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FORUM

Proposed plan for winding down BA issuance

20 September 2023

Objectives

- CFIF has tasked the BA Transition Virtual Network (BATVN) to monitor and help facilitate, where appropriate, a smooth transition away from Bankers' Acceptances (BAs) to ensure the well-functioning of the Canadian money market

- **BATVN is seeking CFIF endorsement for a key part of this transition: a recommended process for an orderly wind-down of BA issuance starting in November 2023 that balances the needs of BA investors and issuing banks, as well as CDOR benchmark submitters**

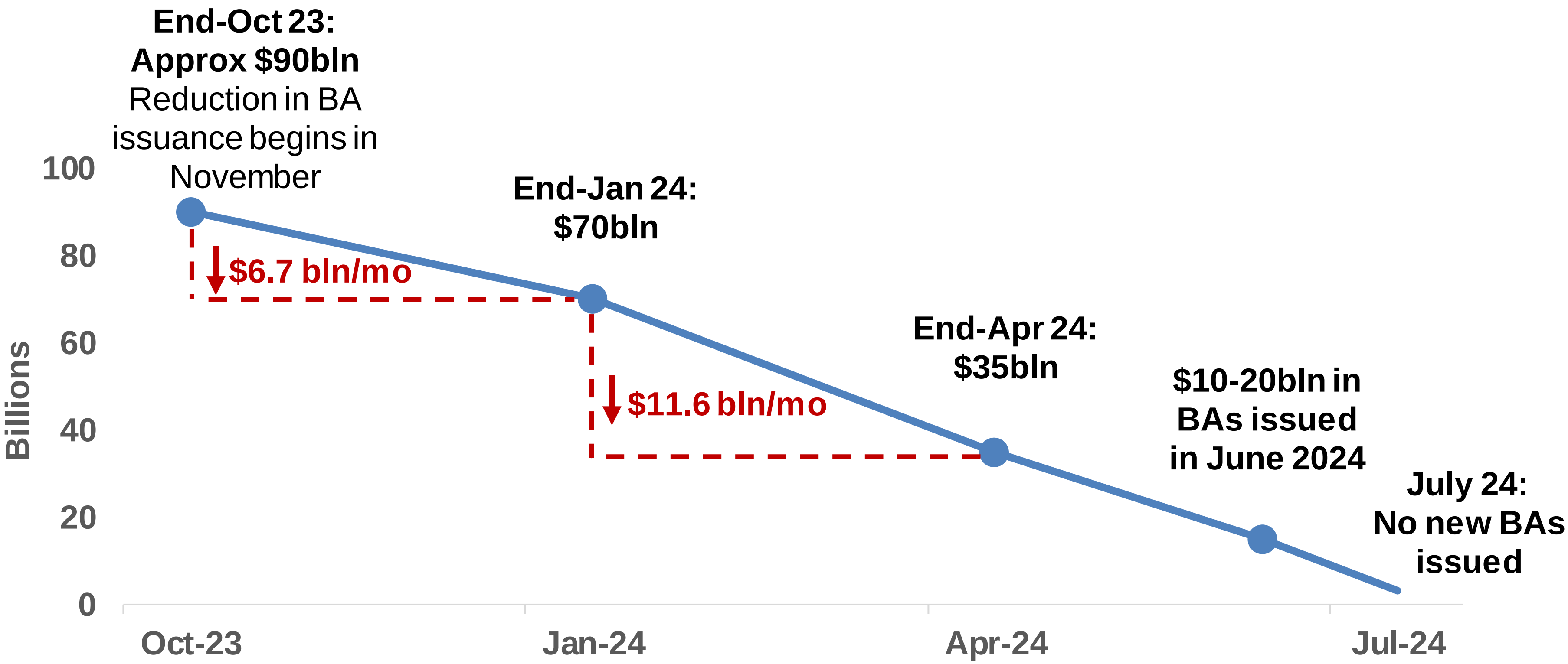
Reduction in BA issuance needs to be carefully managed

- **The BA-lending model, which creates the BAs sold into the market, will cease to exist after CDOR's cessation**
  - BAs will no longer be created or sold into the market after June 28, 2024
  - CARR's "no new CDOR or BA loan" milestone recommends that, after November 1, Canadian banks will no longer provide new CDOR or BA-based loans to clients
    - Borrowers can continue to draw down funds using their existing BA based lending facilities until the end of June 2024
    - After June 2024, loan agreements need to be remediated to no longer reference CDOR or provide the BA drawdown option
- **The reduction in the amount of BAs that are sold into the market should follow an orderly process in order to:**
  1. Avoid a potential sudden large drop or disappearance of BAs which could negatively impact Canadian money market functioning; and
  2. Provide CDOR contributing banks a sufficient basis upon which to determine their CDOR submissions until CDOR's cessation
- **To determine the best path to wind down the BA market, BATVN had a series of discussions with BA issuing banks, CDOR submitters, money market stakeholders, and regulators**

BAVTN recommends a gradual reduction in BA issuance

- **BATVN recommends a gradual reduction in the amount of BAs that are sold to Canadian money market investors**
  - A gradual reduction, that is communicated well ahead of the start of any decline, will provide investors time to adjust their transition away from BAs to other investment alternatives. It will also provide more certainty about the availability of BAs during the transition which will support more effective market functioning
  - It allows BATVN to better assess any impacts on market functioning
  - It provides CDOR contributing banks sufficient basis for their CDOR submissions until CDOR's cessation
  - It aligns with the request to introduce a temporary 1-month GoC T-bill
- **Recommended path for BA issuance**
  1. BA issuing banks are recommended to start to reduce the amount of BAs sold into the market with CARR's November 1 "no new CDOR or BA loan milestone"
  2. BA issuance is expected to decline each month
  3. The currently $90+ billion in BAs sold into the market should decline to around $70 billion by the end of January and $35 billion by the end of April, with $10-20 billion to be issued in June 2024. These targets are approximate aggregate guidelines for the amount of BAs that should be outstanding in the market at given times, with each major BA-bank being recommended to reduce its issuance on an equivalent pro-rated basis
  4. Depending on the speed at which banks transition their clients away from BAs to CORRA/Term CORRA based loan facilities, banks may potentially need to increase the number of BAs held on their balance sheet (i.e. not sold into the market). However, if banks remediate their loan agreements faster than expected then the amount of BAs sold could be much lower than the above recommended amount

Recommended path for BA issuance*



*These numbers represent the recommended amounts of BAs to be outstanding in the market at a future point in time. Note that BAs issued prior to June 28, 2024 will remain outstanding until they mature.