

## Canadian Alternative Reference Rate Working Group – Terms of Reference

### Background

Interest rate benchmarks are a cornerstone of the global financial system and are used by market participants across a wide range of financial products and contracts. In 2013, the Financial Stability Board (FSB) established the Official Sector Steering Group (OSSG)<sup>1</sup> to advise the FSB on recommendations to strengthen existing interbank offered rate benchmarks (“IBORs”) and to promote the development of alternative risk-free or nearly risk-free reference rates (RFR) that could be used for many types of transactions, including derivatives. Based on the OSSG’s work, the FSB published in 2014 a set of recommendations for reforming major interest rate benchmarks.<sup>2</sup> Under these recommendations, both existing and new benchmarks would need to adhere to the International Organization of Securities Commissions (IOSCO) Principles for Financial Benchmarks.

In response to the FSB’s recommendations, major jurisdictions have since formed national working groups (NWGs), comprising key market participants, central banks, and market infrastructure organizations. These NWGs work to develop recommendations and implementation strategies based on the objectives set out by the FSB to develop alternative risk-free benchmarks.<sup>3</sup> With the cessation of LIBOR<sup>4</sup> many of these NWGs have focused on implementation plans required to transition their financial systems from LIBOR to the respective overnight RFRs, in some jurisdictions this includes the development of a term RFR, which could be used for loan products.

Consistent with the work being done in other major jurisdictions, the Canadian Fixed-Income Forum (CFIF)<sup>5</sup> established in 2018 the Canadian Alternative Reference Rate working group (CARR). CARR’s initial mandate was oriented around enhancing the existing Canadian overnight RFR (CORRA), facilitating its adoption as a reference rate and providing more robust fallbacks to CDOR.<sup>6</sup> The work on the first objective was completed in 2019 after a set of enhancements to CORRA were identified, consulted upon, and enacted by the Bank of Canada, which took over calculation and publication of the rate on June 15, 2020 using the enhanced calculation methodology. CARR also provided recommended conventions for CORRA based products and worked with market participants, including the International Swaps and Derivatives Association (ISDA), to provide robust fallbacks in the event of a CDOR cessation.

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<sup>1</sup> <http://www.fsb.org/what-we-do/policy-development/additional-policy-areas/financial-benchmarks/>

<sup>2</sup> Reforming Major Interest Rate Benchmarks, Financial Stability Board, July 22, 2014.

([https://www.fsb.org/2014/07/r\\_140722/](https://www.fsb.org/2014/07/r_140722/))

<sup>3</sup> For example, the Alternative Reference Rates Committee (ARRC) in the US

(<https://www.newyorkfed.org/arrc/index.html>).

<sup>4</sup> CHF, EUR, GBP, JPY, and 1-week and 2-month USD LIBOR ceased publication on December 31, 2021, and remaining USD LIBOR tenors will cease publication on June 30, 2023.

<sup>5</sup> CFIF is a senior-level industry group set up by the Bank to discuss developments in fixed-income market structure and functioning, market practices and related policy issues.

<sup>6</sup> In Canada, an overnight RFR, the Canadian Overnight Repo Rate Average (CORRA), has existed since the late 1990s and is used primarily as the floating rate benchmark for Canadian overnight index swaps. CARR has therefore focused on enhancing CORRA rather than developing a new RFR.

At the outset of CARR's work Canada was characterized as a 'multi-rate jurisdiction' where a CORRA benchmark would operate alongside CDOR. But evolving developments in global benchmark standards, benchmark regulation, as well as the increased regulatory impacts on the issuance of banker's acceptances (BAs) provided a catalyst for a more fundamental review of CDOR. Accordingly, CFIF broadened CARR's Terms of Reference in September 2020 to include both a review of CDOR and follow-on recommendations based on the outcome of that review. In December 2021, CARR completed this work by publishing a [White Paper](#) recommending that CDOR's administrator, Refinitiv Benchmark Services (UK) Ltd (RBSL), cease its publication of CDOR after June 2024.

Following a [public consultation](#), RBSL [announced](#) on May 16, 2022 that CDOR's publication would be ceased after June 28, 2024. This decision was authorized by The [Ontario Securities Commission](#) and the [Autorité des marchés financiers](#). The Office of the Superintendent of Financial Institutions (OSFI) has also published their supervisory expectations for federally regulated financial institutions (FRFIs) and federally regulated private pension plans to transition from CDOR. These expectations align with CARR's recommended two-staged transition path. The International Swaps and Derivatives Association (ISDA) has [confirmed](#) that RBSL's statement constitutes an "Index Cessation Event" under its IBOR fallbacks supplement.<sup>7</sup> The announcement also triggers the fallback spread adjustment for CDOR based floating-rate notes that have CARR-recommended fallback language.

