

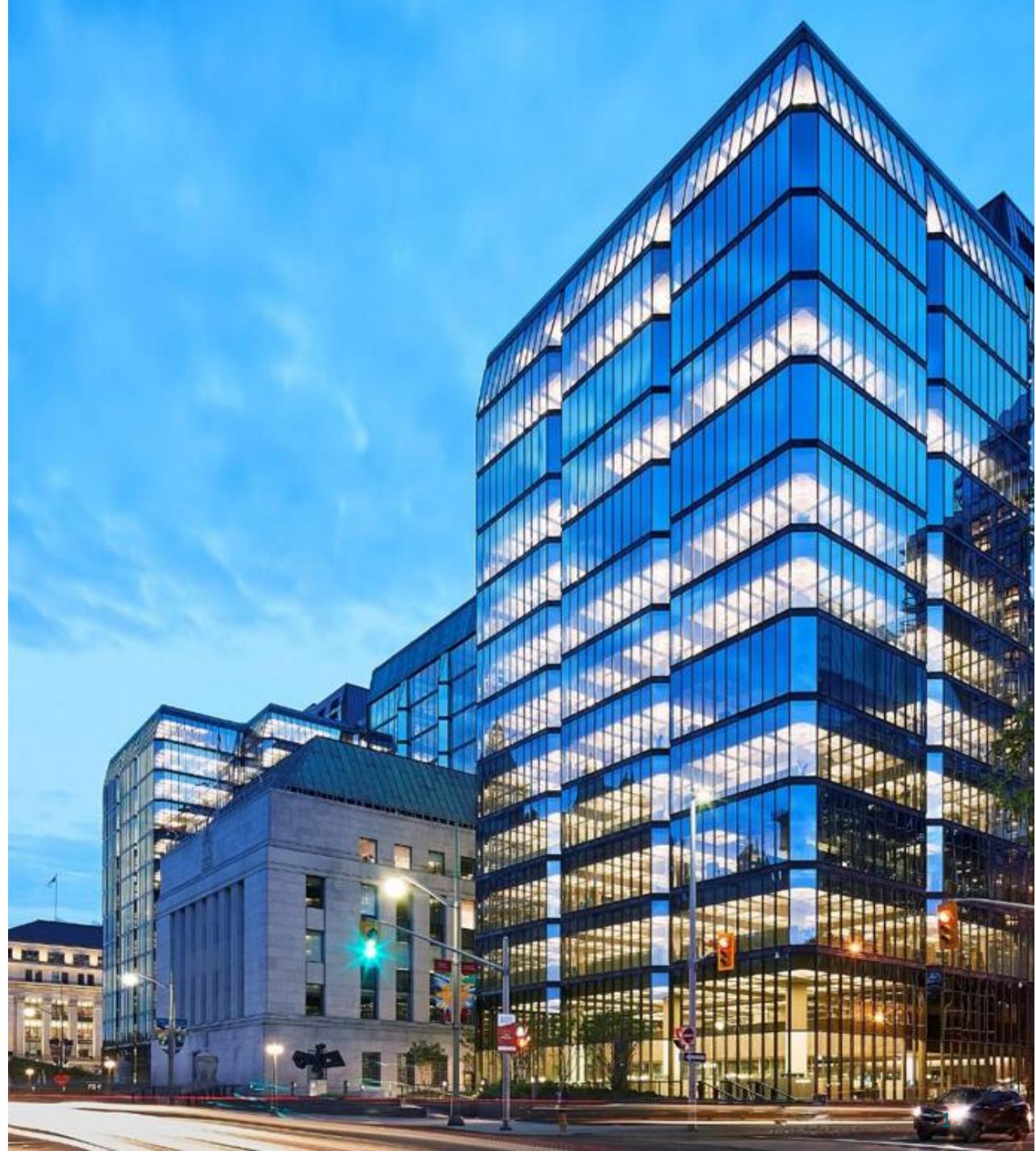
SEPTEMBER 23, 2019

Enhanced CORRA Case Study

Presentation to CARR members

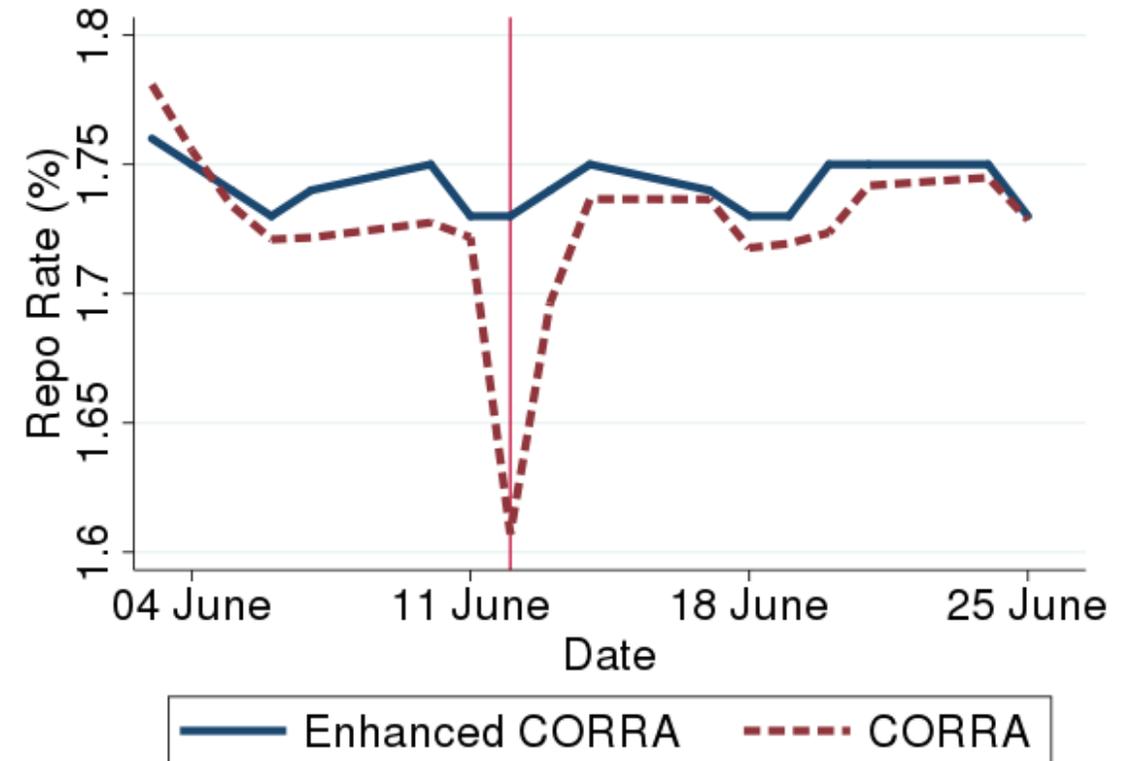
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CORRA set below the BoC target rate on 12 June 2019

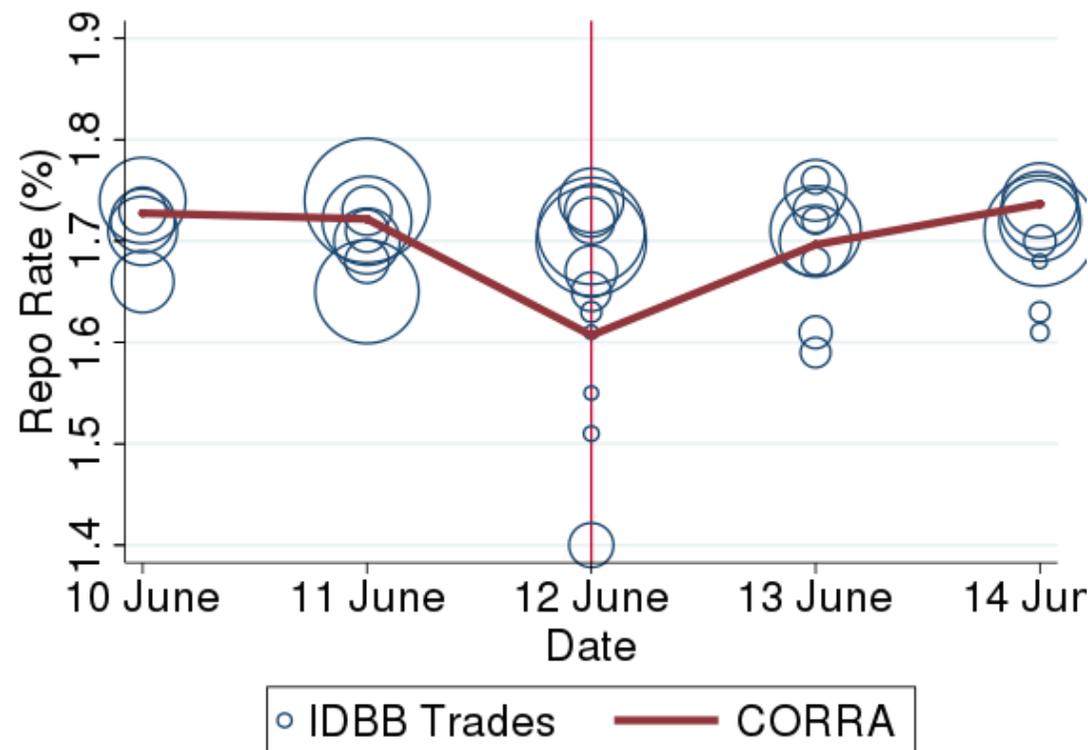
- The difference was 14 basis points, the largest deviation in the last two years
- Enhanced CORRA would have set closer to the target rate: 1.73%
- We will address two questions:
 - ▶ Why was CORRA so low on 12 June?
 - ▶ What were broader funding conditions on that date, and how would enhanced CORRA have behaved?



