



Proposed update to the mandate and structure of CARR

September 15th, 2020

Background – Global context

- Global financial markets are moving from survey-based inter-bank offered rates (IBORs) to transaction-based overnight risk-free rates (RFRs). This will intensify after LIBOR ceases to be published (expected after end-2021).
- RFRs are appropriate reference rates for many asset classes (e.g. floating rate notes, derivatives, securitizations) but not necessarily for some types of loan products (e.g. committed revolving loan facilities).
 - ▶ The behaviour of RFRs, particularly during crises, can cause adverse incentives.
- Work on the merits and alternatives for new credit sensitive benchmarks is currently underway in a number of jurisdictions.

Background – Canadian context

- Canada's IBOR, CDOR, did not suffer the same frailties as LIBOR, but is also a survey-based benchmark.
 - ▶ Recent Canadian reforms related to CDOR have therefore focused on the submission process.
- **However, a thorough analysis on the architectural underpinnings of CDOR, including funding through BAs, has yet to be undertaken**, even though post-crisis reforms to global banking regulation have impacted the effectiveness of BAs as a short-term funding instrument for the banks.

Reflecting these global and domestic concerns, it is proposed that CARR expand its mandate to include an analysis of the current state of CDOR and the underlying BA market, as well as make recommendations based on that analysis.

Proposed changes to CARR's Terms of Reference

- **CARR would be re-structured to have two main objectives, each supported by a separate subgroup:**
 - 1. RFR Transition Subgroup** - responsible for supporting the adoption of, and transition to, CORRA as a key financial benchmark for Canadian derivatives and securities. Other current subgroups would be folded into this subgroup as workstreams.
 - 2. Credit Benchmark Subgroup** - responsible analyzing for the current status of CDOR and its efficacy as a benchmark, as well as making recommendations based on the analysis to ensure Canada's benchmark regime is robust, relevant and effective in the years ahead.

CARR membership

- CARR's membership would be changed to reflect its new mandate
 - ▶ Given the broad nature of this project we would add new members to reflect a slightly wider set of market participants and stakeholders.
 - ▶ Canadian bank members would be adjusted to reflect both trading and treasury functions.
- In addition to these members, CARR will continue to work closely with multiple stakeholders, including the Canadian Bankers Association, the Canadian Bond Investors Association, the Investment Industry Association of Canada, as well as various Canadian regulatory authorities.

Overview of membership changes

Add one large corporation

Add two public sector institutions

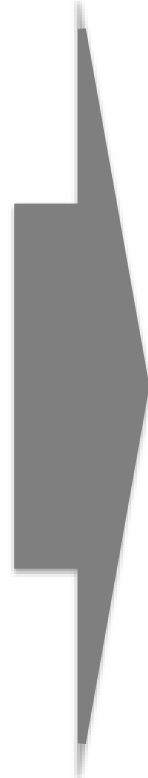
Add one small Canadian bank/CU

Add one international bank

Change Big-6 bank membership to reflect both treasury & trading

Reduce members per Big-6 bank from 2 to 1

Remove one insurance company



CARR's new membership:*

Sell side

Big-6 Canadian banks

Small Canadian bank or credit union

2 international banks

Buy side/issuer

1 international asset manager

3 pension plans

1 insurance company

3 public sector institutions

1 large corporation

= 18 members

** Plus observer members: 2 infrastructure providers, 1 legal, 1 academic, the Bank of Canada, and the chair of the CORRA Advisory Group.*

Tentative credit benchmark timeline

Due date	Item
End-Sept 2020	<ul style="list-style-type: none">• Reconstitute CARR with new ToR and refreshed membership• Establish Credit Benchmark Subgroup
November 2020	<ul style="list-style-type: none">• Credit Benchmark Subgroup to finalize workplan for examining the current status of CDOR and the effectiveness of BA funding markets
April 2021	<ul style="list-style-type: none">• Credit Benchmark Subgroup to provide a draft report and recommendations to CARR
May 2021	<ul style="list-style-type: none">• CARR to table final recommendation to CFIF for review and approval
Summer 2021	<ul style="list-style-type: none">• CARR to publish white paper/consultation on recommended path forward

Questions to CFIF

- Do CFIF members approve the suggested changes to CARR's Terms of Reference?
 - ▶ If so, do you agree with the proposed changes to CARR's membership to better-reflect the work CARR will be doing?