

Minutes of the Canadian Alternative Reference Rate Working Group

Hybrid, 21 May 2024, 11:30 a.m. to 1:00 p.m.

1. Introduction

Members were welcomed to the meeting. The CARR co-chair reminded members that CDOR's publication will cease in just over one month. He reiterated that there will be no extension to that date and that there will be no synthetic CDOR rate published after June 28.

2. CORRA Advisory Group meeting update

Dave Duggan, the Chair of the CORRA Advisory Group (CAG), updated members on the discussions at the recent CAG meeting. He noted that CAG continues to believe that CORRA remains fit for purpose in spite of the slightly higher volatility in CORRA settings at the start of the year. Between October 1, 2023, and March 1, 2024, CORRA set above 5.01% about 55% of the time. However, since March 1, funding pressures appear to have eased and CORRA has set closer to target, setting between 4.99% and 5.01% about 60% of the time. He noted that CORRA trimmed daily volumes have been robust and remain well above the fallback zone. The share of repo trades that settle on a "Tom / Next" basis continues to oscillate within the recent range at around 50% of the funding market while overnight trading volumes have been stable near 25%.

CAG members had a robust discussion on the implications of upcoming changes in the repo market, including through the introduction of tri-party repo, on CORRA setting. The transition away from Bankers Acceptances (BAs) following the cessation of the Canadian Dollar Offered Rate's (CDOR) publication in June 2024 could lead to additional cash in the repo market which could put downward pressure on CORRA. Regulatory changes that require bonds to settle on a T+1 basis could also impact repo markets as custodians and securities lenders reduce the amount of bonds they are willing to lend in the event of greater failed trades. However, on-going quantitative tightening by the Bank of Canada and increased focus on intra-day liquidity by commercial banks could have the opposite effect on CORRA. While the overall impact on the repo market is uncertain, CAG will monitor developments closely.

CAG also discussed the implications of the end of BA issuance after the cessation of CDOR on their portfolios. Most thought 1-month T-bills would be the most likely replacement for BAs as investing in alternative products such as tri-party repos or Asset Backed Commercial Paper would take time.

Finally, he reminded members that the CORRA Governance framework requires that a mandatory review of the CORRA methodology is undertaken every five years to ensure it remains representative of the market it measures, and the data source and the data providers remain optimal for the calculation of the benchmark. The next mandatory review will be in 2025. The depth of the review depends on the degree of any changes in the Canadian repo market. CAG members suggested that given the changes in the repo market, it might be prudent to have a light touch review in 2025 and conduct a more in-depth review in the future.

3. Term CORRA update

Andrew Munn from CanDeal Benchmark Administration Services (CBAS) updated members on the steps the firm is taking to establish new controls to ensure the accuracy and integrity of Term CORRA calculations, following the publication error in March 2024. Implementation will be May 31, 2024. Auditors are currently performing a limited assurance review for CBAS dated April 30, 2024. The final report is due by the end of June. CBAS has also reviewed its process internally and is working with the TMX to enhance operational checks. Finally, he informed members that historical Term CORRA rates, for informational purposes only, will be published free with unlimited access on the [CBAS website](#) from June 3.

A co-chair updated members on potential use cases for Term CORRA. He emphasised that term CORRA cannot be used as a pricing index for term repo transactions. However, Term CORRA could be useful for valuation of CORRA swaps and performance measurement, and some trade finance transactions. Finally, he noted that licensing agreements for Term CORRA will be updated to require firms to share information on how Term CORRA is being used. CanDeal will publish this data on an aggregate basis annually.

4. CDOR transition status

Members from the loan transition subgroup provided an updated on the conversion of CDOR based loans to CORRA or Term CORRA. As expected, the pace of loans being transitioned to CORRA is increasing as the cessation of CDOR approaches. Banks have been working diligently to transition their commercial and corporate loans to CORRA based loans. Although operational and legal resources to transition all loans remains a constraint, the institutions were confident that most loans would transition to CORRA smoothly. Some members suggested that borrowers might extend their CDOR loans for another three months just prior to the cessation date to allow more time to transition their documents, although this was not a suggested approach. It was noted that some borrowers are also using the opportunity to conduct a more holistic review of their lending agreements rather than just focus on the fallback language, which is slowing the transition as this requires more resources. Progress has been slower to transition syndicated loans, especially those where the lead is a non-Canadian bank. Members suggested that the co-chairs of CARR should consider engaging further with the key non-Canadian bank syndicate leads to reiterate the urgency to transition CDOR based loans.

A member from the derivatives subgroup informed members that the conversion of CDOR based swaps to CORRA based contracts cleared at the CME went smoothly without any issues. The member noted that preparations for the upcoming June 8-9 conversion for cleared CDOR swaps at LCH is proceeding well.

A representative from the MX noted that the Canadian futures market has largely transitioned to 3-month CORRA futures. There are currently about 93,000 BAX contracts open but those expire in June 2024. While trading volumes and open interest in the 3-months futures contracts have been robust, trading volumes in the 1-month contract have been low. The MX is working with partners to increase trading volumes in the 1-month contract. They are also working to develop a liquid options market on CORRA futures contracts.

The member from CMHC informed members that it continues to work with issuers to provide consent on the fallbacks for the NHA MBS securities that were issued before November 2020 that

do not have any fallback language. CMHC is also engaging with swap counterparties of the Canada Housing Trust to review the fallbacks in swap contracts with the Trust.

The Communications & Outreach subgroup noted it is continuing to seek relief from the CFTC regarding trade reporting requirements after the cessation of CDOR, similar to what was done with LIBOR trades. This is due to the operational burden of reporting the large number of OTC derivatives that are expected to transition under fallback provisions on or before July 2, 2024.

5. Other items

The next CARR meeting will take place on June 21, 2024. Invitations for the CARR recognition event in July will be sent to those who have been involved in CARR's journey to reform benchmark rates in Canada.

List of attendees

Market representatives

Alexander Nicholson, Bank of America
Andrew Bastien, PSP
Audrey Gaspar, OTPP
Brett Pacific, Sunlife
Bruce Wagner, Rogers Communications
Carl Edwards, Desjardin
Carol McDonald, BMO
Derek Astley, TD Bank
Jason Chang, AIMCO
Jean-Philippe Drolet, National Bank of Canada
Jim Byrd, RBC
Luke Francis, Brookfield
Louise Stevens, CMHC

Observers

Dave Duggan, CAG chair
Philip Whitehurst, LCH
Josh Chad, McMillan LLP
Alex Prince, TMX
Gavin Morris, TMX
Jody Nguyen, TMX
Andrew Munn, CanDeal

Subgroup co-leads

Lisa Mantello, Osler
Elodie Fleury, National Bank of Canada
Robin Das, RBC Capital Markets
Alison Perdue, TS Securities
Mike Elsey, RBC
Carol McDonald, BMO
JP Mendes Moreira, Scotiabank
Sarah Patel, Scotiabank

Bank of Canada

Harri Vikstedt
Wendy Chan
Danny Auger
Xuezhi Liu
Greyson Addo
Thomas Thorn
Zahir Antia