CDOR Review

Canadian Alternative Reference Rate Working Group

14 December 2020

Agenda

1. Overview of CDOR
2. Public Consultation on CDOR
3. Delays in the Publication of Individual Contributions
4. Function of CDOR
5. Feedback from CDOR Consultation
6. Summary

REFINITIV™

DATA IS JUST THE BEGINNING

Overview of CDOR

- The Canadian Dollar Offered Rate, CDOR, is a daily benchmark for the Bankers' Acceptance (BA) market
    - CDOR is the executable rate for corporate borrowers with credit facilities with banks that reference CDOR
    - CDOR is widely used in interest rate swaps, floating rate notes and other financial products
- CDOR is calculated using contributed rates from a panel of 6 banks
    - The panel comprises BMO, the Bank of Nova Scotia, CIBC, National Bank of Canada, RBC and the Toronto-Dominion Bank
    - Refinitiv is the benchmark administrator and CDOR is administered in accordance with the EU benchmark regulation
- CDOR currently comprises 5 tenors: 1 month, 2 months, 3 months, 6 months and 12 months
- CDOR is published daily at 10:15am ET
    - Individual contributions from panel banks are currently published at the same time as CDOR

Public Consultation on CDOR

- Public Consultation on CDOR issued in September 2020 covering two points
  - Viability of 6-month and 12-month CDOR tenors
  - Timing of the publication of individual contributions to CDOR
- Following the review of feedback by the CDOR Oversight Committee, Refinitiv announced that the 6-month and 12-month CDOR tenors would cease to be published from Monday 17th May 2021
- ISDA issued an announcement and guidance under the ISDA IBOR Fallbacks Supplement and Protocol: https://www.isda.org/a/rwNTE/CDOR-tenor-cessation_ISDA-guidance_17.11.2020_PDF.pdf
- A Canadian Securities Administrators (CSA) staff notice also issued on "Matters Relating to CDOR, LIBOR and Other Interest Rate Benchmarks": https://www.osc.gov.on.ca/documents/en/Securities-Category2/csa_20201126_25-302_matters-relating-cdor-libor-other-interest-rate-benchmarks.pdf
- Feedback regarding the possible introduction of a delay in the publication of individual contributions to CDOR requires further consideration before reaching a conclusion

REFINITIV™
DATA IS JUST THE BEGINNING

Delays in the Publication of Individual Contributions

- The Wheatley Review of LIBOR (2012)[1] introduced the concept that individual contributions to IBOR-like benchmarks should be published after a delay, noting
  - "the submissions provide information to contributors that may facilitate manipulation since contributors can, assuming that other contributions do not change significantly from day-to-day, estimate the likely impact of their submission on the overall rate", and
  - "while individual submissions reflect elements other than solely idiosyncratic counterparty credit risk, changes in a particular bank's submission may be interpreted by some observers as an implicit signal as to the creditworthiness of that contributor. Real-time publication of submissions can create incentives to submit a lower rate than would otherwise have been submitted."
- Following reforms to interest rate benchmarks internationally,
  - Contributions to LIBOR are published with a three-month delay on a non-attributed basis
  - Contributions to TIBOR are published with a three-month delay on an attributed basis
  - Contributions to EURIBOR are not published

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/191762/wheatley_review_libor_finalreport_280912.pdf

REFINITIV
DATA IS JUST THE BEGINNING

Function of CDOR

- CDOR is a committed bank lending rate or "executable rate" at which each CDOR contributor is obligated to lend funds to corporate borrowers with existing committed credit facilities referencing CDOR
  - CDOR is therefore a lending rate in the primary market for Bankers' Acceptances (BAs) which are typically refinanced and traded in a secondary market at bilaterally negotiated prices
  - Primary market loans resulting in the creation of BAs were being made at an average rate of approximately $6 billion per day by the end of 2019 with over 90% of loans falling in the 0 – 45 day maturity range
- The LIBOR output statement defines LIBOR as
  - "A wholesale funding rate anchored in LIBOR panel banks' unsecured wholesale transactions to the greatest extent possible, with a waterfall to enable a rate to be published in all market circumstances"
- Although both benchmarks are contributor based, there are differences
  - CDOR reflects a lending rate
  - LIBOR reflects a funding rate

Feedback from CDOR Consultation

- Publication of individual contributions to CDOR simultaneously with the daily publication of the CDOR benchmark provides a level of transparency to CDOR users into the determination of CDOR and therefore into the spread between CDOR and the rates at which BAs trade in the secondary market

- Such transparency may serve to facilitate market dynamics in determining the spread between CDOR and BAs in the secondary market or strengthen the anchoring of CDOR contributions in actual transactions

- Transparency acts to introduce a degree of accountability for CDOR contributors to the market

- The publication of contributions plays a role in facilitating internal controls for CDOR contributors

- The objective of maintaining the independence of CDOR contributions while maintaining a level of transparency might be achieved by publishing anonymized CDOR contributions at the same time as the daily publication of CDOR and publishing the identities of contributors with a delay

Summary

- The original options presented for comment in the CDOR consultation were:
  - The introduction of a three-month delay between the publication of CDOR and the publication of the individual contributions
  - No change
- A third option suggested for consideration may find a suitable balance between transparency and independence:
  - Immediate publication of anonymized contributions followed by attribution after a one-month or three-month delay
  - The range of contributions behind each CDOR determination would be transparent to the market
  - The availability of anonymized contributions should facilitate oversight at contributor banks
  - Whether the accountability of contributors to the market is adversely affected is open to further debate
- Refinitiv invites views and comments from the members of the Canadian Alternative Reference Rate Working Group on the three options listed above

REFINITIV™
DATA IS JUST
THE BEGINNING

Thank you

REFINITIV™

DATA IS JUST
THE BEGINNING