Source: MTRS2

Filters: (Enhanced CORRA) Trimmed, volume-weighted median rate for repos on Government of Canada (GoC) collateral with overnight term and same-day settlement

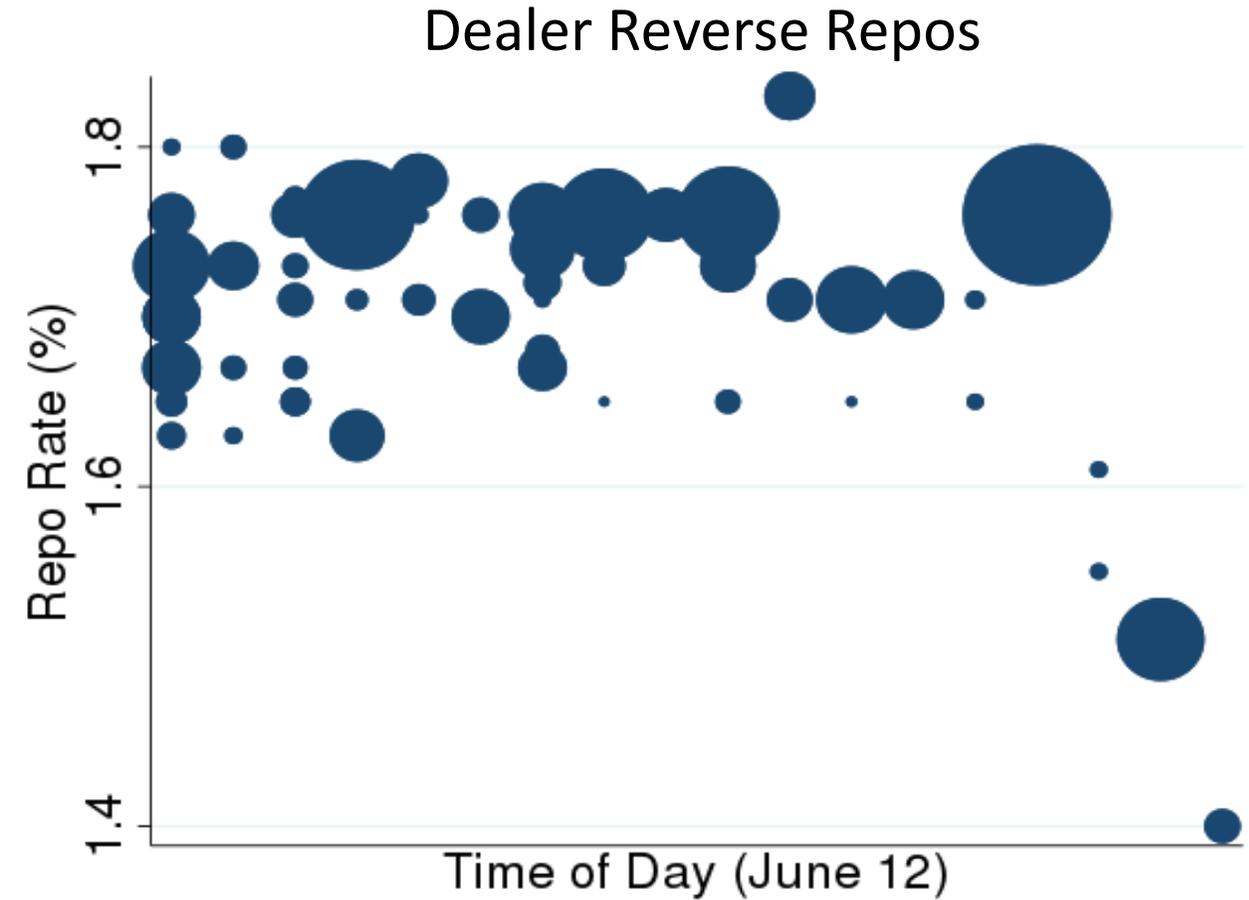
A few large trades through interdealer brokers (IDBBs) affected CORRA



Source: MTRS2

Filters: Only IDBB trades (may include specials); repos on GoC collateral with overnight term and same-day settlement

