



**PAYMENTS
CANADA**

LYNX RULE 8

MANAGEMENT OF SETTLEMENT MECHANISMS

2023 CANADIAN PAYMENTS ASSOCIATION

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TABLE OF CONTENTS

IMPLEMENTED	3
AMENDMENTS	3
COLLATERAL PLEDGES, VALUATION AND CREDIT LIMIT	4
INTRADAY LOAN.....	4
APPORTIONMENT	5
AMOUNT OF APPORTIONMENT	5
EFFECTING APPORTIONMENT	5
ADDITIONAL FUNDS.....	6
INTRADAY LOAN REPAYMENT DURING PAYMENTS PROCESSING CYCLE.....	6
INTRADAY LIQUIDITY MANAGEMENT.....	6
NO NEGATIVE BALANCES	6
SETTLEMENT MECHANISMS.....	6
IDENTIFICATION OF SETTLEMENT MECHANISMS.....	7
SETTLEMENT.....	7
PARTICIPANT STATUS IN SETTLEMENT MECHANISMS.....	7
REAL TIME MECHANISM (RTM).....	7
URGENT PAYMENT MECHANISM (UPM).....	8
LSM NET SEND LIMIT	8
LIQUIDITY SAVING MECHANISM (LSM).....	8
RESERVED COLLATERAL MECHANISM (RCM).....	9
EXCESS RCM LIQUIDITY	10
FAILURE TO PAY CDS AND RETURN OF RESERVED COLLATERAL	10
POTENTIAL DUPLICATE SETTLEMENT INSTRUCTIONS.....	11
REJECTION OF DUPLICATE SETTLEMENT INSTRUCTIONS	11
RESUBMISSION OF DUPLICATE SETTLEMENT INSTRUCTIONS	12

IMPLEMENTED

August 29, 2021

AMENDMENTS

1. Updates to accommodate the introduction of Payment Messages in the Lynx MX Format. Approved by the Board June 23, 2022, effective November 20, 2022.
2. Amendments throughout rule to accommodate Swift name rebranding. Approved by the Board May 12, 2023, effective July 11, 2023.

Collateral Pledges, Valuation and Credit Limit

1.
 - a. Each Participant must Pledge Collateral to the Bank in accordance with the terms of the agreements between the Participant and the Bank. Upon receipt, the Bank will determine the value of the Pledged Collateral in accordance with its practices, including the application of the appropriate margin requirements.
 - b. Each Participant must allocate a portion of the value of the Pledged Collateral as determined by the Bank to Lynx through HABS in accordance with the terms and conditions of the agreements between the Participant and the Bank. The value so allocated to Lynx will constitute the Participant's Credit Limit.
 - c. The Participant may adjust its Credit Limit during the Payments Processing Cycle by either increasing or decreasing the allocation of Collateral value to Lynx. Subject to subsection (d), the ability of a Participant to decrease the allocation of Collateral value to Lynx is conditional upon the Participant having a Credit Limit (after giving effect to such decrease), that is equal to or greater than the amount of its Intraday Loan Account balance.
 - d. If the Participant attempts to decrease the Credit Limit to a value lower than the Intraday Loan Account balance, its RTM Lynx Account balance is also taken into consideration. If the Participant has a sufficient RTM Lynx Account balance to reduce the amount of the Intraday Loan Account balance to an amount equal or less than the desired Credit Limit, an instruction will be generated to make an Intraday Loan repayment in the amount needed to make the Intraday Loan Account balance equal to the desired Credit Limit. The Credit Limit decrease will then occur. If the Participant does not have sufficient Available Credit Limit and RTM balance, the Credit Limit decrease will be rejected.
 - e. The Bank will communicate the Credit Limit established under subsection (b) and any adjustment thereof to the Association.

Intraday Loan

2.
 - a. An Intraday Loan to a Participant from the Bank will be made upon the Participant first Apportioning its Credit Limit to a Settlement Mechanism.
 - b. The amount of the Intraday Loan from the Bank to the Participant must be increased by the amount of any subsequent Apportionments.
 - c. A Participant may not Apportion its Credit Limit to a Settlement Mechanism if such apportionment would result in an Intraday Loan that exceeds the value of the Credit Limit communicated by the Bank to the Association.

