

Minutes of the Canadian Alternative Reference Rate Working Group

Hybrid, 24 June 2024, 11:30 a.m. to 1:00 p.m.

1. Introduction

Members were welcomed to the meeting. The CARR co-chair highlighted that this was the last week that CDOR will be published.

2. Update on fallback language transition

A representative from the Canadian Depository for Securities (CDS) provided an update on the usage of the CDS Bulletin Services by issuers to inform investors of amendments to the fallback language on securities. He noted that a number of issuers have used the Bulletin to disseminate this information to investors. Issuers can continue to use the Bulletin service even after the deadline indicated in the press release.

The member from CMHC noted that significant progress has been made with issuers to provide consent on the fallbacks for the NHA MBS securities that were issued before November 2020. Information on the CDOR fallback for either Canada Mortgage Bonds or NHA MBS can be found on [CMHC's website](#).

3. Term CORRA update

Andrew Munn from CanDeal Benchmark Administration Services (CBAS) presented analysis on the potential difference in Level 1 (L1) and Level 2 (L2) calculated Term CORRA rates if there is a large move in the OIS rate. He reminded members that the L2 methodology is used only if there is insufficient volume in CORRA Futures. Under the L2 methodology, a fallback rate for Term CORRA is calculated using the previous day's published rate. Specifically, the day's setting will equal the calculated backwards-looking compounded rate for the specific tenor (i.e. 1- or 3-month) for today, plus the difference between 1) the previous day's Term CORRA and 2) a backwards-looking rate computed as of the previous business day for the same tenor. He highlighted potential issues that could occur on days when CORRA Futures experience a large move (from the previous day). For example, on days after the Bank of Canada changes interest rates if these are not fully priced, the difference between the L1 and L2 rates can be material. He emphasized that this has not been an issue so far as Term CORRA volumes have been sufficient to use the L1 methodology. CBAS is however open to reviewing the L2 methodology in the future to potentially incorporate other related market data. Finally, he informed members that historical Term CORRA rates are now being published on the CanDeal [website](#).

Jody Nguyen from the TMX informed members that over 100 clients have signed up for a Term CORRA licence, with over 40 more clients expected to obtain a license shortly. TMX is continuing to work with Bloomberg to provide publication of delayed Term CORRA rates on the Bloomberg. The permitted Term CORRA use cases are being updated to include valuation of CORRA swaps and performance measurement.

Rob Catani from the Montreal Exchange (MX) provided an update on liquidity conditions in CORRA Futures, as well as noting that the last BAX futures contract has now settled. While liquidity in 3-Month CORRA Futures has been very strong, liquidity in the 1-Month contract has the potential to grow further. In an effort to enhance liquidity in the contract, the MX recently announced that it would waive trading fees for members of the Proprietary Trader Program from July 2 through December 31, 2024, to encourage their participation. Finally, the co-chairs thanked Mr. Catani, who is retiring, for his contributions to CARR and particularly his leadership in the development of the CORRA Futures contract.

4. CDOR transition status

Members of the loan transition subgroup provided a status update on the conversion of CDOR based loans to CORRA or Term CORRA. As expected, the pace of loans being transitioned has accelerated substantially as the CDOR cessation date approaches. Banks are on track to transition most bilateral corporate and commercial loans by the end of the month although operational and legal resources remain a constraint and some loans may have to be transitioned in early July. Banks have put in place contingency plans for these loans. Converting syndicated CDOR based loans, especially those led by non-Canadian banks, has been more challenging as more participants are required to potentially sign-off on the changes, although most of these loans are expected to be remediated by the end of June. It was noted that for non-domestic loans, banks are increasingly using “suspension of rights” letters, whereby the borrower foregoes their ability to borrow in Canadian dollars using the CDOR option.

A member of the derivatives subgroup noted that most CDOR based derivatives have now transitioned to CORRA contracts or that there is agreement on the applicable CDOR fallback. Those non-cleared derivatives that hedge CDOR based loans, are expected to also transition, together with the loan, to Daily Compounded CORRA (calculated in-arrears) plus the spread adjustment published by Bloomberg. The member from LCH noted that the conversion of LCH cleared CDOR swaps to CORRA swaps went smoothly.

A member of the Cash Securities subgroup noted that the FRN market has smoothly transitioned to CORRA. Only a few tough legacy securities remain to be remediated to CORRA. They also noted that for most bank capital securities (i.e. fixed-floating securities) the potential floating rate referencing CDOR has not yet been modified.

The CARR co-chair also informed the group that the Budget Implementation Act, 2024, No. 1, which includes changes to the benchmark-related measures in the Bank Act has received royal assent.

5. Other items

The CARR co-chair informed members that there has been a sharp decline in BA issuance in June. For example, in the first 14 trading days of May, about \$8.7 billion of 1-month BA trades were reported by CIRO. This declined to \$1.3 billion of trades for the first 14 days in June. While this is a welcomed and expected development, the implication is that BA yields, especially in the 1-month tenor, have declined substantially compared to other money market products. They currently trade 5 bps below the yield on 1-month GoC treasury bills as a result of the remaining

limited BA supply. Consequently, CDOR to OIS spreads have also declined materially since the beginning of June from their normal levels earlier in the spring. Market participants should be aware that the recent CDOR-OIS spread compression is a result of a current scarcity of BAs and does not reflect a fundamental change in banks' cost of funds.

The next CARR meeting will take place on July 8, 2024, followed by a reception to recognize those market participants that have been closely involved in CARR's work in helping to smoothly transition the Canadian financial system from CDOR to CORRA.

List of attendees

Market representatives

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
Rob Catani, 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
Mike Elsey, RBC
Carol McDonald, BMO
JP Mendes Moreira, Scotiabank
Jacqueline Green, CIBC
Daniel Parrack, CIBC

Bank of Canada

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