Recommended terms for Term CORRA to CORRA basis swaps

This note describes contractual terms that CARR recommends for basis swaps that exchange Canadian Overnight Repo Rate Average (CORRA) cashflows for Term CORRA cashflows.

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. Market participants with Term CORRA-based loan exposure that use interest rate swaps to hedge their Term CORRA risk to CORRA are recommended to follow CARR's recommended conventions to ensure an alignment of terms between their loan and its hedge.

These terms are recommended to be voluntarily included in term sheets or transactions for new Term CORRA/CORRA basis 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

Quarterly payments are recommended. The current market convention for Canadian dollar floating-floating basis swaps is for quarterly payments and CARR's recommendation is to continue the current market convention.

Interest Payment Lag

CARR recommends a 1-business day interest payment lag on both legs of the swap.

Term CORRA index

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

Interest compounding convention

The calculation of interest should be based on flat compounding for both CORRA and 1-month Term CORRA. No compounding is needed for 3-month Term CORRA as payments are quarterly.

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 CORRA-based overnight index 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 CORRA leg	Flat compounding
Interest Calculation Method for Term CORRA leg	Flat compounding for 1-month term
Interest Payment Lag	+1 business day (for both legs)
Day Count Convention	Act/365, fixed
Business Day Convention	Modified Following
Interest Payment Frequency	Quarterly
Holiday Calendar	Toronto