

Recommended CORRA FRN conventions

This note describes structural terms that the Canadian Alternative Reference Rate working group (CARR) recommends for floating rate notes (FRNs) that rely on CORRA as a reference rate.

CARR is recommending these terms as part of a broader effort to develop and promote market standards for products referencing risk-free rates in the Canadian marketplace. The development of robust market conventions across different types of financial products can help promote liquidity and facilitate both market making and hedging activities. In doing so, market conventions can lead to a more robust market.

These terms are recommended to be voluntarily included in term sheets for new FRNs that reference CORRA. Issuers are free to modify the suggested conventions or to use terms of their own choosing. For greater certainty, firms are not obliged to follow these recommendations. The recommended terms may be subject to change as market practices evolve.

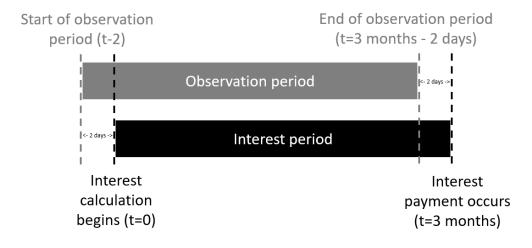
The first section of this note provides a brief overview of the recommended terms, while the second section provides the recommended terms.

Section 1: Brief overview of recommended terms

CARR's recommended conventions for CORRA FRNs are divided into two groups: a) recommended terms; b) other terms. Recommended terms are terms CARR strongly recommends for use in FRN documentation. Other terms are other common terms for FRNs that vary widely between firms. Accordingly, CARR has no recommendations for these terms.

Some key features worth noting in the recommended terms:

- The interest rate plus spread has a floor of zero.
- Issuers may choose between using the Bank of Canada CORRA-in-arrears calculation <u>methodology</u> or the CORRA Compounded Index (see methodology <u>here</u>). While these two methodologies produce economically identical results (i.e. the interest paid will be identical), the CORRA Compounded Index simplifies the calculation of interest and is preferred.
- As illustrated in the figure below, the observation period shift of two days means that the Observation Period (the period of time over which CORRA's daily values are observed and counted towards the FRN's interest calculation) begins and ends two days before the Interest Period. This two-day lag is meant to provide borrowers with sufficient time to calculate the interest due and to arrange for the requisite funds to be transferred.





Section 2: Recommended term sheet

RECOMMENDED TERMS

Interest Rate: Base Rate plus the Spread payable in arrears and reset quarterly (or alternative frequency), provided that if the Interest Rate is less than zero with respect to any Interest Period, no interest shall be owing or payable by or to the Issuer for that Interest Period.

Base Rate: Daily compounded CORRA (Canadian Overnight Repo Rate Average) in respect of the Observation Period.

Observation Period: In respect of each Interest Period, the period from, and including, the date X Toronto Business Days preceding the first date in such Interest Period to, but excluding, the date X Toronto Business Days preceding the Interest Payment Date.

Observation Period Shift: X=2.

Calculation Methodology: Either CORRA Compounded Index Methodology (preferred) or Bank of Canada CORRA-in-arrears Calculation Methodology, using Toronto Business Days.¹

Day Count Fraction: Actual/365 (Fixed) (adjusted)

Toronto Business Day: Means a day on which Schedule I banks under the Bank Act (Canada) are open for business in Toronto, Ontario, Canada, other than a Saturday or a Sunday or a public holiday in Toronto (or such revised regular publication calendar for an applicable rate as may be adopted by the Administrator from time to time).

Interest Payment Dates: Quarterly (or alternative frequency) in arrears, subject to adjustment in accordance with the Business Day Convention for Payment Business Days (preferred) or if unadjusted, to be clearly identified as such.

Interest Period: Each quarterly (or alternative frequency) period from, and including, an Interest Payment Date (or, in the case of the first Interest Period, the Settlement Date) to, but excluding, the next following Interest Payment Date (or in the case of the final Interest Period, the Maturity Date).

Payment Business Day: Toronto Business Day (required) plus any issuer-specific business centres (optional)

Business Day Convention: Modified Following

Fallback Provisions: CARR-recommended CORRA FRN fallback language.

¹ <u>https://www.bankofcanada.ca/rates/interest-rates/corra/methodology-calculating-corra/#index</u>



OTHER TERMS (non-exclusive)

Issuer:

Issue:

Ratings:

Principal Amount:

Launch/Trade Date:

Settlement Date:

Redemption Date:

Maturity Date:

Price:

Spread:

Optional Redemption:

Form and Denomination:

ISIN/CUSIP:

Events of Default:

Documentation:

Distribution/Selling Restrictions:

Governing Law:

Calculation Agent: