these standards were required to pay an additional 25 bps fee. As previously stated, additional fees were charged for instruments issued in currencies other than Canadian dollars ([Terms of Canadian Lenders Assurance Facility](#)).

This guarantee fee calculation reflects a change introduced in early November 2008, shortly after the program was announced. At that time, the government sought to make CLAF more competitive by reducing the base commercial pricing by 25 bps and waiving an across the board 25bps surcharge. This had the effect of lowering the base price to 110 bps from 160 bps. The surcharge for institutions unable to meet the credit rating requirement and for debt issued in foreign currency remained in effect ([Government of Canada Announces Additional Support for Canadian Credit Markets](#)).

The calculation of guarantee fees under CLAF reflected the government's desire to offer guarantees to lenders on commercial terms, which would not result in any fiscal cost ([Government of Canada Strengthens Canadian Advantage in Credit Markets](#)). This was consistent with the government's desire that the EFF, of which the CLAF was one component, would generate a positive return and not result in any losses for the Canadian government ([Canada's Economic Action Plan](#)).

**11. There do not appear to have been any further conditions for participation.**

**12. Payment was triggered by an institution's failure to pay a guaranteed obligation and the beneficiary's demand submitted to the Department of Finance.**

Under the terms of the guarantee, the government agreed to pay any beneficiary in the event that an issuer participating in CLAF failed to pay any guaranteed obligation under the terms of the instrument guaranteed by the program ([Schedule 1.1\(16\), Canadian Lenders Assurance Facility Guarantee, Article 2](#)). The payment was triggered by the beneficiary's demand of payment under CLAF made in writing to the Department of Finance ([Schedule 1.1\(16\), Canadian Lenders Assurance Facility Guarantee, Article 3 and Schedule 3.1\(1\) – Notice of Demand](#)). This “timely payment” replaced the initial proposal by the government for a 30-day waiting period between the demand and payment to beneficiaries ([Cotnoir et al. 2009](#)).

**13. The issuance window closed on December 31, 2009, after being extended from April 30, 2009.**

Originally, the government would only accept guarantee applications until April 30, 2009. In early 2009, the terms of the CLAF were amended to extend this deadline to December 31, 2009 ([Canada's Economic Action Plan](#)). The Minister of Finance had the authority to terminate the facility before this deadline with 30 days' notice, but the facility was allowed to expire at the end of 2009 ([Terms of Canadian Lenders Assurance Facility](#)).

### **III. Evaluation**

Since the CLAF was not used, it has not been evaluated in secondary scholarship. In the 2010 budget for CEAP, the Canadian government argued that though the CLAF was never used, it “helped to support market confidence and contain borrowing spreads for Canadian financial institutions” ([Budget 2010](#)).

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## V. Key Program Documents

### Summary of Program

- Government of Canada Announces Additional Support for Canadian Credit Markets – Department of Finance backgrounder on CLAF <http://www.fin.gc.ca/n08/08-090-eng.asp#bgdr>
- Government of Canada Announces Additional Support for Credit Markets – Stikeman Elliott summary of CLAF <https://www.stikeman.com/en-ca/kh/canadian-securities-law/government-of-canada-announces-additional-support-for-credit-markets>

### Implementation Documents

- Terms of Canadian Lenders Assurance Facility – [http://www.fin.gc.ca/n08/08-090\\_1-eng.asp](http://www.fin.gc.ca/n08/08-090_1-eng.asp)
- Application for Participation – [http://www.fin.gc.ca/n08/data/08-090e\\_2.pdf](http://www.fin.gc.ca/n08/data/08-090e_2.pdf)
- Participant Agreement – [http://www.fin.gc.ca/n08/data/08-090e\\_3.pdf](http://www.fin.gc.ca/n08/data/08-090e_3.pdf)
- Indemnity Agreement – [http://www.fin.gc.ca/n08/data/08-090e\\_4.pdf](http://www.fin.gc.ca/n08/data/08-090e_4.pdf)
- Guarantee Execution – [http://www.fin.gc.ca/n08/data/08-090e\\_5.pdf](http://www.fin.gc.ca/n08/data/08-090e_5.pdf)

### Legal/Regulatory Guidance

### Press Releases/Announcements

- Statement by Minister of Finance on Implementation of G7 Plan of Action – October 13, 2008 statement regarding G7 meeting <https://www.fin.gc.ca/n08/08-079-eng.asp>
- Government of Canada Strengthens Canadian Advantage in Credit Markets – October 23, 2008 Department of Finance press release announcing CLAF <https://www.fin.gc.ca/n08/08-080-eng.asp>
- Government of Canada Agrees to Extend the Canadian Lenders Assurance Facility to Caisse centrale Desjardins – October 27, 2008 Department of Finance Press Release announcing Caisse centrale Desjardins allowed to participate in CLAF <https://www.fin.gc.ca/n08/08-083-eng.asp>
- Government of Canada Announces Additional Support for Canadian Credit Markets – November 21, 2008 Department of Finance Press Release announcing reduced based commercial pricing of CLAF <http://www.fin.gc.ca/n08/08-090-eng.asp>
- Canada’s Economic Action Plan Year 2, Budget 2010 – announced closure of CLAF (see pg. 265) <http://www.budget.gc.ca/2010/pdf/budget-planbudgetaire-eng.pdf>

### Media Stories

- Ottawa to Guarantee Interbank Lending – *Globe and Mail story on CLAF*  
<https://beta.theglobeandmail.com/report-on-business/ottawa-to-guarantee-interbank-lending/article1064405/?ref=http://www.theglobeandmail.com&>

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