

# **Minutes of the Canadian Alternative Reference Rate Working Group**

Virtual, 22 February 2021, 11:30 a.m. to 1:30 p.m.

## **1. International update**

ISDA provided an update on the global adherence to ISDA's [IBOR fallbacks protocol](#). This protocol allows market participants to include the new robust IBOR fallbacks in existing bilateral interest rate derivative contracts entered into prior to January 25, 2021 (when ISDA's supplement to its definitions incorporating the fallbacks in transactions entered on or after that date came into effect). Most major market participants have signed on to the protocol, with trades representing a vast majority of the existing notional exposure. However, while the notional value of derivatives not yet covered by ISDA's protocol is small, it represents tens of thousands of legal entities. It was also noted that Canadian firms had a relatively high adherence rate, with more Canadian firms signed on to the protocol than firms in other, much larger jurisdictions.

The co-chairs provided some key observations from a recent set of FSB Official Sector Steering Group meetings, which featured sessions that included representatives from various national benchmarks working groups and key industry trade associations. These included:

- Some firms are actively reducing their exposures to LIBOR ahead of its cessation as it can be operationally intensive to operationalize fallbacks once triggered.
- Differing standards within and across markets could make it more difficult for certain financial products, including multi-currency lending facilities, to develop.
- Most jurisdictions are incorporating in-arrears compounding methodology for lending products, however, in the US lending markets, loans based on "simple SOFR-in-arrears" (the arithmetic average of SOFR over the lending period) are seeing more support as they are operationally easier for legacy systems.

LCH highlighted that it had published the [results](#) of its consultation regarding the treatment of outstanding cleared LIBOR contracts when LIBOR tenors cease publication and they are potentially converted into RFR-based contracts. Of particular note was the "spread treatment" part of the consultation, where most respondents supported for spreads to be incorporated into existing trade attributes rather than being settled in cash.

It was noted that the UK Treasury had launched a [consultation](#) on potentially creating a legal safe harbour to buttress the FCA's proposed new powers to wind down critical benchmarks and potentially create temporary synthetic benchmarks to ease benchmark transition for legacy contracts.

## **2. Transition Subgroup**

The Transition Subgroup co-leads provided an overview of recent discussions on FRN fallbacks in CARR's recent [consultation](#). The Subgroup had discussed the proposed fallbacks and the

consultative feedback with a variety of market participants, including some key Canadian FRN issuers. Since issuers typically hedge FRN issuance using swaps, they have sought tighter alignment between CARR's proposed FRN fallbacks and ISDA's fallbacks for derivatives. As a result of these discussions and the consultative feedback, CARR agreed to amend its fallbacks to be consistent with those developed by ISDA.

CARR members reviewed the results of its most recent survey on exposures to LIBOR written under Canadian law.

The co-leads also discussed the subgroup's intention to create a new workstream focused on developing conventions for loans based on CORRA.

### **3. Credit Sensitive Subgroup**

The co-leads discussed the Subgroup's workstreams and their staffing. The subgroup will begin with three workstreams:

- i. ***Size and Scope*** will produce an overview of both the market structure and size of products referencing CDOR and the structure and size of the BA market.
- ii. ***CDOR Submission*** will examine and report on the CDOR submission process within banks
- iii. ***Bankers Acceptance Market*** will examine the effectiveness of BAs as a funding tool and the link between BAs and CDOR.

### **4. CORRA Advisory Group**

The chair of the CORRA Advisory Group (CAG), provided an overview of the group's [February 4<sup>th</sup> meeting](#). The meeting was called to discuss recent activity in Canadian repo markets. CAG members agreed that CORRA continued to accurately track the cost of funding in general collateral repo markets. Some market participants had questioned the reason for occasional gaps between overnight general collateral repo quotes on the inter-dealer broker screens and CORRA's published rate. These gaps result, however, from the fact that inter-dealer broker trades make up a small fraction of the overall transaction volume used to set CORRA.

### **5. Other items**

The next CARR meeting will take place on 29 March 2021 by video conference.

## **List of attendees**

### **Market representatives**

Sandra Lau, AIMCO  
John McArthur, Bank of America-Merrill Lynch  
Karl Wildi, Canadian Imperial Bank of Commerce  
Brent Clode, Central 1  
Louise Stevens, CHMC  
Jason Granet, Goldman Sachs  
Glenn Taitz, Invesco  
Guillaume Pichard, Ministère des Finances du Québec  
Jean-Sebastien Gagne, National Bank Financial  
Mike Manning, Ontario Financing Authority  
Audrey Gaspar, OTPP  
Renaud de Jaham, PSP  
Bruce Wagner, Rogers Communications  
Jim Byrd, Royal Bank of Canada  
Anuj Dhawan, Scotiabank  
Brett Pacific, Sunlife  
Greg Moore, TD Bank

### **Observers**

Philip Whitehurst, LCH  
Joshua Chad, McMillan LLP  
Dave Duggan, National Bank Financial  
Alan White, Rotman School of Management  
Jacques Caussignac, TMX

### **Guests**

Ann Battle, ISDA

### **Bank of Canada**

Harri Vikstedt  
Mark Hardisty  
Maksym Padalko  
Tamara Gomes  
Wendy Chan  
Zahir Antia  
Kaetlynd McRae  
Thomas Thorn  
Andriy Stolyarov