

Minutes of the CORRA Advisory Group (CAG) meeting

Hybrid, 16 January 2025, 11:00 a.m. to 12:30 p.m.

1. Introduction

The Chair welcomed members to the meeting. She reminded them that CAG meetings will be held on a quarterly basis this year to align with the CORRA sunset review.

2. CORRA market update

A representative from the Bank of Canada (the Bank) provided an overview of recent trends in CORRA rate settings and trading volumes around year-end. He noted that there was some upward pressure on CORRA setting towards the end of 2024. The spread between CORRA and the target rate reached +8bps on three occasions. Despite the increase in CORRA settings, market conditions remained orderly. Since the start of the year, funding pressures have eased and CORRA has been setting around +3/+4bps above target, similar to levels seen in early December 2024. The Bank of Canada has been conducting overnight repo operations to provide liquidity to the market.

Members agreed that funding markets functioned well over year-end, despite the upward pressure in CORRA. It was noted that banks had ample access to cash and broader bank funding spreads were stable. One member highlighted that there was some pressure in equity repo rates into year-end, although this partly reflected demand for long equity positions. There were no spillovers into the CORRA market.

Members also discussed the potential impact of the volatility in CORRA setting on borrowers' funding programs as most floating rate notes tend to be priced off compounded daily CORRA in arrears. Feedback from borrowers suggests that minor variations in CORRA setting have minimal impact on their issuance plans as short-lived spikes in CORRA tend to have a very limited impact on total interest paid over the term of the loan.

3. CORRA transparency statistics

The Chair debrief members on the Bank's CORRA Oversight Committee meeting that she attended. The Committee oversees CORRA's methodology and production and will be ultimately responsible for the outcomes of the sunset review.

A member from the Bank informed members that it is currently working to publish the mean and mode of CORRA, as recommended by CAG, by the end of Q1. The new data will be published at the same time as CORRA on the Bank of Canada's CORRA website in a downloadable format. A disclaimer that these new metrics are not considered to be benchmark rates and will be published only for information purposes will be included. A short note explaining the additional transparency the mean and mode provide on CORRA settings will also be published. The Bank will not publish additional percentiles at this stage as this was not deemed to provide significant additional information around CORRA settings.

4. CORRA sunset review

A representative from the Bank provided an update on the CORRA sunset review that will take place this year. He reminded members 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 depth of the review depends on the degree of any changes in the Canadian repo market. The Canadian Fixed Income Forum agreed that due to the significant changes to the structure of the repo market with the development of a triparty repo market in Canada, any future adjustments to the CORRA methodology can occur after 2025 as more time is required to assess the impact of these developments. CFIF has approved the Canadian Alternative Reference Rate Working Group's recommendations that the scope 2025 sunset review should focus on three issues:

- (i) *Is the current methodology to trim the bottom 25% of repo trades still appropriate?* Currently, the bottom 25% of all CORRA eligible repo trades are excluded to remove the effect of bonds that are trading on "special". The review should consider if this percentage is still appropriate or whether other percentiles should be trimmed? Another potential option could be to remove all repo trades that take place below a fixed spread to either CORRA or the Bank of Canada target rate?
- (ii) *Should repo trades done with the Bank be included in the calculation of CORRA?* The Bank's overnight repos/reverse repos are currently excluded because they are intended to reinforce the target rate and were small and infrequent. However, given the greater frequency and size of the Bank's overnight repos, should they now be included in the calculation of CORRA?
- (iii) *Should the minimum \$3bn fallback threshold volume be changed?* Currently, if the trimmed volume is below \$3B, or if the Bank is not able to calculate CORRA for technical reasons, it will be set at the "fallback rate." This minimum threshold ensures that CORRA represents broad conditions in the market for overnight general collateral funding in Canadian dollars for Government of Canada securities. Since the transition to T+1 settlement for securities, trimmed daily volume has tripled to about \$39B from \$13B. Given the increased volume, should the fallback threshold volume be increased?

Members discussed the cost and benefit of the various options. Members have been asked to provide CAG with specific feedback on the options. Based on the feedback, the Bank will conduct further analysis and present the analysis to CAG in April. The objective is to publish any proposed changes in the CORRA calculation methodology for public consultation in the second half of the year. Any changes to the methodology will incorporate the public feedback and will be approved by the Bank's CORRA Oversight Committee by the end of the year.