Recommended terms for fixed rate-to-Term CORRA interest rate swaps

This note describes contractual terms that CARR recommends for interest rate swaps that exchange Term Canadian Overnight Repo Rate Average (Term CORRA) cashflows for a fixed Canadian dollar cashflow.

CARR is recommending these terms as part of a broader effort to develop and promote industry agreed market standards for products referencing risk-free rates in the Canadian marketplace. The development of consistent 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.

CARR has developed these terms to align with CARR's recommended terms for Term CORRA -based loan facilities. Companies with Term CORRA-based loan facilities that use Term CORRA based interest rate swaps to hedge to a fixed interest rate are recommended to follow CARR's recommended conventions to ensure an alignment of terms between their loan and its hedge (see Annex for an example).

These terms are recommended to be voluntarily included in term sheets or transactions for new fixed/Term CORRA interest rate swaps. Firms 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 first section of this note provides a brief overview of the recommended terms, while the second section provides a term sheet summarizing the recommended terms.

Section 1: Brief overview of recommended terms

The terms recommended by CARR follow existing market conventions for CDOR and CORRA for key parts of the contract, including for day count and holiday conventions.

Frequency of payments

Semi-annual payments are recommended. The current market convention for Canadian dollar fixed-floating interest rate swaps is for semi-annual payments and CARR's recommendation is to continue the current market convention.

Interest Payment Lag

CARR recommends no interest payment lag on either leg of the swap.

Term CORRA index

Either 1- or 3-month Term CORRA can be used.

Interest compounding convention

The calculation of interest on the floating Term CORRA leg should be based on flat compounding method.

Spot (2 business days) start

In line with current market convention, it is recommended that transactions be based on a spot (2 business days) start.

Day count conventions

Following the market convention for CDOR-based swaps, CARR recommends an Actual/365 fixed day count convention, using a Modified Following business day convention, and the Toronto holiday calendar.

Section 2: Recommended term sheet

Trade Date	(T)
Start Date	(T+2)
Interest Calculation Method for Term CORRA leg	Flat compounding
Interest Payment Lag	None
Day Count Convention	Act/365, fixed
Business Day Convention	Modified Following
Interest Payment Frequency	Semi-annual
Holiday Calendar	Toronto

Annex – Alignment between a 1-month Term CORRA loan and an interest rate swap