

## **Minutes of the CORRA Advisory Group (CAG) meeting**

Hybrid, 18 November 2024, 12:00 p.m. to 1:30 p.m.

### **1. Introduction**

Mr. David Duggan, the out-going CAG Chair introduced Annaleigh Greene, Head of Fixed Income Collateral Finance and Money Markets at BMO Capital Markets as the new Chair of CAG. Ms. Greene thanked Mr. Duggan for his leadership of the Group over the past few years. Mr. Duggan will remain a member of CAG.

The new Chair welcomed members to the meeting. She informed them that CAG's membership has been expanded to include repo traders from the Canadian banks and portfolio managers from international hedge funds that are active in the Canadian repo market.

She provided an update on the CORRA Sunset review that is planned for 2025. She noted that the Bank of Canada, as the CORRA administrator, conducts a review of the CORRA methodology every five years to ensure CORRA remains representative of the market it measures, and the data source and the data providers remain optimal for the calculation of the benchmark. The Bank of Canada has been working with industry to help determine the scope of the upcoming sunset review. Industry groups have determined that CORRA remains largely representative of the general collateral Government of Canada repo rate, and it currently does not require any major definitional changes. The timing of the 2025 review has been pushed to Q4-2025 to provide time to assess the changes in repo market dynamics that have resulted from the recent changes to repo market structure. The scope of the 2025 review should include an analysis of and potential recommended changes to, where applicable, the trim rate, the inclusion of Bank of Canada trades, and the minimum fallback volume threshold. In the near-term, CAG is responsible for providing the Bank of Canada guidance on any additional statistics on CORRA that it could publish to increase transparency around the rate.

### **2. CORRA market update**

A representative from the Bank of Canada provided an overview of recent trends in CORRA rate settings and trading volumes. He noted that CORRA has been setting higher since May 28<sup>th</sup>, when the market transitioned from a T+2 to a T+1 settlement cycle for government bonds. CORRA has set 5bps or more above the target rate about 35% of the time since May 28. The CORRA percentiles have also significantly widened since then, coinciding with higher CORRA settings.

The volume of repo transactions included in the calculation of CORRA has also increased significantly since May. Prior to the move to T+1 settlement, CORRA trimmed daily volume was stable, averaging around \$13bln daily, with a range between \$10bln and \$20bln. However, since the change in settlement period, trimmed volumes used to calculate CORRA have more than doubled, averaging about \$40bln daily. This reflects a significant shift from repo trades that settled on a tomorrow/next basis to overnight settlement. He highlighted that the share of repo volume that settles overnight now accounts for 50% of total daily volume, compared to 25% before May.

In contrast, repo trades that settle tomorrow / next have fallen to 25% of daily volume from 50% over the same period. The share of client repo trades relative to inter-dealer broker trades has also increased since May 28<sup>th</sup>.

The representative reminded members that the Bank of Canada made changes to the term and conditions of its Overnight Repo Operations on a few occasions in response to elevated CORRA settings.

### **3. CORRA transparency statistics**

A representative from the Bank of Canada presented the results of a survey of members on additional CORRA statistics that the Bank could consider publishing (along with CORRA) to provide more transparency. He noted that most members were in favour of publishing some additional statistics, such as the mean, mode, and additional percentiles to better understand the distribution of repo rates. However, they cautioned that if the additional data is too granular, it could undermine the integrity of CORRA. Members did not believe data on the types of trades and counterparties (such as trades between dealers or between dealers and clients) would provide useful additional information.

He provided examples demonstrating the additional information value on CORRA settings if the Bank published the mean and mode, and more percentiles. He noted that publishing the mean and mode would provide useful information on days when CORRA is more volatile. However, he cautioned that the benefits of publishing more percentiles is highly dependent on the percentiles chosen and publishing too many could undermine the integrity of CORRA.

CAG members were requested to submit their final recommendations on whether the Bank should publish the mean and mode, along with specific percentiles of the CORRA distribution that should be published. Based on this feedback, the Bank of Canada's CORRA Oversight Committee will determine what additional statistics the Bank will publish.

### **4. 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 by optimizing collateral with real time substitution throughout the business day and connect collateral pools across the market. He informed members that volumes on CCMS have increased following the successful integration of systems with most of the Canadian banks. He expects all Primary Dealers will be on-boarded by the end of Q1-2025. The TMX is currently working to on-board custodians which will facilitate the participation of buy-side firms.

### **5. Update on T+1 settlement**

Members briefly discussed the impact of the change in settlement cycle for long-term debt market trades. Members agreed that the transition went smoothly, with no market functioning issues. It

was noted that some firms are increasingly settling trades on a T+0 basis in stead of tomorrow / next. This has led to increased volatility in the calculation of CORRA.

**6. Other**

The Chair informed members that the cadence of CAG meetings forward will increase to quarterly from semi-annual to align with the sunset review.