

# CORRA Transition Update

## Presentation to CARR



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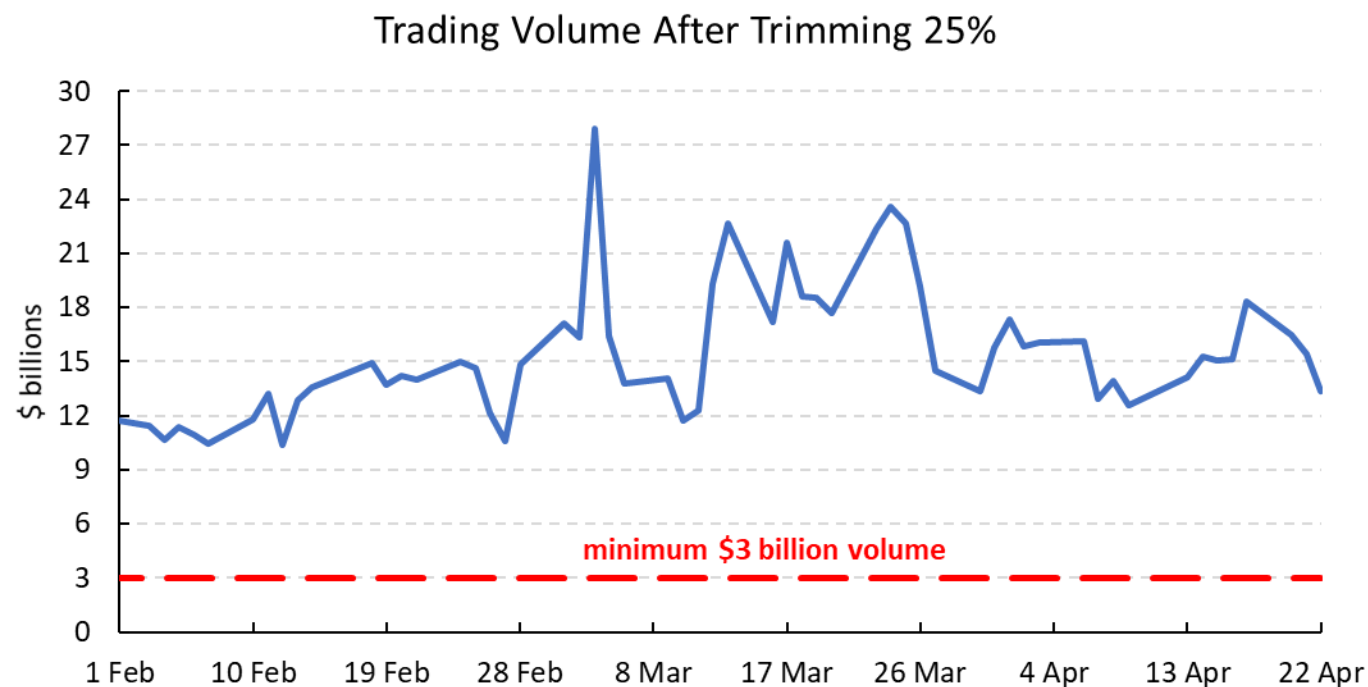
# Summary

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- As announced the Bank will become the CORRA administrator on 15 June 2020. CORRA will be based on the new calculation methodology starting that date
- The monetary policy responses to the COVID19 crisis have affected the dynamics of the overnight repo market
- The CORRA rate calculated under the new methodology remains robust and representative
  - small deviation from the Bank's target rate
  - underlying repo trading volumes have remained stable
- Current CORRA has deviated from the target rate leading to wider basis between the two measures
- The Bank has begun to publish the data for both measures on weekly basis

# New calculation methodology is based on considerable trading volume

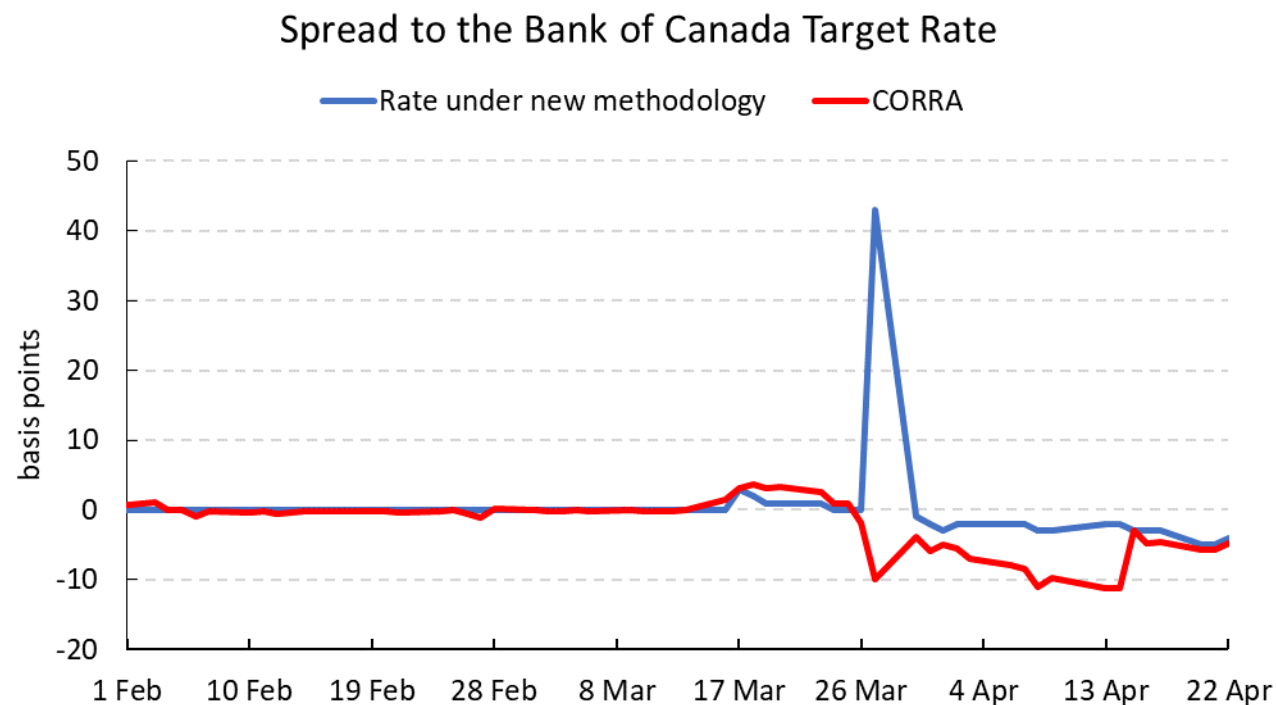
- Trimmed trading volume after removing bottom 25% of trades by repo rate remains in the \$10-20 billion range
- Since 2016 daily trimmed volume has never reached the minimum threshold of \$3 billion