RULE 8 – MANAGEMENT OF SETTLEMENT MECHANISMS

Apportionment

3. A Participant Apportions value from its Credit Limit to a Settlement Mechanism when it
 - a. instructs the Association to fund a Settlement Mechanism in an amount entirely or partially from the Participant's Credit Limit whether or not an amount of Intraday Liquidity was also transferred along with that Apportioned amount (collectively, the "Instructed Funding Amount" for the purpose of this Rule);
 - b. sends a Payment Message for Settlement in the RTM during Settlement Window 2 when there is insufficient Intraday Liquidity in the Participant's RTM but sufficient Available Credit Limit remains; or
 - c. leaves Settlement Instructions in the LSM Settlement Queue, immediately preceding the closing of the LSM, when there is insufficient Intraday Liquidity in the Participant's LSM and RTM to cover the full amount required for Settlement, but sufficient Available Credit Limit remains.

Amount of Apportionment

4. Provided the amount to be Apportioned does not exceed the Participant's Available Credit Limit, the amount of the Apportionment and the corresponding increase to a Participant's Intraday Loan will be equal to:
 - a. under subsection 3(a), the shortfall between the Instructed Funding Amount and the balance of the Lynx Account for the Participant's RTM, if any, immediately before the Apportionment;
 - b. under subsection 3(b), the shortfall between the amount of the Lynx Payment Obligation and the balance of the Lynx Account for the Participant's RTM; and
 - c. under subsection 3(c), the shortfall between the total amount of the Lynx Payment Obligation(s) that may be Settled prior to the close of the LSM, in accordance with Rule 9, and the combined value of any payment amounts to be simultaneously received (as identified as a result of the multilateral and bilateral off-setting algorithms) and the balances of the Lynx Accounts for the LSM and RTM.

Effecting Apportionment

5. To give effect to each Apportionment and corresponding Intraday Loan increase under sections 3 and 4, the Association must 1) debit the Participant's Intraday Loan Account and credit the Participant's RTM Lynx Account; and 2) immediately debit the Participant's RTM Lynx Account and credit, as applicable, the Lynx Account of the Settlement Mechanism to which the funds were directed or in which the Lynx Payment Obligation is to be settled, in the corresponding amount. Where the funding of a Settlement Mechanism

RULE 8 – MANAGEMENT OF SETTLEMENT MECHANISMS

or the Settlement of a Lynx Payment Obligation also incorporates a transfer of Intraday Liquidity in addition to an Apportionment, the transfer of the Intraday Liquidity will be effected by the Association debiting the Participant's RTM Lynx Account and the crediting the Lynx Account of the destination Settlement Mechanism in the amount of the balance of the RTM Lynx Account at the time the funding request was received in Lynx.

Additional Funds

6. For further clarity, where a Participant wishes to add funds, under subsection 3(a), to a Lynx Account that exclusively consists of Apportioned amounts, the Participant must ensure the Lynx Account for its RTM is zero immediately before the instruction to add the Instructed Funding Amount is made in Lynx. Otherwise, the amount of the Apportionment will be reduced by the amount of the balance of the RTM Lynx Account. Should the balance of the RTM Lynx Account be greater than the Instructed Funding Amount, no Apportionment will occur.

Intraday Loan Repayment during Payments Processing Cycle

7. During the Payments Processing Cycle before the end of Settlement Window 2, each Participant may repay all or part of its Intraday Loan, provided the Participant has sufficient Intraday Liquidity in the RTM to do so. To give effect to such repayment, the Association must debit the Participant's RTM Lynx Account and credit its Loan Account. Any outstanding Intraday Loan balance in the Participant's Intraday Loan Account must be repaid during the Finalization Window in accordance with Lynx Rule 9.

Intraday Liquidity Management

8.
 - a. Each Participant is responsible for managing its own liquidity.
 - b. Each Participant's total available liquidity at any given time during the Payments Processing Cycle is equal to the sum of its Available Credit Limit at that time and its Intraday Liquidity.
 - c. The maximum amount that may be transferred from one Settlement Mechanism to another must not exceed the amount of Intraday Liquidity available at the time of the transfer in the originating Settlement Mechanism.

No Negative Balances

9. The Association will prevent a Participant from having a negative balance in any Settlement Mechanism, with the exception of the Bank in its RTM.

