



CARR – Recent developments

April 6, 2021

Background – Global context

- On March 5th, Ice Benchmark Administration announced its intention to cease the publication of LIBOR as follows:
 - ▶ All GBP, EUR, CHF and JPY LIBOR settings at end-2021
 - ▶ 1-week and 2-month USD LIBOR tenors at end-2021 and remaining tenors at end-June 2023
- FCA announced its intention to consult on the publication, for a limited time, of GBP, JPY, and potentially USD synthetic LIBOR for tough-legacy instruments
- UK will also potentially introduce “safe harbor” legislation for the use of synthetic LIBOR
- US and UK regulated financial institutions are also expected to no longer book new USD LIBOR transactions after the end of 2021
- In the US, NY’s legislature has passed a legislative solution to cover contracts with weak or no fallbacks under NY law (Gov. Cuomo has yet to sign); work being done on federal legislation
- ARRC has stated that term SOFR may not be available in 2021

CARR – Work on the transition to RFRs

- Three CORRA FRNs issued since last CFIF meeting by RBC, BMO and CIBC
- CARR expected to publish the results of its recent consultation document this month:
 - ▶ A legal team is working to redraft CDOR FRN fallback language to be tightly aligned with ISDA's, reflecting the feedback of major Canadian issuers – expected to be published in May
 - ▶ **The Bank of Canada will start publishing a CORRA Compounded Index on April 6.** The index could potentially be used in future CORRA FRNs or other instruments referencing CORRA
- **CARR has decided not to go forward with pursuing a legislative solution for LIBOR exposures governed by Canadian law due to their limited size**
- CARR will establish a workstream focused on developing the structure and conventions for loans based on CORRA to help facilitate the potential transition of multi-currency loans to RFRs

CARR – Work on credit sensitive benchmarks

- **CARR's work on CDOR is now underway.** Three workstreams are now fully staffed, have clear mandates, and have begun their work:
 1. **Market and Scope** (lead: Anuj Dhawan (Scotia))
This workstream will analyse the current landscape for BAs and CDOR, as well as current market infrastructure
 2. **CDOR Submission Process** (leads: Alan White (UofT) and Tim Mills (CIBC))
This workstream will review the CDOR setting process
 3. **BA Market** (lead: Jean-Sebastien Gagne (NBC))
This workstream will assess the viability and effectiveness of BAs as a funding tool, the interconnectivity of BAs and CDOR, and the use of BA facilities
- The CDOR Review will be done in two phases: 1) a stock-take and analysis (by June); and 2) a set of recommendations (by August)
 - ▶ Analysis and recommendations will be submitted to CFIF members in September
 - ▶ Any material changes to CDOR will require a public consultation

CARR – CORRA Advisory Group

- CAG was set up to advise the Bank of Canada (as CORRA's administrator) on changes in repo market functioning and emerging methodology issues, as well as on potential changes to CORRA undertaken as part of methodology reviews
- CAG held an ad-hoc meeting in February to discuss differences in early 2021 between CORRA and the Bank of Canada target rate, as well as between CORRA and inter-dealer broker trades ([minutes](#); [presentation](#))
 - ▶ **Members noted that CORRA is meant to track the cost of funding in the general collateral repo market and is not meant to replicate the Bank of Canada's target rate.** Deviations between these two rates under the current monetary policy regime are not unexpected and similar deviations have been observed in foreign markets
 - ▶ Inter-dealer broker trades make up a small fraction of the overall transaction volume used to set CORRA, so variances between CORRA and inter-dealer broker trades are not unexpected

CARR – Outreach efforts continue

- CARR's co-chairs have met in recent months with several groups, including the Canadian Bankers Association, Mortgage-Backed Securities Issuer Association (MBSIA), and Canadian Treasurers Association (CTA)
 - ▶ The CBA discussion focused on updating smaller banks on the work being done on benchmark reform in Canada
 - ▶ The MBSIA focused on the development of a CORRA pool for MBS
 - ▶ The CTA discussion focused both on updating corporate treasurers on benchmark reform and soliciting their participation in the work
- Both the ARRC and the Sterling NWG have updated CARR on their recent transition progress