

# Minutes of the Canadian Alternative Reference Rate Working Group

Hybrid, 24 April 2022, 11:30 a.m. to 1:30 p.m.

## **1. Introduction**

Members were welcomed to the meeting. The co-chair noted that only two months remained until the end of the first stage of CARR's two-staged CDOR transition. After end-June this year, market participants are expected to cease booking new CDOR exposures except for loans, or any derivatives that hedge loans or that reduce CDOR risk exposure.

## **2. International update**

Members discussed the results of the [first tranche of LCH's conversion](#) of USD LIBOR swaps to SOFR.<sup>1</sup> Although the conversion resulted in a very busy weekend, there were no significant issues. Tranche 2, which covers the bulk of USD LIBOR exposure, will occur on Saturday, May 20.<sup>2</sup> Members then discussed the potential implications of this conversion for the eventual conversion of CDOR swaps.

Members discussed ARRC's [summary and update](#) of its Term SOFR Scope of Use Recommendations. This document both enumerated the existing use cases for Term SOFR and refined its use cases to recognize the ability of end users to enter into Term SOFR-SOFR basis swaps (but not other Term SOFR derivatives) in a wider set of circumstances, even when they do not hold Term SOFR cash assets that they are seeking to hedge. Members briefly discussed how this summary and update related to the permissible use cases for Term CORRA.

Finally, members briefly discussed the extent to which Canadian banks might end up using synthetic USD LIBOR.

## **3. CDOR transition update**

Members noted that, for two consecutive weeks, the [majority](#) of maturity-weighted notional volume in cleared Canadian dollar interest rate derivatives has been priced using CORRA instead of CDOR. This marks a significant shift from the start of the year when only about 10% of these derivatives referenced CORRA. Members agreed that this meant Canadian markets were likely now in an optimal, but limited, period during which both CORRA and CDOR swaps were liquid. It was noted that this was an opportune time for firms to transition from CDOR to CORRA. Accordingly, members agreed it was worthwhile releasing a market notice to highlight this milestone.

The CARR co-chair noted successful outreach events in Vancouver, Calgary and Edmonton. Members agreed that additional outreach events were needed, particularly to discuss the transition with corporate end-users.

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<sup>1</sup> This tranche covered USD-LIBOR vs. USD-Fed Funds basis swaps, USD-LIBOR VNS/Amortizing swaps and USD-LIBOR ZCS.

<sup>2</sup> This tranche will cover USD-LIBOR vs Fixed IRS, USD-LIBOR vs. USD-LIBOR basis swaps and USD-LIBOR vs USDS-SOFR-OIS Compound basis swaps

#### **4. CARR subgroup updates**

The Cash Securities subgroup noted that they were closer to finalizing the document summarizing the subgroup's findings and recommended actions on legacy securities. Members also discussed the potential difference that could arise in some limited circumstances between CARR's recommended daily compounding methodology and the methodology provided used Bloomberg for calculating interest on for the ISDA derivative fallbacks. The subgroup will look into this issue further.

The Derivatives subgroup discussed the transition from CDOR to CORRA in the swap market and its potential impact on liquidity between the two products. With the successful completion of the two tranches of CARR's CORRA-first initiative, most swaps markets are quickly moving to primarily being priced off of CORRA. TMX presented statistics from the Canadian short-term interest futures market. Although CDOR is still the dominant benchmark in futures, there has recently been a shift in some HFT activity. Such a shift in activity often occurs just before major shifts in overall market liquidity.

The Term CORRA subgroup noted that MX's 1-month CORRA future market maker program had been launched and that liquidity was now developing for this instrument. The methodology subgroup will soon be reconvened to discuss potential revisions to the Term CORRA methodology to encompass a wider set of market activity.

The CORRA Loans subgroup discussed its loan remediation paper, which discusses best practices for moving away from CDOR and includes a potential "no new CDOR loan" date. These best practices are catered to the Canadian market, for example including a "loan flip" option, where borrowers can, at times, switch between Term CORRA and CORRA compounded-in-arrears. The liquidity paper is being re-drafted based on member feedback.

The ATR subgroup noted that ATR continues its work in relation to both Term CORRA and tough legacy securities. The subgroup is currently examining how benchmark transition may interact with the Bank Act.

The Operations and Infrastructure subgroup co-chairs noted that only one vendor has yet to respond to its vendor survey. The subgroup's [impact assessment checklist](#) has been published.

The Communications and Outreach subgroup co-chairs discussed the forthcoming episodes of the CARR-TMX webcast [series](#). The subgroup is also developing a set of frequently asked questions for CARR's website. Member discussed potential additional outreach events.

#### **5. Other items**

The CARR co-chair noted the near-weekly meetings of CFIF's BA Virtual Network, which is seeking to facilitate a smooth transition away from BAs.

The next CARR meeting will take place on 23 May 2023.

## **List of attendees**

### **Market representatives**

John McArthur, Bank of America  
Carol McDonald, BMO  
Luke Francis, Brookfield  
Karl Wildi, Canadian Imperial Bank of Commerce  
Karl Wildi, CIBC  
Louise Stevens, CMHC  
Carl Edwards, Desjardins  
Alan Turner, HSBC  
Tom Wipf, Morgan Stanley  
Jean-Sebastien Gagne, National Bank Financial  
Mike Manning, Ontario Financing Authority  
Audrey Gaspar, OTPP  
Andrew Bastien, PSP  
Jim Byrd, RBC Capital Markets  
Guillaume Pichard, Quebec Ministry of Finance  
Bruce Wagner, Rogers  
Elaine Wright, Samuel, Son & Co.  
Anuj Dhawan, Scotiabank  
Brett Pacific, Sunlife  
Derek Astley, TD Bank

### **Observers**

Ann Battle, ISDA  
Philip Whitehurst, LCH  
William Wu, McMillan LLP  
David Duggan, National Bank Financial  
Robert Catani, TMX

### **Subgroup co-leads**

Nicholas Chan, BMO  
Jacqui Szeto, Canso  
Jacqueline Green, CIBC  
Daniel Parrack, CIBC  
Philip White, LSEG  
Elodie Fleury, National Bank  
Lisa Mantello, Osler  
Robin Das, RBC Capital Markets  
JP Mendes Moreira, Scotiabank  
Sarah Patel, Scotiabank  
Alison Perdue, TD Securities  
Ange Shi, TD Securities

**Bank of Canada**

Wendy Chan

Zahir Antia

Owen Zehr

Thomas Thorn