



CARR recommendation on an enhanced CORRA

June 4th, 2019

Summary of recommendation

- ❖ CARR ran a public consultation on the proposed methodology for an enhanced CORRA from February 26th to April 30th
- ❖ In total, 15 responses were received. Largely from buy-side and sell side institutions.
- ❖ Based on a careful review of comments received and subsequent discussions at CARR meetings on May 2nd and May 27th, CARR recommends that:
 - CFIF endorse the CORRA methodology as was proposed in the recent consultation paper, with no changes.
 - CFIF endorse certain monitoring and reviewing issues for further discussion by the Transition subgroup and by an eventual benchmark administrator.

Recommendation: Enhanced CORRA methodology

- ❖ The methodology for an enhanced CORRA will be as laid out in the recent CARR consultation paper.

	Description of methodology for an enhanced CORRA
Counterparty types	Transactions are between any two unaffiliated counterparties and where data can be sourced. Repos conducted with the Bank of Canada or as part of the Receiver General auctions are excluded.
Term and time to settlement	Transactions are for an overnight term for same-day settlement (i.e., trades that are agreed to and settled on T+0).
Securities and currency	Transactions involve only GoC bonds or GoC treasury bills and are settled in Canadian dollars.
Rate calculation	<p>The final rate will be computed as the daily trimmed volume-weighted median (trimmed median) of eligible transactions defined above.</p> <ul style="list-style-type: none">• The trimmed median is computed after removing the lower volume-weighted 25th percentile of transactions by repo rate from the set of eligible repos listed above (with the intent to exclude transactions that aim to source a specific scarce security, “specials,” rather than funding).

Recommendation: Governance and monitoring issues

- ❖ Several issues raised in consultation responses should be further discussed by the Transition subgroup.

Issue	Comment	CARR response
Review of enhanced CORRA methodology	<p>Several respondents suggested that enhanced CORRA be monitored on an ongoing basis for:</p> <ul style="list-style-type: none"> • the importance of tom-next trades in the market; • the appropriateness of the 25% filter level; and, • other unspecified issues. 	<p>The Transition subgroup should develop parameters that an Admin may consider in regularly reviewing an enhanced CORRA:</p> <ul style="list-style-type: none"> • Potentially setting triggers for considering changes to the methodology (e.g. new data sources, market structure changes). • That the methodology should be stable and change infrequently. • The subgroup may also consider what frequency of review is appropriate.
Inclusion of tom-next trades and open repos in an enhanced CORRA	<ul style="list-style-type: none"> • One respondent felt tom-next should be included in the calculation because of the large share of the market they represent • Three respondents suggested the inclusion of tom-next be revisited if their market share continues to grow • One respondent asked why open term repos are not included in the enhanced CORRA calculation. 	<ul style="list-style-type: none"> • Although no change to the enhanced CORRA is recommended, the Transition subgroup should evaluate what data should be collected by a benchmark admin to evaluate the importance of tom-next and open repos as the market evolves.

- ❖ The transition subgroup may also consider other governance questions:
 - What historical time series data should be published for an enhanced CORRA?
 - What other metrics should accompany daily publication of the rate? (e.g. percentiles of the distribution of daily repo rates)
 - What should be the minimum threshold to publish enhanced CORRA on a given day? (e.g. based on minimum transaction volume)