Canadian Alternative Reference Rate Working Group

November 30, 2023

Guide for Canadian companies transitioning from CDOR

This document is intended as a starting point for Canadian companies as they prepare for the cessation of the Canadian Dollar Offered Rate (CDOR). Although this document may not be exhaustive for your company, it provides guidance on the key points to consider when assessing the impact to your firm of the cessation of the rate and the replacement of CDOR with alternative reference rates such as CORRA, Term CORRA, or prime.

Background

The administrator of the Canadian Dollar Offered Rate (CDOR), Refinitiv Benchmark Services (UK) Limited (RBSL), announced on May 16, 2022 that **the calculation and publication of all tenors of CDOR will cease following its final publication on June 28, 2024** (CDOR Cessation Date). This decision will have a major impact on the structure and functioning of Canada's financial markets, including on loans linked to CDOR or Bankers' Acceptance (BA) rates. With the cessation of CDOR, BA-based loan facilities, whether referencing CDOR or specific BA rates, will no longer be offered to borrowers.[1] Banks will supplant the use of CDOR or a BA rate in favor of risk-free rates (overnight or term) or the specific bank's prime rate. The move away from using CDOR or BA rates as a benchmark for loans will mean that BA securities that were produced when a borrower drew down on their loan facility will no longer be issued after the cessation of CDOR. These changes will make Canadian lending more-closely aligned with international practices where the interest is paid at the end of the interest period, instead of being incorporated in the discounted proceeds of the draw down.[2]

Key Transition Dates[3]

1. **June 30, 2023 –** No new CDOR exposures for derivatives or securities to be booked, with limited exceptions.
2. **November 1, 2023-** No new CDOR or BA related loan contracts (including renewals) should be entered into after November 1, 2023. Refer to the best practices for transitioning loans from CDOR to CORRA.[4]
3. **June 28, 2024 –** Loans, issued prior to November 1, and related derivatives can continue to reference CDOR until this date, after which CDOR will no longer be published and applicable CDOR fallbacks (if already negotiated) will come into effect for any remaining CDOR exposures across all products.

Important disclosures about the checklist

- It is provided for informational purposes only.

[1] Canada is the last major jurisdiction to have retained the BA lending model developed in the 1960s to facilitate the growth of a corporate lending market. This type of lending structure disappeared in the US in the mid-1980s, the UK in the late 1980s and from Australia about 10 years ago after the introduction of the Basel III reforms.

[2] For further information on the BA loan construct please see CARR's December 2021 whitepaper and the Bank of Canada's Primer on the Canadian Bankers' Acceptance Market.

[3] Please see CARR's transition timeline and milestones.

[4] Please see CARR's Transitioning Loans from CDOR to CORRA – Best Practices and OSFI's guidance.

- It is meant as a practical reference for voluntary use by firms impacted by the cessation of CDOR and the adoption of alternatives, primarily CORRA.
- It is not meant to be comprehensive.
- It does not constitute legal, accounting or financial advice.
- It does not address requirements for any firms regarding regulatory or supervisory compliance.
- Firms should decide for themselves whether and to what extent their use of this document supports their preparations for transition.

In this document, we identify 4 broad transition categories, and their key associated activities that corporate and commercial firms should consider as part of their transition.[5]

1. Program Governance and Transition Management

Preparatory Activities

Ensuring operational readiness across all impacted lines of the business are paramount to the successful delivery of the transition. There are a number of preparatory activities your firm should consider in relation to operational and technology readiness, including:

1) Identify all impacted business lines / services of the firm and related systems (front-to-back), including any interdependencies
2) Ensure all key stakeholders have received necessary training to understand the changes from moving from CDOR or BAs to a risk-free rate such as CORRA
3) Define business strategy for reducing the reliance on CDOR and BAs

Transition Steps and Activities

1) Develop a Transition Management Team: Establish an enterprise-wide team across functions and businesses to evaluate and mitigate the risks associated with the transition
2) Develop and implement an enterprise-wide communication strategy to proactively engage, communicate, and increase levels of awareness with impacted internal and external stakeholders
3) Develop a strategy for redesigning or transitioning the existing portfolio of CDOR products, where needed, including consideration of using new products based on Overnight CORRA or Term CORRA

2. Contractual Remediation

Preparatory Activities

[5] A more detailed transition aid for all market participants developed by the ARRC covering the USD LIBOR transition can be found here. Some firms planning their transition away from CDOR may find this document to be useful.

