



# Unlocking Term CORRA : Methodology, Use Cases, Licensing, and More

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November 22, 2023



# CDOR Transition Webcast Series



The transition from the Canadian Dollar Offered Rate (CDOR) to the Canadian Overnight Repo Rate Average (CORRA) is intended to ensure a smooth transition through to CDOR's cessation date on June 28, 2024.

TMX and the Canadian Alternative Reference Rate working group (CARR) are hosting a series of Transition Webcasts to inform the market of important facts and dates relevant to investors, issuers, borrowers and financial institutions.

These webcasts bring together panelists from the banking industry and market experts to share their insights and perspectives on benchmark reform in Canada. The series of webcasts will touch on the various facets of the transition, providing practical advice and guidance to market participants.

The first webcast was released January 31, 2023 and the full list is below:

1. [Transition Roadmap](#) *(Now available)*
2. [The transition of Canadian derivatives to CORRA](#) *(Now available)*
3. [The transition of Canadian cash securities to CORRA](#) *(Now available)*
4. [Creating an IOSCO compliant Term CORRA rate](#) *(Now available)*
5. [The transition of Canadian loans market to CORRA and Term CORRA](#) *(Now available)*
6. **LIVE WEBINAR: Unlocking Term CORRA - Methodology, Use Cases, Licensing, and More**



# Unlocking Term CORRA Guest Panelists

Louise Brinkmann



Head &  
Benchmark  
Administrator for  
Term CORRA

CanDeal  
Benchmark  
Solutions

Jaqueline Green



Managing Director  
& Head Financial  
Markets

Corporate Banking  
CIBC

Gavin Morris



Director  
Datalinx Business  
Operations

TMX Datalinx

# Today's Term CORRA Topics

- Background
- Administration
- Methodology
- Features and Benefits
- Access
- Use Cases
- Licensing and Distribution



# Overview of Term CORRA in context of benchmark reform



## CARR Term CORRA CONSULTATION PERIOD

Dec – White Paper, May – announced TC WG, June comment period ends, October – announce will proceed with development of TC

## CBS Term CORRA PROJECT TIMELINE

Jan '23 CanDeal announced as Benchmark Admin, April - Head of DBA hired, Jul – Beta launch, Sep – production launch

## TC OVERSIGHT COMMITTEE

Jul – Oversight Committee selected, Aug – 1<sup>st</sup> meeting, November - 2<sup>nd</sup> mtg

## REGULATORY TIMELINE

Feb '23 – submitted app, Jul – OSC and AMF publish for comment, Aug – comments close, Sep – designation order received

## CDOR CESSATION

Nov 1 – No new CDOR or BA loans, June 2024 – CDOR cessation

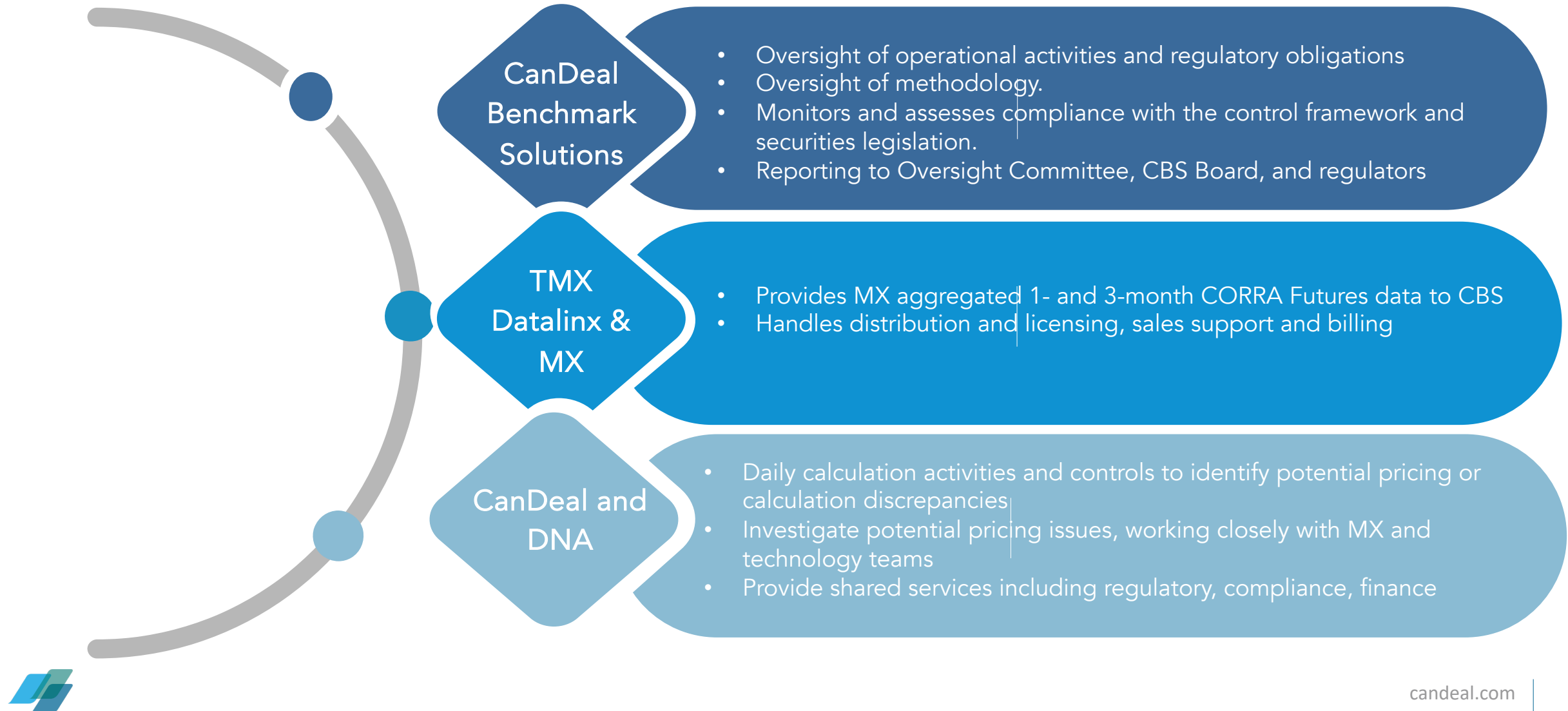


# Administration

- CanDeal Benchmark Solutions (CBS) is the designated Benchmark Administrator
- Regulated Benchmark – Designated Interest Rate Benchmark by the OSC and the AMF
- Governed by the CBS Board and the Term CORRA Oversight Committee
- Regulated under MI 25-102
- Aligned with IOSCO *Principles for Financial Benchmarks*



# How We Work Together



# Term CORRA Benchmarks: Methodology

- The Term CORRA calculation methodology was set by the CARR in their paper *Term CORRA Methodology - CARR Recommended Approach*:
  - The calculation of Term CORRA follows the now-familiar waterfall approach used for Term SOFR:



- The Term CORRA Methodology is managed by the designated benchmark administrator, *CanDeal Benchmark Solutions*
- *CBS has made some small changes to the methodology and the language in the document in consultation with regulators*



**Canadian Alternative Reference Rate Working Group**

Term CORRA Methodology - CARR Recommended Approach

1. Overview

This document provides an overview of the Canadian Alternative Reference Rate Working Group's (CARR) recommended methodology for calculating a forward-looking Term CORRA interest rate benchmark. While the primary interest rate benchmark in Canada will be the Overnight CORRA (Canadian Overnight Repo Rate Average), CARR has developed a methodology to support the creation of a robust Term CORRA reference rate for select uses in the transition away from CDOR. The calculated rate is meant to reflect, at a point in time, the CORRA overnight index swap (OIS) rate<sup>1</sup> for the 1- and 3-month tenor. It builds on academic work as well as the term risk-free rates already established in other jurisdictions, including the US and UK, and has been developed by a working group of subject matter experts across the Canadian industry, including the Bank of Canada.

The case for creating a Term CORRA was first mentioned in CARR's 2021 [CDOR White Paper](#), where it was noted that CARR would consult on a potential forward-looking rate. The resulting [public consultation](#) found that Canadian non-financial corporates, in particular, had a strong desire for a Term CORRA benchmark, as a term rate would be less operationally complex and facilitate cash flow forecasting. Based on the results of its consultation, CARR has decided that a Term CORRA benchmark would be important for the successful transition of the Canadian loan and trade finance market from CDOR to CORRA. As a result, CARR is establishing the parameters for the creation of an IOSCO-compliant benchmark with the appropriate stakeholders. While most financial instruments will reference Overnight CORRA, CARR is identifying specific use cases for the use of Term CORRA. These use cases will be embedded in the benchmark administrator's licensing arrangements (for more details see CARR's Term CORRA Use Cases).

