

November 2023

Update on Transitioning Canadian Financial Markets from CDOR to CORRA

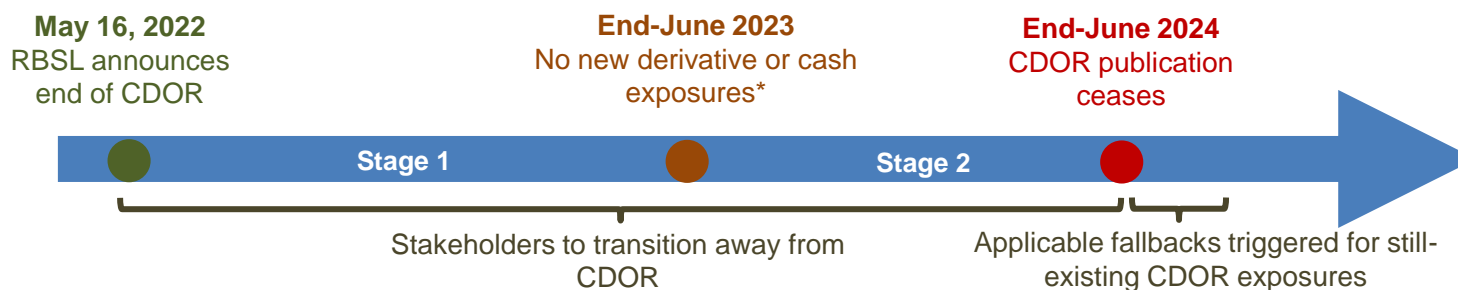
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The views expressed in this presentation are those of the presenters and do not necessarily reflect the views of the Bank of Canada, RBC Capital Markets, or TD Asset Management.



Canadian two-stage transition plan for CDOR

- With RBSL's [announcement](#) on May 16, 2022 that it will cease the publication of CDOR after June 28, 2024, CARR began to implement the two-stage transition plan published in its December 2021 [White Paper](#):
 - ▶ **Stage 1:** By the end of June 2023 all market participants are expected to transition new derivative (bilateral, cleared and exchanged-traded) and securities contracts or transactions from CDOR to overnight CORRA calculated in-arrears. No new CDOR exposure will be booked after that date with limited exceptions. Those exceptions include derivatives that hedge or reduce CDOR exposures of derivatives or securities transacted before June 30, 2023 or in loan agreements transacted through until June 28, 2024
 - ▶ **Stage 2:** Market participants would be allowed to continue to transact in new CDOR based loans, with robust CDOR fallbacks, until the cessation of CDOR after June 28, 2024. Market participants can continue to hedge CDOR based loans with CDOR based derivatives until this end date. Market participants can choose to transition their loan facilities to reference CORRA calculated in-arrears, Term CORRA or any other alternative rate that is available at any point during this transition period
- No CDOR rates will be available or published after June 28, 2024 and any exposure to CDOR after this date will need to revert to any agreed CDOR fallbacks



* Except where derivatives hedge or reduce CDOR exposures in derivatives or securities transacted before June 30, 2023 or in loan agreements transacted before June 30, 2024

CDOR transition roadmap and milestones

■ Phased-in milestone

	Milestones	2022			2023				2024	
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	Refinitiv CDOR announcement, ISDA fallback spread adjustment fixed	● May 16, 2022								
Derivatives	CORRA-first (inter-dealer linear derivatives)				● January 9, 2023					
	1-month CORRA futures launched				● January 23, 2023					
	CORRA-first (inter-dealer non-linear derivs. & cross-currency basis swaps)				● March 27, 2023					
	Liquidity for new client transactions moves to CORRA				■					
	Publish CORRA & Term CORRA swap conventions							● October 2023		
	Conversion of BAX futures								April 26, 2024 ●	
Cash securities	CMB FRNs move to CORRA	● May 18, 2022								
	New issue cash securities transition to CORRA		■							
	Publish recommended transition approach for tough legacy securities					● June 30, 2023				
Term CORRA	Term CORRA consultation	■								
	CARR publishes methodology/approach for 1M and 3M Term CORRA				● January 11, 2023					
	CanDeal to publish beta version of Term CORRA						● July 5, 2023			
	Term CORRA launched						● September 5, 2023			
End of stage 1 “No new CDOR derivatives or securities (except BAs)”					June 30, 2023 ★					
Loans	Publish market conventions for Term CORRA loans					● July 27, 2023				
	New loans can start to reference CORRA calculated-in-arrears				■					
	New loans can start to reference Term CORRA							■		
	“No new CDOR or BA loan” milestone							● November 1, 2023		
	The decline and elimination of BA issuance		■							
End of stage 2 “CDOR cessation”, CDOR fallbacks now in effect					June 28, 2024 ★					

