Enhanced CORRA Case Study

Presentation to CARR members

Adrian Walton
Senior Economist, Bank of Canada

SEPTEMBER 23, 2019
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

For CARR discussion only
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

For CARR discussion only
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

For CARR discussion only
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

For CARR discussion only