Understand the impact of CDOR/BA cessation will have in the context of existing contracts which reference these rates and will need to be amended. In particular, you should consider the following steps:

1. Identify population of contracts in the firm's portfolio that have exposure to legacy CDOR or BAs
2. Understand the required legal changes in relation to the inclusion of fallback language in existing credit agreements and/or the use of CORRA (Term, Overnight) in new credit agreements starting from November 1, 2023
3. Where applicable, ensure the transition approach (fallback language, CORRA conventions) is consistent between loans or other cash products and their derivative hedges to ensure [effective] hedge accounting is maintained

Transition Steps and Activities

1. Create an inventory of all existing CDOR- or BA-related contracts and understanding the types of products
2. Generate a contract tracking system, reporting progress in transitioning contracts and enabling the identification of those without a robust fallback strategy
3. Define a strategy for renegotiation/repapering of existing CDOR- or BA-related contracts in order to ensure robust fallbacks are in place
4. Conduct a legal review of fallback language and other provisions across contracts
5. Consider adhering to industry standards/protocols (e.g. ISDA) to facilitate transition of existing contracts to recommended fallback language
6. Set up remediation and contingency plans for those contracts with no fallback strategy ("tough legacy") across different asset classes (e.g. loans, securities, derivatives etc.)
7. For all new contracts that reference CDOR or BAs, incorporate robust fallbacks where possible, such as the recommended fallback language developed by CARR, ISDA, and other industry working groups
8. Ensure that any contracts that reference Term CORRA have a robust fallback to overnight CORRA

3. Financial and Accounting Control

Preparatory Activities

Transition from CDOR- or BA-related contracts to (Term or overnight) CORRA may have an impact on the Finance department including treatment for general accounting, valuation, tax and hedge-accounting. Accordingly, firms should:

1. Identify and assess the impact of transition to Finance-owned data, general accounting, hedge accounting and tax standards, systems, reporting (including financial statements), performance indicators, capital and liquidity requirements, profitability, calculations, controls and processes

2. Gather relevant independent price verification sources including new valuation data sources, policies and reports across impacted cash and derivative products
3. Identify and assess impact on fair value accounting and impairment to P&L, credit allowances, and changes to the fair value hierarchy. Additionally, assess if the introduction of CORRA or Term CORRA may impact the fair value of the contracts to cause a tax event

Transition Steps and Activities

1. Quantify and develop a flexible approach to monitor CDOR linked assets/liabilities and exposures through the transition period
2. Obtain or develop capabilities to value CORRA-based products that your firm intends to use in the future
3. Establish a process to fund via overnight CORRA or Term CORRA noting that there is a possibility that Term CORRA could be discontinued at some point in the future
4. Determine accounting, reporting, and Net Asset Value considerations from transitioning from CDOR or BAs to CORRA or Term CORRA and the impact to both lending and hedged products
5. Determine tax and regulatory considerations. Connect with appropriate industry and regulatory bodies to ensure alignment with developments in these areas

4. System Readiness

Preparatory Activities

IT platforms and systems will be integral to the business activities of all firms affected by the CDOR transition. With this in mind, we caution against treating the impact of transition on IT systems as somehow separate to the impact on the business these systems enable.

1. Create an enterprise-wide inventory of IT systems, tools, and applications impacted by the transition from CDOR or BAs across all business departments and their products and services
2. Understand and assess the business objectives associated with the use of each system (there may be opportunities for rationalization, but are beyond the scope of this document)
3. Define IT system change requirements, whether to handle the cessation of CDOR (e.g. fallbacks) or the initiation of CORRA-based business

Transition Steps and Activities

1. Identify and ensure readiness of:
    i. Systems and processes potentially relying on the operationalization of fallbacks (e.g. for certain legacy products); and
    ii. Systems and processes related to an active transition ahead of cessation date
2. Develop a plan to address the operating model, data and technology implications required as a result of CDOR transition, including with respect to vendors

3. Ensure all impacted systems and end user computing are able to access the Overnight and Term CORRA rates to support their current processes