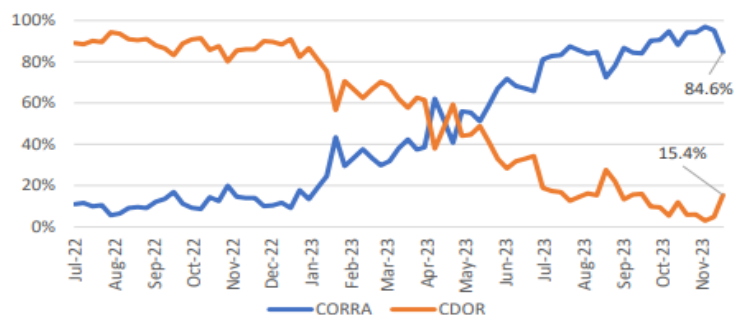
Derivatives transition

From CDOR to CORRA: Weekly derivatives transition update¹

CORRA IR swap DV01 as % of total CAD IR swap DV01:	This week	84.6%	CORRA futures volume as % of total CAD IR futures:	This week	67.2%
	Last week	95.1%		Last week	62.6%

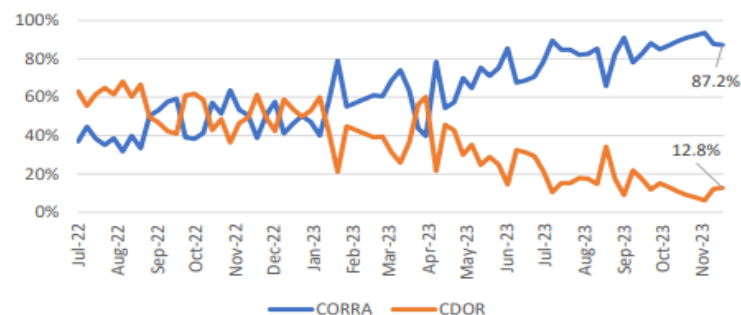
1) Interest rate swaps²

Exhibit 1-1 CAD new LCH-cleared maturity-weighted notional volume (DV01) (%)



Source: LSEG and CARR

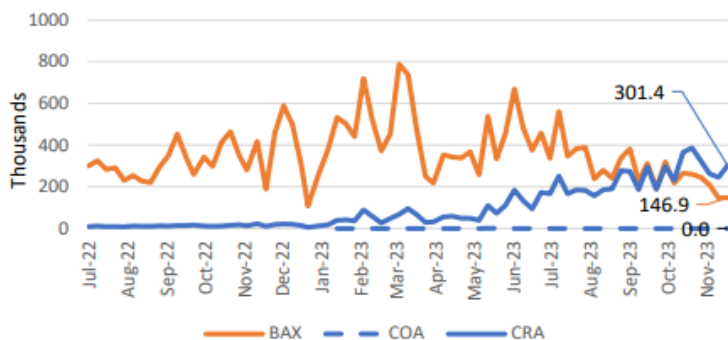
Exhibit 1-2 CAD new LCH-cleared notional volume (%)



