Minutes of the Canadian Alternative Reference Rate Working Group

Hybrid, 26 February 2024, 11:30 p.m. to 1:00 p.m.

1. Introduction

Members were welcomed to the meeting. The co-chairs noted that just 123 days remain until CDOR's publication ceases and that all hands need to be on deck until CDOR's cessation date. They noted that there will be no extension to that date and that there will be no synthetic CDOR rate published after June 28.

The co-chairs noted that this would be Alan Turner's (HSBC) last CARR meeting given the acquisition of HSBC Canada by RBC and they thanked him for his many contributions, especially as it relates to the transition of the commercial lending market.

2. Term CORRA update

Andre Craig (CanDeal) provided an update of its work on Term CORRA. CanDeal noted it had completed a survey of the Term CORRA Tier 1 licensees on the operational impact of delaying or republishing the rate in the event of technical issues or a material error. It is working to develop a recommendation ahead of its Oversight Committee's March meeting and will liaise with CARR's Term CORRA subgroup.

TMX noted that over 135 firms have reached out to TMX about potentially obtaining Term CORRA licenses, with about half signing up so far. TMX is discussing with Bloomberg and Refinitiv on distributing Term CORRA on a T+1 basis through their platforms. Members discussed potentially including a longer history of Term CORRA on CanDeal's website (the last 5 business days are currently presented).

3. CDOR transition status

CARR members discussed the transition of derivatives markets. Members noted that the fraction of OTC derivatives trades referencing CORRA dipped briefly but has now recovered to over 90%. This was attributed to unwind or offset trades as firms move away from CDOR. They noted that so far there have only been very small number of Term CORRA derivative trades. Members noted that borrowers hedging their loan exposures only care about the end fixed rate as the floating payments offset each other, which favours them transitioning to CORRA rather than Term CORRA loans.

Activity in 3-month CORRA futures has surged with the increase in market volatility with CORRA futures volumes now accounting for about 90% of trading. It was noted that, as result of this move to CORRA futures, the liquidity in BAX futures has deteriorated. Members discussed when 1-month futures liquidity would be expected to pick-up. The co-chairs noted that in anticipation of the time taken to develop a market for 1-month futures, CARR had worked with TMX ahead of Term CORRA's launch to create a market making program for the contracts to ensure that a robust Term CORRA could be calculated. Members noted that as more Term CORRA risk is taken on by participants, liquidity is expected to improve. CARR continues to monitor developments in this market and will convene a small group of market participants later in the year to discuss these developments.

Although the market for FRNs linked to CORRA has been quiet, there have some CORRA-linked bank NVCC deals. Members discussed the status of the "toughest" legacy securities (i.e. securities with no fallback language). As these are largely capital securities, it is still anticipated that issuers will most probably call them at some point in the future.

Members discussed the transition in loan markets. Although there were a number of conversions in January and February, it is expected that the bulk of the conversions will happen in Q2-2024, similarly to the USD LIBOR transition. These conversions are expected to start in earnest in March.

Members discussed the monthly monitoring reports CARR is developing for the BA/loan transition.

4. CARR subgroup updates

The cash securities subgroup discussed work with CDS to develop a template for issuers of securities linked to CDOR to inform noteholders and data providers of the fallback language included in the securities they have issued. Some data providers may not reflect a security's fallback language on their system until receiving a formal confirmation from the security's issuer, so this work is crucial for maintaining the liquidity of securities linked to CDOR after CDOR's cessation.

The derivatives and loans subgroups discussed the transition of existing hedged loans from CDOR to CORRA. CARR's recommendations for derivatives and loans differ slightly in their fallback methodology and market participants are seeking clarity on how to keep hedges aligned with their loans after the transition. Members agreed to include the following language in CARR's next update to its FAQs:

> 3.11 When amending legacy CDOR-based loans and their associated CDOR-based hedges to CORRA, should I be aligning the CORRA-based interest rate conventions used on the hedge to the interest rate conventions used on the underlying loan or should the loan conventions instead be aligned to mirror those of the swap market?
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> • This issue is specific and limited to existing CDOR loans and associated hedges ("loan-linked derivatives") which mature post cessation. In determining the appropriate conventions to be used, among them the lookback period for both the loan and hedge, it is suggested that all implications including those for existing derivatives such as potential impacts on hedge effectiveness and pricing, be considered and discussed jointly by lender, hedge provider and borrower/hedger in consultation with one another. As such, it is reasonable to consider the modification of the loan lookback period from 5 days (loan convention) to 2 days (ISDA derivative convention) where deemed appropriate as it will help minimize any potential changes to the borrower's fixed rate.

The LCH co-chair of the Operations & Infrastructure subgroup noted that the upcoming conversion event for CDOR swaps at LCH is still on track.

The Communications & Outreach subgroup noted that CARR has now published a "call to action" for CDOR/BA borrowers, stressing the importance of quickly transition their CDOR or BA loans.

Members discussed CARR's upcoming 29 February live 2-hour webcast sponsored by PwC. Members also discussed the March outreach event CARR has planned in London. Members discussed CMIC's application to Canadian and US regulators for relief on trade reporting related to the transition. Members discussed inquiries they had received from the public, including whether BAs will continue to be issued after June 28. Members noted that the BA lending model will cease to exist after that date and BAs will cease to be issued.

5. Other items

The next CARR meeting will take place on 25 March 2024.

List of attendees
Market representatives
Elaine Wright, Alcoa
Alexander Nicholson, Bank of America
Carol McDonald, BMO
Luke Francis, Brookfield
Karl Wildi, CIBC
Louise Stevens, CMHC
Carl Edwards, Desjardins
Alan Turner, HSBC
Jean-Philippe Drolet, National Bank of Canada
Audrey Gaspar, OTPP
Andrew Bastien, PSP
Guillaume Pichard, Quebec Ministry of Finance
Jim Byrd, RBC
Anuj Dhawan, Scotiabank
Brett Pacific, Sunlife
Derek Astley, TD Bank

Observers
Dave Duggan, CAG chair
Andre Craig, CanDeal
Philip Whitehurst, LCH
Josh Chad, McMillan LLP
Robert Catani, TMX
Gavin Morris, TMX
Jody Nguyen, TMX

Subgroup co-leads
Nicholas Chan, BMO
Jacqui Szeto, Canso Investments
Jacqueline Green, CIBC
Daniel Parrack, CIBC
Lisa Mantello, Osler
Elodie Fleury, National Bank of Canada
Robin Das, RBC Capital Markets
Mike Elsey, RBC
JP Mendes Moreira, Scotiabank

Bank of Canada
Harri Vikstedt
Wendy Chan
Danny Auger
Xuezhi Liu
Owen Zehr
Greyson Addo
Thomas Thorn