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Global Benchmark Reform Status Update

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Global transition to overnight RFRs – work status

- ISDA is consulting on the calculation parameters for the credit spread adjustment for the revised derivative fallbacks for key IBORs, including CDOR
  - Revised ISDA fallbacks are expected to be finalised by end-2019 or beginning-2020
  - Revised fallbacks will apply to new derivative transactions
  - ISDA will develop a protocol to incorporate the revised fallbacks into legacy products
    - It is expected that all active market participants will sign this protocol
- National working groups are reaching out to system vendors to make sure that front-, middle- and back-office systems can adapt to the in-arrears calculation methodology needed for using overnight RFRs
- Industry associations and national working groups are developing in-arrears loan market conventions/documentation for various overnight RFRs, including for global syndicated loans
  - Some bilateral in-arrears SONIA-based loans have already been issued

Liquidity continues to build in RFR based products and markets

- **The UK has made great progress in transitioning from LIBOR to SONIA** (Sterling Overnight Index Average)
  - SONIA reference floating rate note issuance now dominates sterling FRNs
  - SONIA swap liquidity is on par with GBP LIBOR liquidity

- SOFR liquidity has been slower to build, especially in derivatives, but is expected to substantially pick up in 2020 after the following key events:
  - The finalization of the ISDA fallback definitions and protocol in early 2020
  - Federal Home Loan Banks being restricted from entering most LIBOR-based transactions after Q1-2020
  - The move to SOFR discounting by LCH and CME in H2-2020

Impact of global benchmark transition on multi-rate jurisdictions

- UK authorities "base case" continues to be that LIBOR will cease to be published by the end of 2021

- **Global liquidity moving to RFR based products/markets in LIBOR jurisdictions, will potentially drive liquidity into RFRs in multi-rate jurisdictions like Canada and Australia**
  - Products such as cross-currency basis swaps and multi-currency lending/borrowing facilities will drive the need for increased trading in CORRA based products
  - International market participants are expected to want equivalent RFR products (e.g. CORRA futures) to participate and trade in local markets
  - Global issuers may potentially cease to issue IBOR based products preferring to only issue RFR based FRNs, or at least will only do so if the cost advantage is significantly larger

Progress in Canada

- **Since the last CFIF meeting, CARR has made significant progress**
  - The enhanced CORRA calculation methodology has been finalized and the Bank of Canada has announced it will become the administrator of CORRA once the new methodology is implemented in Q2-2020
  - The transition subgroup has continued to work on the transition path to increase the use of CORRA across both financial products and market participants
    - This subgroup has multiple workstreams including those focused on developing a viable futures contract, calculation conventions/methodologies for cash and swap products and finalizing the CORRA production parameters
    - The subgroup has begun to identify computer systems that use CDORs in order to assess/encourage their preparedness to use CORRA

CARR members expect CORRA to become Canada's primary interest-rate benchmark

Demand for CORRA based products is expected to pick up

- Demand for CORRA based products is expected to start picking up in 2020 after the Bank begins to publish the rate in Q2-2020
- There seems to be pent-up demand for products referencing CORRA, with several foreign issuers having already asked about CORRA-based FRNs
  - The European Investment Bank conducted a small CORRA FRN test trade in May
- Many market participants have indicated a preference to use CORRA for hedging overnight interest rate risk
  - CDOR is not a perfect measure of overnight interest rate expectations - it is difficult to model the basis between CDOR and OIS
  - Enhanced CORRA will track the Bank of Canada's target rate much more closely

CDOR may come under increasing pressure

- **CDOR is a voluntary, survey-based measure that is potentially subject to the same discontinuation risks as other global IBORs**
  - The number of panel banks has declined from 9 to 6 over the past few years
  - While the underlying bankers acceptance market which CDOR is based on has continued to remain relatively robust, BA issuance is concentrated in the very short tenors
    - 1-month BAs account for over 90% of secondary BA volume
    - 6- and 12-month BAs account for less than 1%
  - Post-crisis regulatory changes make the short-dated BAs a relatively expensive funding tool for banks
    - Other jurisdictions with similar loan products, such as Australia, have made substantial changes to their underlying loan structure to better adapt to the new regulatory environment with major implications to their IBOR benchmark

Potential questions for discussion

- Are all CFIF members ready to transact in CORRA related products?
- How do we support or generate the liquidity in CORRA related products?
  - What implications does this have for CDOR related products?
- How do you see CDOR and the BA market evolving?