There was a large decline in rates towards the end of the day

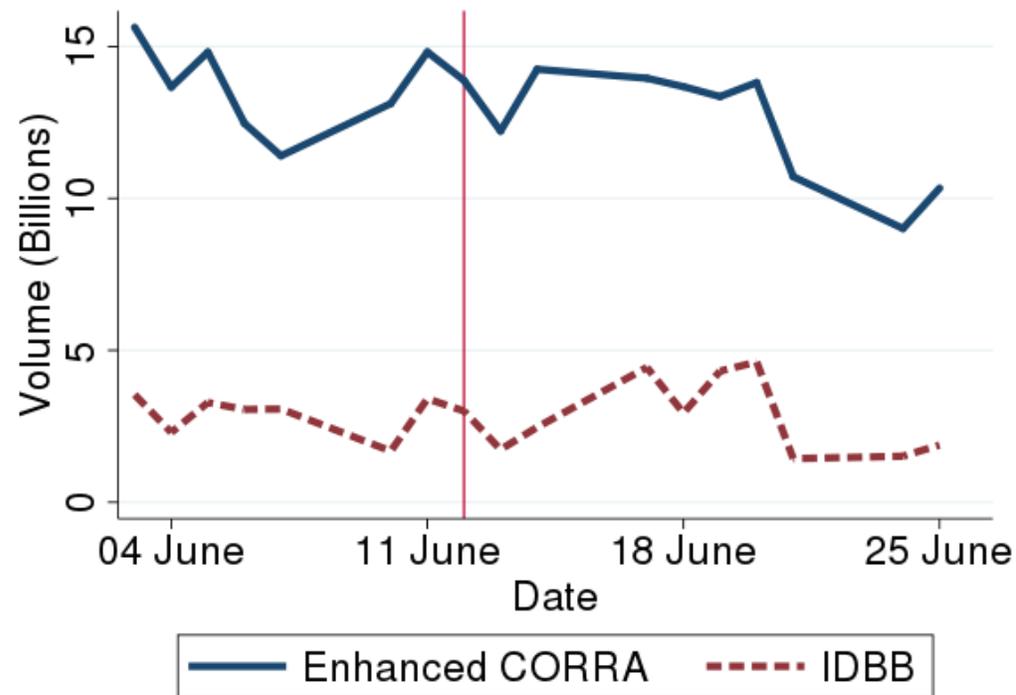


Source: MTRS2

Filters: Reporting dealers' reverse repos on GoC collateral with overnight term and same-day settlement (over the counter and IDBB)

Enhanced CORRA was not affected by these late trades for two reasons

1. The low rate trades are dropped (lowest 25%)
2. Substantially more volume is used to calculate enhanced CORRA
 - ▶ Even without trimming, the volume-weighted mean and median rates were close to the BoC target rate: 1.70% and 1.72%, respectively



Source: MTRS2

Filters (IDBB): Only IDBB trades (may include specials); repos on GoC collateral with overnight term and same-day settlement

Filters (Enhanced CORRA): Only trades above the daily 25th percentile by repo rate; GoC collateral with overnight term and same-day settlement

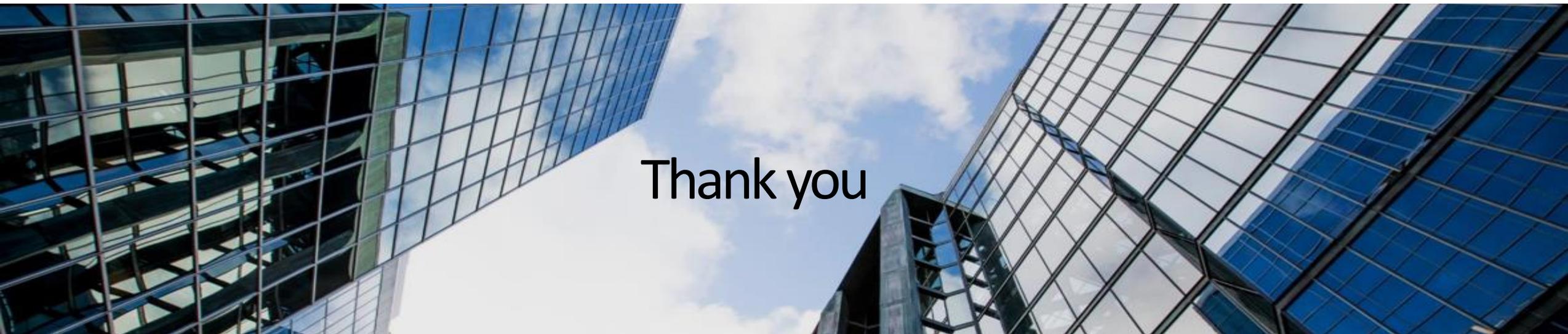
Enhanced CORRA would have been closer to broad funding rates

➤ CARR's original objectives for enhanced CORRA:

1. The rate should be risk-free
2. It should be derived from more volume than CORRA is today
3. It should be simple and easy to explain
4. It should represent overnight, general collateral funding

▶ **The episode demonstrates that enhanced CORRA was closer to other measures of broad funding rates (mean and median) for that day**

This behaviour means enhanced CORRA is relatively stable and predictable



Thank you