



Update from CARR: Inter-affiliate repos and Enhanced CORRA

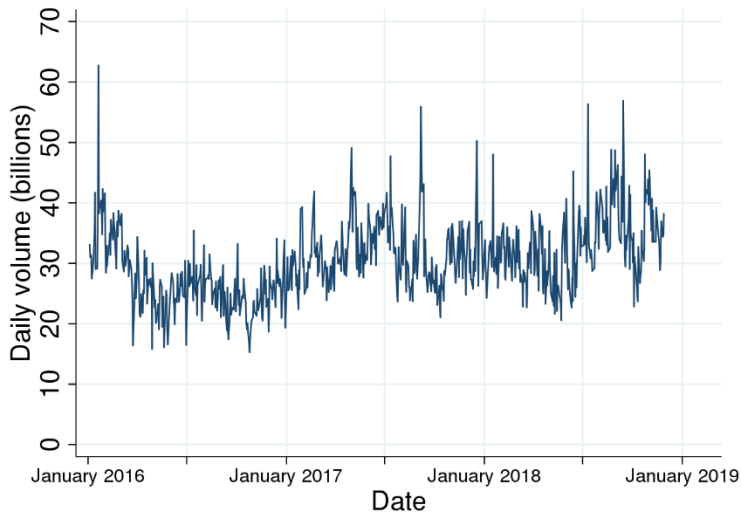
January 28, 2019

Summary – Inter-affiliate Repos

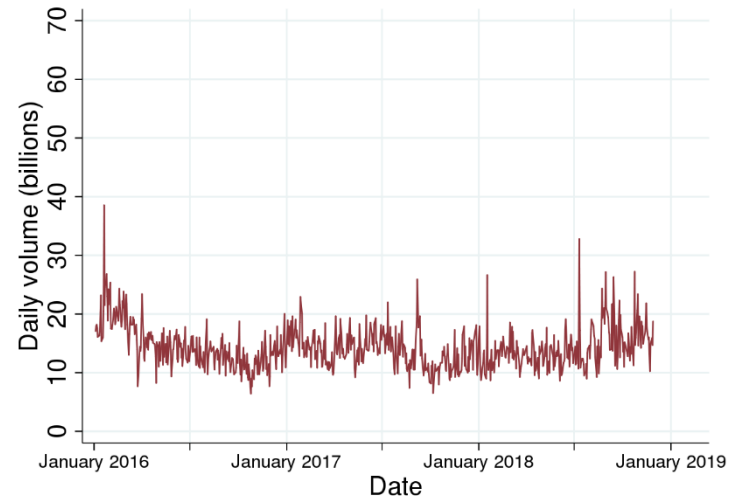
- ❖ At our last CARR meeting, the question was raised as to whether inter-affiliate repos should be included in an enhanced CORRA.
 - Enhanced CORRA results, presented up to this point, have included inter-affiliate trades.
- ❖ **Following analysis and discussion, CARR recommends to *exclude* inter-affiliate trades from an enhanced CORRA.**
 - Although most inter-affiliated trades are conducted at arms length and with consideration of market funding rates, they may include other adjustments (e.g. related to transfer pricing), with approaches differing across institutions.
 - The effort required to identify and flag the inter-affiliate trades that are appropriate for inclusion in an enhanced CORRA may not be justified by the corresponding additional volume gained.
 - Further, some jurisdictions consider that inter-affiliate trades may be more easily manipulated to sway a benchmark rate.
- ❖ No further changes are proposed to the enhanced CORRA methodology (e.g. the 25% filter remains the same).
- ❖ The following slides show the magnitude of inter-affiliate repo volumes in Canada as well as the impact to an enhanced CORRA from their exclusion.

Inter-affiliate repos are approximately half of overnight volume in GoC bills and bonds

**Total overnight repo volume
(tom-next excluded)**



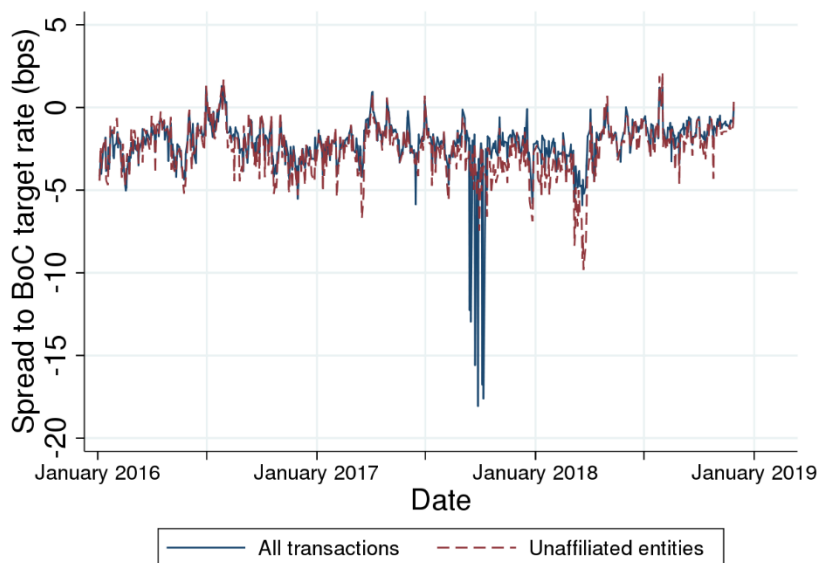
**Overnight repo volume, unaffiliated entities
(tom-next excluded)**