Source: LSEG and CARR

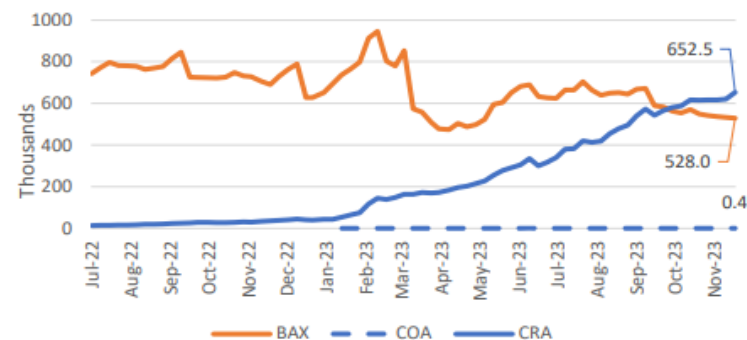
2) Interest rate futures

Exhibit 2-1 Weekly trading volume in **BAX** (CDOR), 1-month **COA** and 3-month **CRA** (CORRA) futures contracts



Source: TMX and CARR

Exhibit 2-2 Weekly open interest in **BAX** (CDOR), 1-month **COA** and 3-month **CRA** (CORRA) futures contracts



Source: TMX and CARR

Impact of CDOR's cessation on BA securities

With the cessation of Canadian Dollar Offer Rate's (CDOR) publication in June 2024, bankers' acceptances (BAs) will cease to exist as a money market instrument. A heightened level of awareness is needed from investors, issuers, regulatory authorities, and policy makers on alternative investment options to BAs to facilitate a successful transition

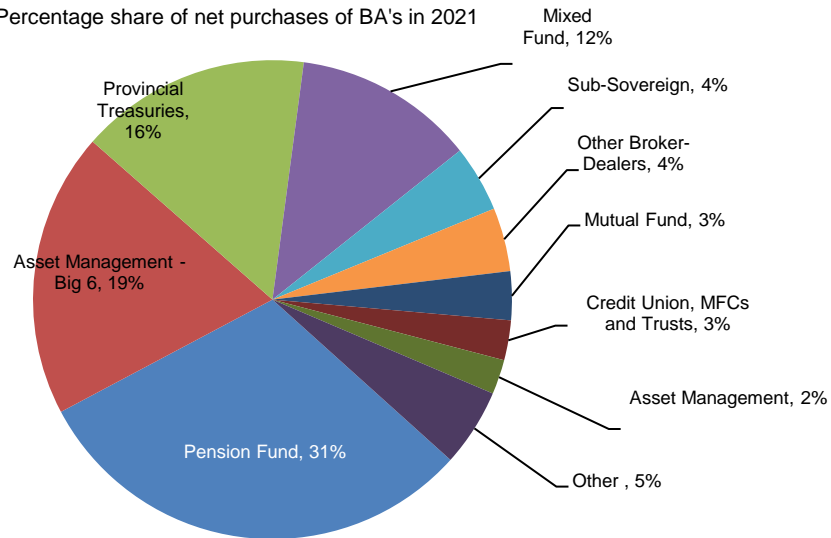
- BAs are debt instruments created by banks as a result of a client loan drawdown from certain types of lending facilities that have a BA based borrowing option:
 - ▶ They are short-term discount instruments primarily issued in the 1-month tenor (the tenor of the BA matches the tenor of the client drawdown)
 - ▶ BAs are the second-biggest security in Canada's money market (accounting for about \$90 billion, or 20% of total assets) and are an especially important asset in the 1-month tenor for money market investors
 - ▶ Banks will replace their short-dated BA funding with longer-dated bearer deposit notes (BDNs), bank deposits or other forms of funding. This will leave a gap in bank-issued money market securities, particularly in the 1-month tenor
- The BA Transition Virtual Network has been working to determine the path forward on BAs. The BATVN's focus has been on helping investors manage the trade-off between term, yield and liquidity in post-BA world

