



SUNSET REVIEW

Kick-off discussion

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Overview: Sunset Review

- At the October 2024 CFIF meeting, CFIF agreed to CARR's and CAG's recommendations on the scope and timing of the sunset review, specifically:
- **Decision 1:** CORRA is representative and fit for purpose and does not require major changes to the calculation methodology
- **Decision 2:** Timing of the 2025 sunset review will conclude in Q4-2025. Given the very recent nature of some repo market changes more time is required to collect data on repo market dynamics
- **Decision 3:** Scope of 2025 sunset review should include an analysis and recommended changes, if applicable, on:
 - Level of the bottom 25% trim rate
 - Inclusion of BoC trades
 - Minimum \$3bn fallback threshold volume
- **Decision 4:** Monitor, analyze and review the following changes beyond 2025 for any potential future adjustments to the CORRA methodology:
 - Mean vs median calculation
 - Changes to methodology arising from the introduction of GoC general collateral baskets

Tentative Timeline

- Jan 16 **CAG**: Gather preliminary CAG views
- Jan-June: Bank conducts analysis and works with CAG offline to advance review
- Feb 18 **CORRA Oversight Committee**: Update for info
- April **CAG** (TBD): CAG assesses review findings (initial draft)
- July-Aug: Bank incorporates CAG comments/makes revisions
- Early-Sept **CAG** (TBD): CAG agreement on review findings (final draft, prior to any public consultation)
- Aug 14 **CORRA Oversight Committee**: Update for info
- Sept-Oct: Public consultations on any proposed methodology changes
- Oct 7 **CFIF**: Update for info
- Mid-Oct: Bank incorporates consultation comments/makes revisions
- Late-Oct **CAG** (TBD): CAG agreement on final review findings
- Nov 6 **CFIF**: CFIF agreement on review findings
- Nov 17 **CORRA Oversight Committee**: Approve final review findings

Initial views: Trim

High-level principles:

- Durable: Notwithstanding structural changes (e.g., CCMS) that might require future adjustments, any change to trim ought to be durable across market environments/cycles
- *KISS: Keep it simple stupid.* There may be a trade-off between calibration and simplicity

Considerations:

- Is the bottom 25% still appropriate or would members like to consider other levels? If so, which percentiles?
- Is a spread more appropriate? If so, versus which rate (CORRA, target, other)? What size spread?
 - Spread to CORRA introduces structural persistence (see Annex)
- Is a dynamic trim (adjusts with level of rates) too complex?

Initial views: BoC ON Transactions

Recall that the Bank's ON repos/reverse repos were excluded because ...

- They are intended to reinforce target
- Only a subset of market participants can transact with the Bank, hence these transactions may not be representative of broad market funding conditions
- In addition, the Bank's ON transactions were infrequent and small at the time

Considerations:

- Access to the Bank's ON repos has not changed: PDs are eligible
- Pricing for ORs: Single price reverse auction (min bid rate = target)
- Pricing for ORRs: fixed rate (target) operations
- The Bank's ORs are now very frequent (every day since July 18) and sizeable (avg \$16B/day)

Initial views: Minimum Trimmed Volume

Minimum trading volume

- 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 GoC securities.

Considerations:

- Minimum trading volume: which is appropriate, outright amount or % of trimmed volume?
- Prior to T+1 transition, trimmed volume averaged \$13B and is now \$39B on average, a 3-fold increase.