Settlement Mechanisms

10. There are several Settlement Mechanisms within Lynx, each of which may be funded for Settling Lynx Payment Obligations and each operating independently. Subject to

RULE 8 – MANAGEMENT OF SETTLEMENT MECHANISMS

Section 18, the Association will allow Participants to transfer Intraday Liquidity or portions of Intraday Liquidity between Settlement Mechanisms. The Association will prevent Participants from transferring Settlement Instructions between Settlement Mechanisms.

Identification of Settlement Mechanisms

11. It is the responsibility of the Sending Participant to choose which Settlement Mechanism to use to Settle each Lynx Payment Obligation by taking into consideration each mechanism's configuration. The Receiving Participant will receive the Lynx Payment Obligation amount in the Lynx Account for the Settlement Mechanism selected by the Sending Participant.

Settlement

12. In accordance with the Lynx By-law, Settlement of Lynx Payment Obligations will be effected by the Association debiting the Lynx Account for the applicable Settlement Mechanism of the Sending Participant in the full amount of the Lynx Payment Obligation and crediting the Lynx Account for the applicable Settlement Mechanism of the Receiving Participant in the same amount.

Participant Status in Settlement Mechanisms

13. Each Participant must:
 - a. have an operational status of "online" and a LOM status of "active" in the UPM and LSM by 00:30, if processing Settlement Instructions at 00:30, and otherwise no later than 08:00 hours;
 - b. have a LOM status of "active" in the RCM by 15:00; and
 - c. have an operational status of "online" during Settlement Window 2 to receive, where agreed to with the Sending Participant, Settlement Instructions in the RTM.

Real Time Mechanism (RTM)

14.
 - a. Each Participant will use the RTM to receive Apportioned amounts and the proceeds of any Overnight Advances, to repay its Intraday Loan, to Settle Lynx Payment Obligations during Settlement Window 2 only, and may also use the RTM to set aside such Intraday Liquidity that is not immediately required for any LOM.
 - b. Lynx Payment Obligations in the RTM are Settled on an individual gross basis. Where there is insufficient Intraday Liquidity in the RTM plus Available Credit Limit to Settle a Lynx Payment Obligation, the associated Settlement Instructions will be rejected.

RULE 8 – MANAGEMENT OF SETTLEMENT MECHANISMS

Urgent Payment Mechanism (UPM)

15. Lynx Payment Obligations in the UPM are Settled on an individual gross basis when Intraday Liquidity for the full amount of the obligation is available in the UPM. Subject to Rule 7, if there is insufficient Intraday Liquidity in the UPM, the Settlement Instructions will be placed in the UPM Settlement Queue and the associated Lynx Payment Obligation will be Settled when sufficient Intraday Liquidity becomes available in the UPM. Multilateral and bilateral off-setting of queued Settlement Instructions is not available in the UPM.

LSM Net Send Limit

16. a. Where a Participant chooses to set a Net Send Limit on another Participant in the LSM, it must do so prior to the beginning of the Lynx Operating Schedule in which a Net Send Limit is to be in effect. For clarity, Participants cannot introduce a Net Send Limit within the current Lynx Operating Schedule, however, if a Net Send Limit exists, Participants can change the value at any time.
- b. In the event a Participant sends a Payment Message to the LSM that would result in the net value of Settlement Instructions sent and Settlement Instructions received exceeding the Net Send Limit, Lynx will send the Settlement Instructions to the CRM where they will remain until there is enough Net Send capacity for the Settlement Instructions to be released to the LSM for processing. Subject to Rule 7, Settlement Instructions that have been diarized in the CRM will be retried whenever there is a change in the Net Send capacity until it is within the Net Send Limit.