BA Transition Virtual Network created to monitor BA transition

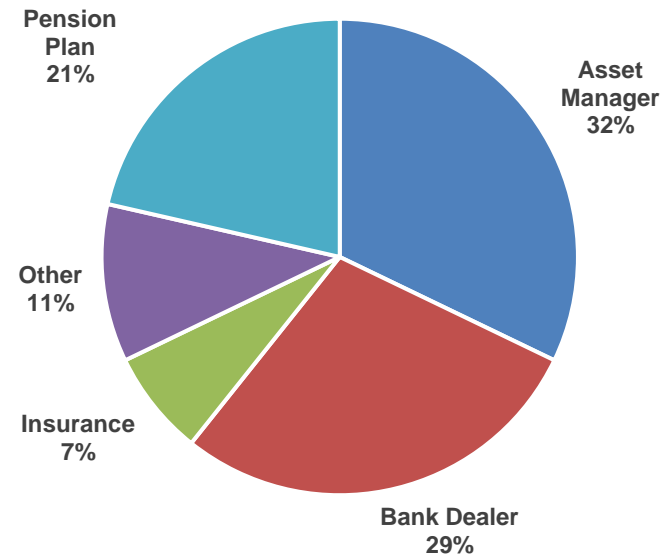
- CFIF has tasked the BA Transition Virtual Network (BATVN) to monitor and help facilitate, where appropriate, a smooth transition away from Bankers' Acceptances (BAs) to ensure the well-functioning of the Canadian money market. BATVN is co-chaired by Elaine Lindhorst (TD Asset Management) and Charles Lesaux (RBC Capital Markets).
- Close to 30 institutions are represented in the Network, accounting for approximately 60% of end-investor BA purchases

Net purchasers of BAs from dealers

Percentage share of net purchases of BA's in 2021



Membership composition



Source: IIROC's Market Trade Reporting System (MTRS) Last observation: 23/09/2021
Bank of Canada calculations

Gap between BA issuance and potential increase in alternatives

- In April 2023, the six major BA issuing banks and their affiliated dealers were surveyed to better-understand how the short-term funding of these institutions may change after BAs disappear with CDOR's cessation.
- The focus of the survey was only on market-based Canadian dollar funding options and did not cover wholesale deposit type or foreign currency funding.

(Billions of Canadian dollars)	Overnight (1 day)	1 Week (2-7 days)	1M (8-46 days)	3M (46 - 125 days)	6M (126 - 210 days)	9M (211 - 300 days)	12M (301 - 365 days)	Total
Current BAs	-	-	70	19	1	1	1	91
Market-based replacements	3	6	15	17	16	9	7	71
BDNs	-	-	-	3	13	8	7	31
ABCP	-	-	3	8	2	-	-	12
Repo	3	6	13	6	1	-	-	28
Difference	+3	+6	-54	-2	+15	+8	+7	-20

Potential alternatives to BAs

➤ **New Alternatives**

1. Triparty Repo – Canadian Collateral Management Service (CCMS) initiative from CDS (TMX)
2. SGC Note – Secured General Collateral (SGC) Note from CDCC (TMX)
3. Secured Discount Note – Bilateral collateralized commercial paper program
4. Potential 1-month Canadian Government T-bills

➤ **Existing Alternatives**

1. Bilateral repo
2. Government T-bills / Provincial T-bills
3. Asset Backed Commercial Paper (ABCP)
4. Commercial Paper (CP) / New CP issuers
5. Floating & Fixed Rate Bank/Bearer Deposit Notes (BDNs)
6. Term Deposits

Recommended path for BA issuance*



*These numbers represent the recommended amounts of BAs to be outstanding in the market at a future point in time. Note that BAs issued prior to June 28, 2024 will remain outstanding until they mature.

Thank you

To sign up for email notifications on CARR's [website](#):

Canadian Alternative Reference Rate Working Group

The Canadian Alternative Reference Rate Working Group (CARR) was created to ensure Canada's interest rate benchmark regime is robust, relevant and effective in the years ahead. Find more information about our **background**, access our **key documents**, **market notices**, **publications**, **meetings**, and **membership**.



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For questions on any aspect of the transition please email CARR-WG@bankofcanada.ca or speak to your banker/dealer or your legal/accounting representatives