Source: MTRS2

# Rate under new methodology is closer to the target rate than CORRA

- Despite recent market volatility the rate calculated using the new methodology typically remains close to the target rate
- But what explains the large spike on March 27?

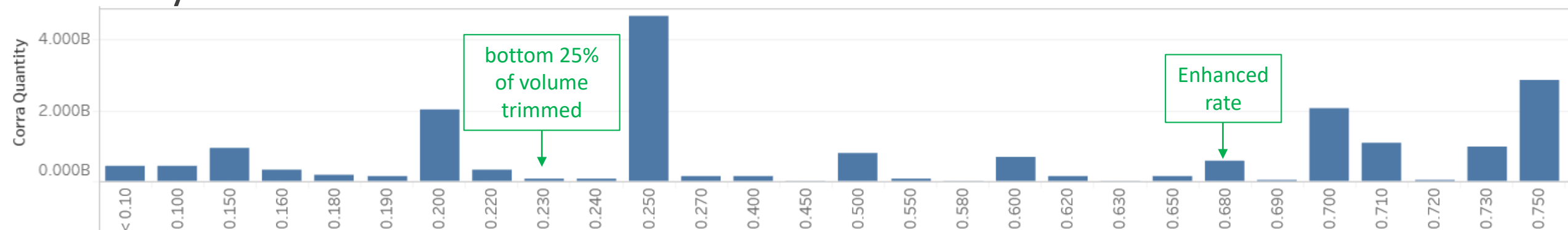


Source: MTRS2, Refinitiv

## March 27: rate under new methodology still representative

- The Bank cut rates by 50 bps on March 27 which was not a scheduled announcement date
- Since the decision was not scheduled, many trades were done around the 0.75% prior to the announcement
- Trading at higher rates before the announcement pushed the rate calculated under the new methodology to 0.68%. This is an expected outcome representing all trades during the day

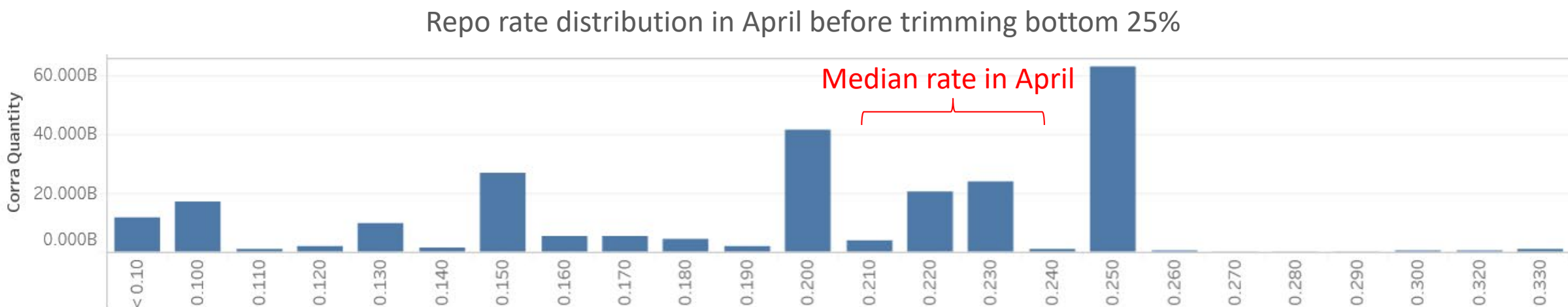
Repo rate distribution on March 27



Source: MTRS2, all trades before trimming

## Rate under new methodology remains a robust measure

- Despite a wide distribution of repo rates and downward pressure, the largest share of trading is at the target rate of 0.25%
- Trimming the bottom 25% of trades by repo rate resulted in the new rate of 0.20-0.23% in April



Source: MTRS2

# Spread between CORRA and the rate under new methodology

- Recent market stress widened the spread between the two measures but the spread has declined from the wide levels
- The Bank is providing data for both rates on its website before the official switch on June 15

Period	Rate under new methodology - CORRA average spread (bps)
1 Jan 2016-31 Jan 2020	0.1
February 2020	0.2
March 2020*	-0.1
April 1-8	5.2
April 9-15	6.3
April 16-22	1.1

\* Excluding March 27 outlier. Average spread for March including March 27 is 2.3 basis points

# Enhanced CORRA is close to market funding rates

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- 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
    - Rate calculated using new methodology during the recent market stress and associated policy response demonstrates that this measure is robust and representative of broad overnight repo market activity
    - This behaviour means methodology yields a rate that is relatively stable and predictable

# Thank you