	Daily overnight volume in GoC bills and bonds (\$ billions)					
	All transactions			Unaffiliated entities		
	Avg	Min	Max	Avg	Min	Max
Full sample	30	15	63	14	6	39
2016	27	15	63	15	6	39
2017	32	21	56	14	7	26
2018	33	21	57	14	9	39

Enhanced CORRA, excluding inter-affiliate trades, has a slightly lower rate

Average repo rates: all repos vs. unaffiliated repos



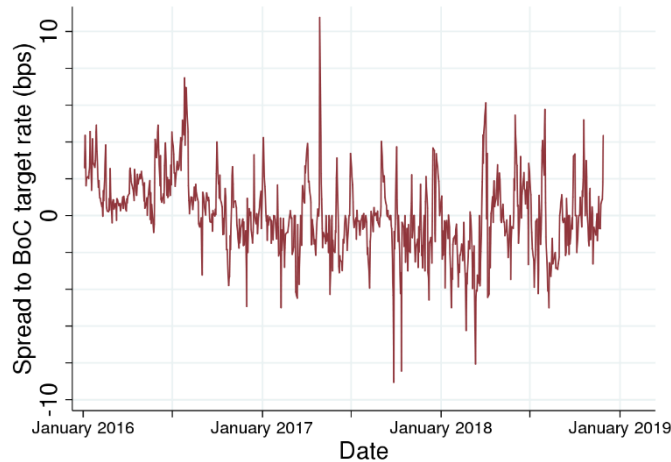
Volume-weighted average rate as a spread to BoC target rate (bps)

	Average	Standard Deviation
All transactions	-2.2	1.6
Unaffiliated entities only	-2.5	1.5
CORRA	0.0	2.1

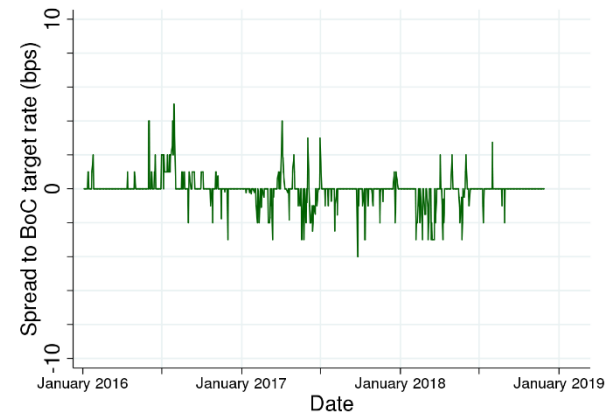
Note – No filter is applied to the results above to correct for the impact of special repos.

Comparing rates: Enhanced CORRA including vs. excluding inter-affiliate repos

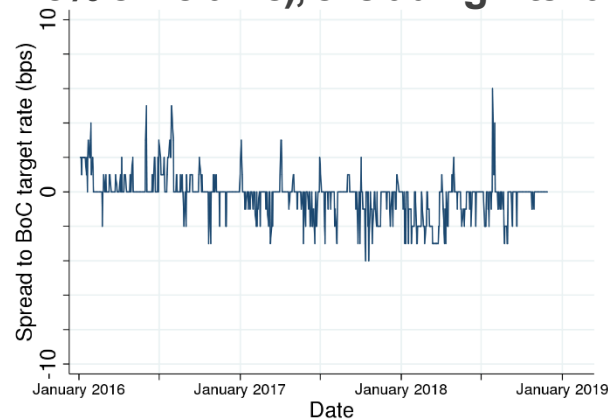
CORRA



Rate median (trimmed lower 25% of volume), including inter-affiliate repos



Recommendation: Rate median (trimmed lower 25% of volume), excluding inter-affiliate repos



Rate median approach: Analysis of filter levels excluding inter-affiliate trades

	Spread to BoC target rate (bps)	
	Average	Standard Deviation
All transactions: 25% trimmed	-0.1	0.9
CORRA	0.0	2.1
Unaffiliated entities only: 25% trimmed	-0.2	1.2
Unaffiliated entities only: 30% trimmed	-0.1	1.2
Unaffiliated entities only: 35% trimmed	0.0	1.3

- ❖ Trimming more than the bottom 25% of trades by volume would have had a small impact on the average rate for an enhanced CORRA
- ❖ Increasing the filter would have led to additional lost volume
- ❖ The subgroup recommends to remain with a 25% filter

Inter-affiliate repos are mostly between banks and their dealer affiliates

Overnight repo volume (tom-next excluded)



	Daily volume (\$ billions)
	Average
All transactions	30
All inter-affiliate	16
Dealer-bank affiliate	14

