Minutes of the CORRA Advisory Group (CAG) meeting

Hybrid, 8 May 2024, 2:30 p.m. to 4:00 p.m.

1. Introduction

The Chair welcomed members to the meeting. He noted that this would be his last CAG meeting as a new Chair will preside over the next meeting.

2. CORRA market update

Mr. Danny Auger (Bank of Canada) provided an overview of recent trends in CORRA rate settings and trading volumes. He noted that CORRA has recently been trading close to the Bank of Canada's target rate, following a period of elevated CORRA settings at the start of the year. He cited a recent Bank of Canada note which posited that the main drivers of the upward pressure on CORRA were an increase in demand for bonds (funded by repos) by investors with the anticipation that central banks would start lowering policy rates, and a reduction in the supply of cash in the repo market due to the tightening in CORRA-SOFR cross-currency basis. Mr. Auger noted that a reduction in LYNX balances could also have contributed to the upward pressure in CORRA, although CORRA settings have stabilized recently along with the level of LYNX balances. The Bank of Canada conducted Overnight Repo operations in January and February to support the effective implementation of monetary policy by reinforcing the Bank's target for the overnight rate. Since March 1, CORRA has set between 4.99% and 5.01% about 60% of the time, compared to about 25% of the time between October 1, 2023, and March 1, 2024. Finally, he noted that CORRA trimmed daily volumes have been robust and remain well above the fallback zone. The share of repo trades that settle Tom / Next" continues to oscillate within the recent range at around 50% of the funding market while overnight trading volumes have been stable near 25%.

Members discussed the implications of upcoming changes in the repo market on CORRA. 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 put downward pressure on CORRA if custodians and securities lenders reduce the amount of bonds they are willing to lend to avoid 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.

3. Update on Canadian Collateral Management Services

A representative from the TMX presented on the Canadian Collateral Management Services (CCMS) - a Tri-Party Collateral Management Service for Canadian markets developed in conjunction with Clearstream. The product aims to address several challenges in the Canadian secured funding market. It aims to optimize collateral with real time substitution throughout the business day and connect collateral pools across the market. Five banks recently participated in a test trade which went smoothly. The TMX is now in the process of onboarding buy-side firms and a custodian. Pilot trades are anticipated from the end of Q2.

4. Update on the transition from BA futures to CORRA futures

A representative from the MX updated members on the April 26 conversion of BAX contracts that expire after June 2024 into their equivalent 3-month CORRA futures contracts. The process, which involved converting about 130,000 BAX contracts, went smoothly without any technical issues. As a result of the conversion, there are no more BAX contracts expiring after June 2024. Open interest and volumes in 3-month CORRA futures continues to increase, with increased international participation.

5. Update on BA transition

Members 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. Some buy-side members noted that it will take time to transition to a tri-party repo platform as their systems will need to be upgraded. Obtaining approval to invest in "structured" products such as Asset Backed Commercial Paper would also take time.

6. Update on T+1 settlement

Members discussed their preparations for the shortening of the standard settlement cycle for long-term debt market trades in Canada from two days after the date of a trade (T+2) to one day after the date of a trade (T+1). All members noted their firms were ready for the transition. Members further discussed the potential implications on how the market might evolve. Leveraged funds appear to favour settling more of their trades on a T+0 basis while banks might prefer to settle more trades on Tom / Next basis. While the overall impact on the repo market is uncertain, members agreed to monitor developments closely.

7. Other

A representative from the Bank of Canada 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. Members suggested that with the upcoming structural 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. The Bank of Canada will outline the key issues in a short note and set up a call some time in September to discuss the review.

List of attendees

Market representatives
Faye Li, BCI
Bruno Gosselin, Caisse de Dépôt & Placement du Québec
Rick Brown, CIRO
Maxime Vives, Desjardins
Jordan McKenna, GWN Capital
Dave Duggan, National Bank of Canada
Robin Das, RBC Dominion Securities
Mike Van Hees, Scotiabank
Brett Pacific, Sunlife
Elie Elkhal, TMX
Alexandre Prince, TMX
Craig Kinart, TMX
Steve Everette, TMX

Bank of Canada
Sophie Lefebvre
Mark de Guzman
Danny Auger
Neil Maru
Thomas Thorn
Zahir Antia