# Minutes of the CORRA Advisory Group (CAG) meeting

Hybrid, 17 April 2025, 11:00 a.m. to 12:30 p.m.

## 1. Introduction

The Chair welcomed members to the meeting. She welcomed Mark Carrington from GWN Capital, who is replacing Jordan McKenna.

## 2. CORRA market update

A representative from the Bank of Canada (the Bank) provided an overview of trends in CORRA rate settings since the last CAG meeting. He reminded members that at the Bank's January 29th interest rate decision, in addition to lowering the policy rate by 25bps to 3% and announcing the end of quantitative tightening, it announced an adjustment to the deposit rate and changes to terms and conditions for Overnight Reverse Repo Operations (ORR). Effective January 30th, the deposit rate was set at a spread of 5bps below the Bank's policy interest rate. The intent of this change was to improve the circulation of settlement balances as they decline towards steady state levels over the coming months and support the functioning of short-term funding markets. Adjusting the deposit rate would also help mitigate some of the upward pressure on CORRA and help reinforce the effect of the Bank's Overnight Repo (OR) operations. In addition, ORR operations will be conducted through a uniform price auction with an aggregate cash value amount offered in each operation of a minimum of $8 billion and individual dealer limits for each ORR of $3 billion. The minimum bidding rate at the AM RG auction was also lowered by 5bps from target.

Since the deposit rate cut, CORRA settings have trended lower – from about +5bps above target prior to the change, to between 0-2bps since. The spreads of the various percentiles of CORRA have also narrowed. CORRA volume continues to be robust within a well-established range of $40 billion -$60 billion since the start of 2025. CORRA eligible repo trades account for over 50% of all funding trades. Since early February, the Bank has only conducted one OR operation. Finally, the representative informed members that the Bank started publication of the mean and mode metrics on its CORRA, along with a background note for reference, on its website as of March 19th. Historical data going back to June 2020 is also available.

Members agreed that lowering the deposit rate spread achieved its intended purpose of increasing the velocity of settlement balances and lowering the spread of CORRA to target. They also noted that Canadian funding markets functioned well recently in spite of the volatility in US funding markets.

## 3. Update on CORRA Futures

Alexandre Prince, Executive Director, Interest Rate Derivatives, at the Montreal Exchange provided an update on recent trends in CORRA Futures. He noted that the 3-month CORRA Futures contract (CRA) has fully replaced the BAX contracts, which were retired following the cessation of CDOR almost a year ago. There has been strong adoption of CRA from both Canadian and international participants, reflecting the confidence market participants have in the robustness of CORRA as an underlying benchmark. Favourable market conditions further contributed to the growth in trading volumes and liquidity. Average daily volume traded in Q1 was 170,000 contracts. March 2025 was a record month for trading volumes. Majority of the trading is in the near-term (under one year) contracts. He noted that the volume of options on CRA has grown but trading remains sporadic.

Trading volume of the 1-month CORRA Futures contract (COA) has increased but there remains scope for it to grow. There are two market makers actively quoting markets. Liquidity was further enhanced after a pilot liquidity program was introduced with a proprietary trading firm. He emphasized the importance of end users supporting the contract as it is used in the calculation of the Term-CORRA benchmark.

**4. Update on CCMS**

A representative from CDS provided an update on CCMS, the triparty repo service developed by TMX and Clearstream. CCMS has continued to gain momentum with 11 clients now live on the platform. Since February 2025, CCMS has processed approximately $9 billion in repo turnover. The custodian model has become the largest contributor of volume. Collateral composition has evolved, with approximately 60% provincial bonds and 40% GoC, while corporate bonds represent less than 1% of activity but are expected to grow. Recent repo trades on CCMS are overnight to two weeks in term, with participants expressing interest in longer dated trades of one to three months.

Looking ahead, about 30 counterparties are expected to join CCMS by year-end, with two onboarding windows planned in June to August, and September to December. The first window will focus on large buy-side institutions and custodians, while the second will include asset managers, corporates, and municipalities.

A representative from the Bank informed members that it intends to use CCMS for its repo transactions. It will begin the onboarding process in H2 2025, with a formal start date to be communicated later.

**5. CORRA sunset review**

Representatives from the Bank presented their analysis on the three issues the CORRA sunset review is focusing on: (i) the methodology used to remove the effect of bonds trading on special from the calculation of CORRA; (ii) the minimum volume fallback threshold; and (iii) the inclusion of repo trades done with the Bank. They reminded members that the bar for any methodological change should be high and the trade-off between calibration complexity and simplicity should be considered. Changes should also be durable across market environments and economic cycles. Furthermore, structural changes to the repo market are on the horizon with the introduction of CCMS and while this is out of the scope of the current review, it should be a key consideration if any changes are recommended.

The representatives presented four potential changes to the methodology to exclude bonds that trade on special. The current methodology trims the bottom 25% of all CORRA eligible repo trades. The trimming options considered were (i) a different percentile; (ii) spread to prior day's CORRA; (iii) spread to the Bank's target rate; and (iv) the "bond rate" method. Based on both quantitative and qualitative analysis, preliminary findings suggested that, with certain caveats and assumption, some improvements to the current trim method could be made. However, further consideration by CAG members on the analysis was needed.

Three options for determining the minimum volume fallback threshold were examined: (i) increasing the level to reflect higher CORRA volumes since the transition to T+1 settlement for securities; (ii) using a percentage of a daily moving average and (iii) setting the fallback rate contingent on a minimum number of submitters. The representatives noted that the volatility in minimum volumes in the second option would depend on the number of days used to determine the moving average, while the third option needs to account for heterogeneity among submitters over time.

The representatives also provided arguments for and against including overnight repos done with the Bank and the overnight tranche of the AM RG auctions in the calculation of CORRA. Their general conclusion was to exclude both operations. First, the purpose of the Bank's overnight repos is to influence CORRA, not to fund commercial banks. Therefore, including these transactions is not consistent with CORRA's objective - to measure the cost of overnight general collateral funding. Second, the vast majority of RG AM auction trades do not involve Government of Canada bonds as collateral and are for term funding and would therefore be excluded from CORRA's calculation. Finally, only a subset of market participants have access to the Bank's operations.

Members discussed the cost and benefit of the various options. Representatives from the Bank will set up bilateral meetings with members to seek their detailed feedback on the proposed options. Based on the feedback, the Bank will present its final proposals in June. The objective is to publish any proposed changes in the CORRA calculation methodology for public consultation in the second half of the year. Any changes to the methodology will incorporate the public feedback and will be approved by the Bank's CORRA Oversight Committee by the end of the year.