With CDOR's cessation after June 2024, and public sector affirmation of CARR's transition timeline, CARR's primary mandate is now to facilitate a smooth transition away from CDOR.

## Key Objectives

Henceforth CARR's primary objectives will be to:

- 1) Support the adoption of, and transition to, CORRA as a key financial benchmark for Canadian derivatives, floating rate securities and loans.
- 2) Design and execute, in collaboration with industry stakeholders, a transition plan, encompassing all products referencing CDOR.
- 3) Promote awareness, including through CARR member institutions, of the need to prepare for CDOR's cessation.
- 4) Consult on the need for a forward-looking term CORRA benchmark. The intended use of term CORRA would be limited to CDOR based loan products and their associated derivatives. If a Term CORRA rate is deemed necessary based on the consultation, CARR will develop an IOSCO compliant Term CORRA methodology and seek a private sector administrator for the rate. The longer-term viability of any new term benchmark created would be dependent on its ongoing compliance with IOSCO principles.

CARR objectives are designed to ensure Canada's interest rate benchmark regime is robust, resilient and effective in the years ahead. Any recommendations will take into account the feedback from relevant stakeholders.

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<sup>7</sup> As a result of this announcement, Bloomberg [fixed](#) CDOR's spread adjustment for CAD CDOR derivatives with ISDA documentation containing ISDA's IBOR Fallbacks Supplement.

## Organization

- CARR will comprise senior members of the Canadian financial industry that have excellent understanding of (1) capital markets, including derivatives; (2) the functioning of bank funding markets; and/or (3) corporate lending or borrowing.
- Members will be selected based on their breadth of expertise/experience and anticipated ability to contribute to the work. Members represent their firms and are expected to:
  - Help promote and lead in transitioning to using CORRA across Canadian financial products, including in derivatives and floating rate notes and loans.
  - Raise (or promote) awareness of CARR's two-staged transition efforts both internally within their organisation, as well as with relevant external stakeholders
  - Dedicate the necessary time and resources to the work of CARR and any applicable subgroup.
  - Have sufficient authority to commit their firms' support and endorsement for CARR's activities.
  - Aim to achieve outcomes that improve the overall efficiency and integrity of the Canadian financial market.
  - Actively participate in the meetings and provide the resources to support the work as needed.
  - Communicate any transition issues identified to both CARR and their senior management.
  - Lead and/or allocate staff to participate on subgroups or workstreams formed to focus on specific issues.<sup>8</sup>
  - Attend all regularly scheduled meetings in-person, when in-person meetings are held, or via video when meetings are virtual. Delegates can attend on an exceptional basis with the agreement of the co-chairs.
  - Be aware of their obligations under the Competition Act and avoid the disclosure of any competitively sensitive information. Members should inform co-chairs of any Competition Act concerns of which they become aware, and which arise from CARR discussions.
- CARR will be co-chaired by a senior representative of the Bank of Canada and a CFIF member. A Bank of Canada lawyer or an external counsel retained by the Bank of Canada will also attend each CARR meeting (either in person or by video) as an observer.
- CARR membership will be comprised of 22 institutions from across the Canadian financial industry, in addition to the Bank of Canada. It will include participants from buy- and sell-side firms, as well as issuers and borrowers. Relevant infrastructure providers may be included as additional (non-voting) members. The chair of the [CORRA Advisory Group](#) will be an observer member of CARR.<sup>9</sup> Changes to the size or composition of CARR will be at the discretion of the co-chairs.
- Decisions taken by CARR should be made by consensus, but in the event of an inability to reach consensus decisions will be made with a two thirds majority.

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<sup>8</sup> Subgroup composition can be broader or narrower than the existing individual CARR members or member institutions and will take into account the relevant required expertise.

<sup>9</sup> If the CAG chair is already a member of CARR, they will retain this membership.

- The Bank of Canada will provide the secretariat function to CARR. The terms of reference, membership, meetings agendas and minutes, once approved, will be made public on the CARR webpage.
- Subgroups will be purely advisory and report their assessment and/or recommendation to CARR on a regular basis for discussion and approval.
- CARR will reach out to and seek feedback from a wide range of stakeholders to create the transparency necessary to achieve broad consensus around CARR's proposals. This could include through targeted industry roundtables and through the publication of any consultation papers.
- CARR and any subgroup will meet as required. Meetings will be held either virtually or, if in-person, either at the Bank of Canada's office in Toronto, or at the offices of a member institution.