Liquidity Saving Mechanism (LSM)

17. a. Lynx Payment Obligations will be immediately Settled in the LSM when there is sufficient Intraday Liquidity in the LSM and where the priority level for the Settlement Instructions allow. Subject to Rule 7, when there is insufficient Intraday Liquidity in the LSM or when Settlement Instructions of a higher priority are currently queued in the LSM, new Settlement Instructions will be placed in the Settlement Queue and the associated Lynx Payment Obligation will be Settled when sufficient Intraday Liquidity is available in the LSM. Bilateral and multilateral off-setting of Lynx Payment Obligations is also utilized to Settle Lynx Payment Obligations associated with queued Settlement Instructions. Each Lynx Payment Obligation Settled using multilateral or bilateral off-setting is Settled concurrently and accounting Entries are made for the gross value of each individual Lynx Payment Obligation simultaneously. The off-setting algorithms are only available within the LSM.
- b. To achieve Intraday Liquidity savings and allow for the efficient management of Intraday Liquidity, the LSM will use a combination of tools and controls including

RULE 8 – MANAGEMENT OF SETTLEMENT MECHANISMS

Settlement Queues, FIFO by-pass, Net Send Limits, liquidity savings algorithm, payment priority levels, and other features as set out in *TSP-003*.

- c. At the end of Settlement Window 1, Lynx will attempt to settle any remaining Lynx Payment Obligations associated with queued Settlement Instructions in the LSM by using multilateral and bilateral off-setting algorithms. At such time all of the Participant's liquidity is taken into consideration, including the RTM Lynx Account balances (which includes all Intraday Liquidity transferred at the end of Settlement Window 1 from the other LOMs) and its Available Credit Limit.

Reserved Collateral Mechanism (RCM)

- 18.
 - a. Lynx Payment Obligations in the RCM are Settled on an individual gross basis if sufficient Intraday Liquidity is available. If there is insufficient Intraday Liquidity in the RCM, Settlement Instructions will be placed in the RCM Settlement Queue and the associated Lynx Payment Obligation will be Settled on an individual gross basis when sufficient Intraday Liquidity becomes available in the RCM. Multilateral and bilateral off-setting of queued Lynx Payment Obligations is not available in the RCM. If Settlement Instructions remain in the RCM Settlement Queue at the close of Settlement Window 1, they will be rejected.
 - b. Each Participant will fund the RCM by Pledging Reserved Collateral to the Bank in accordance with the following procedures:
 - i. To ensure that the Reserved Collateral is used only for the purpose of settling Reserved Collateral Payment Messages (which are Payment Messages sent to the Bank for the purposes of making a payment to CDS), the Participant must ensure that its RTM Lynx Account balance is zero before Pledging Reserved Collateral to the Bank. The Bank will verify that the Participant's RTM Lynx Account balance is zero before accepting a Reserved Collateral Pledge. If the Participant's RTM Lynx Account balance is greater than zero, the Bank will notify the Participant and will not accept the Reserved Collateral Pledge until such time as the Participant has reduced its RTM Lynx Account to zero.
 - ii. Once the Reserved Collateral Pledge is accepted by the Bank, and in accordance with Section 1, the Bank will value the Reserved Collateral, allocate such value in HABS for Lynx purposes, and communicate the increase of the Credit Limit that is supported by the Reserved Collateral to the Association.
 - iii. Once the Bank communicates the new Credit Limit to the Association, the Association will automatically Apportion funds to the RCM for the full value of the increase in the Credit Limit by debiting the Participant's Intraday Loan Account in the full value of the Credit Limit increase and crediting its

RULE 8 – MANAGEMENT OF SETTLEMENT MECHANISMS

Lynx Account for the RTM, and then debiting the Participant's RTM Lynx Account and crediting its RCM Lynx Account. Participants are restricted from otherwise transferring Liquidity to and from the RCM.

- c. The RCM primarily supports Reserved Collateral Payment Messages. If a Participant erroneously sends to the Bank a Payment Message other than a Reserved Collateral Payment Message through the RCM, the RCM will Settle the Lynx Payment Obligation of such message, and the Bank will have the ability to send, through the RCM, a Payment Message to the Participant to reimburse such payment. Payment Messages other than between the Bank and the Participant will be rejected.

Excess RCM Liquidity

19. If there is Intraday Liquidity remaining in the RCM after CDS has been paid in full by the Participant, such Intraday Liquidity will be transferred by the Association as instructed by the Bank during Settlement Window 1, or by the Association at the close of the RCM during Settlement Window 2, to the Participant's RTM.

Once CDS has been paid in full by the Participant at the completion of the CDSX Payment Exchange, the Reserved Collateral will become fungible with all other Collateral allocated to Lynx.

Failure to Pay CDS and Return of Reserved Collateral

20.
 - a. In the event that a Participant Pledges Reserved Collateral but fails to send Payment Messages for the full amount owing to CDS during CDSX Payment Exchange, the Bank, upon notification from CDS that the Participant has failed to pay CDS the full amount owed, has the right to effect the following transactions on behalf of the Participant:
 - i. transfer from the Participant's RCM all of the Intraday Liquidity that is then available to the Participant's RTM;
 - ii. repay a portion of the Participant's Intraday Loan by transferring Intraday Liquidity from the Participant's RTM to its Intraday Loan Account in an amount equal to the amount of Liquidity transferred in i); and
 - iii. reduce the Participant's Credit Limit that is supported by Reserved Collateral in the amount mentioned in paragraph (i).

To give effect to the transactions mentioned above, the Association must make the corresponding debit and credit Entries in the Participant's Lynx Accounts for the RCM and the RTM and in its Intraday Loan Account.

RULE 8 – MANAGEMENT OF SETTLEMENT MECHANISMS

- b. To complete the transactions and account Entries under subsection (a) and to ensure that the Intraday Liquidity transferred from the RCM to the RTM is used exclusively to repay a portion of the Participant's Intraday Loan, the Association, at the request of the Bank, must temporarily change the Participant Status of the Participant to "Stop All", which will remain in effect until such time that the Bank instructs the Association that the Participant's Credit Limit that is supported by Reserved Collateral has been reduced in accordance with paragraph (a)(iii) above.
- c. Upon the reduction of the Participant's Credit Limit that is supported by Reserved Collateral in accordance with paragraph (a)(iii) above, the Bank is authorized to return to the CDSX upon the instructions of CDS, Reserved Collateral having a value (as assigned by the Bank) equal to the difference between the value assigned by the Bank to all of the Reserved Collateral and the aggregate amount of any Reserve Collateral Payment Messages made by the Participant to CDS.

Potential Duplicate Settlement Instructions

- 21. The Association will place Settlement Instructions in the CRM if the Sending Participant's Swift BIC, sender transaction reference number (Field 20 in the MT Format or "instruction ID" element in the Lynx MX Format), originating date and content of Block 4 (in the MT Format) or the creation date and content of the "document" section (in the Lynx MX Format) of the Settlement Instructions match previously received Settlement Instructions rejected by Lynx. Once Settlement Instructions are placed in the CRM, the Sending Participant will be notified via the Lynx Web Client and the Sending Participant may take actions as outlined in Lynx Rule 7, section 6.

Rejection of Duplicate Settlement Instructions

- 22. The Association will reject Settlement Instructions under the following circumstances:
 - a.
 - i. For the MT Format, when the Sending Participant's Swift BIC, transaction reference number (Field 20), originating date and content of Block 4 of the current Settlement Instructions match the queued, diarized or previously settled Settlement Instructions; or
 - ii. For the Lynx MX Format, when the instructing agent BIC, instruction ID, creation date and the content of the "document" section of the Settlement Instructions match the queued, diarized or previously settled Settlement Instructions;
 - b.
 - i. For the MT Format, when Lynx receives Settlement Instructions with PDE or PDM flag from Swift and the original Settlement Instructions have already been received by Lynx; or
 - ii. For the Lynx MX Format, when Lynx receives Settlement Instructions with

RULE 8 – MANAGEMENT OF SETTLEMENT MECHANISMS

“IsPossibleDuplicate” tag (located in the Request Header) set to “true” or “IsPossibleDuplicate” set to “true” and “DuplicateHistory” tag (located in the Request Header) are present and the original Settlement Instructions have already been received by Lynx;

- c.
 - i. For the MT Format, when Lynx receives Settlement Instructions and Lynx has previously received Settlement Instructions that had a PDE or PDM flag from Swift; or
 - ii. For the Lynx MX Format, when Lynx receives Settlement Instructions and Lynx has previously received Settlement Instructions with “IsPossibleDuplicate” tag (located in the Request Header) set to “true” or “IsPossibleDuplicate” set to “true” and “DuplicateHistory” tag (located in the Request Header) are present.

Resubmission of Duplicate Settlement Instructions

23. Any rejected duplicate Settlement Instruction may be resubmitted unless the duplicate message/or preceding message contains a PDE/PDM tag in the MT Format or “IsPossibleDuplicate” and/or “DuplicateHistory” tag in the Lynx MX Format.