1.1 Term CORRA tenors

Term CORRA will be a forward-looking measurement of overnight CORRA for 1- and 3-month tenors, based on market-implied expectations from CORRA derivatives markets. The rate will be calculated from 1- and 3- month CORRA futures trading on the Montréal Exchange using both transactions and executable bids and offers in the central limit order book (CLOB) over a specific calculation period.<sup>2</sup> Term CORRA will complement both [overnight CORRA](#) and the [CORRA Compounded Index](#) that are administered and published by the Bank of Canada.

1.2 Role of the benchmark administrator

The benchmark administrator will be responsible for all aspects of Term CORRA, including ensuring that the benchmark aligns with the IOSCO Principles for Financial Benchmarks, as well as any applicable Canadian regulation. It is expected that Term CORRA and its administrator will be subject to Canadian benchmark regulation under Multilateral Instrument 25-102 *Designated Benchmarks and Benchmark Administrators* (MI 25-102) and Ontario Securities Commission Rule 25-501 (Commodity Futures Act)

<sup>1</sup> OIS rates reflect market expectations for overnight CORRA settings for specific maturity tenors.  
<sup>2</sup> As transactions are a key ingredient to the methodology, it should be expected that dealers hedging OIS exposure may impact the calculated Term CORRA rate.

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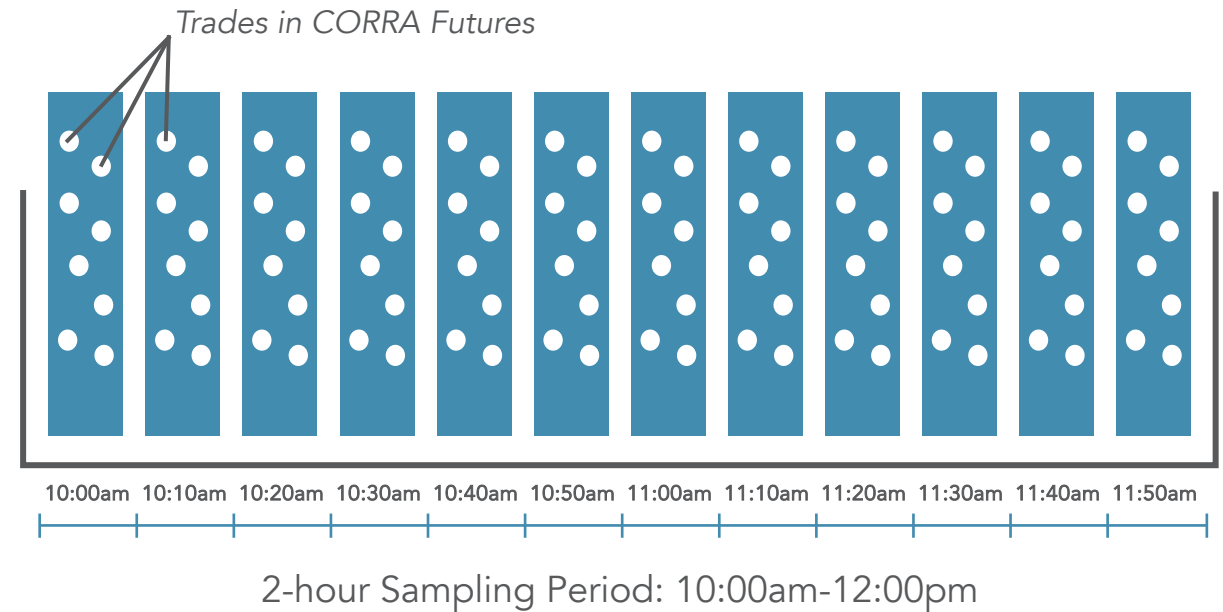




# Term CORRA Input Data

- The MX samples trading in 1-month and 3-month CORRA futures:
  - Samples are taken on twelve 10-minute intervals between 10 am and 12pm each business day
  - Outright trades, strategy trades and committed quotes are all considered valid observations
  - All samples are independent: some tenors in a period can be valid while others are not
- There is an open interest of **~600,000 contracts** in CORRA futures on the MX:
  - Trading in CDOR futures is expected to fully migrate to CORRA futures by June 2024 when CDOR cessation is complete
  - MX has engaged market makers to ensure a liquid market in both CORRA futures contracts

## Sampling MX CORRA Future Trading Twelve 10-minute Slots



# Features and Benefits of Term CORRA

- *Evidence-Based:*

- Compared to LIBOR and CDOR, the rates are computed from **observable inputs** rather than by survey and so **are based on evidence rather than on expertise**
- The futures market is both transparent and regulated

- *Payment Certainty:*

- Because CORRA is calculated day-by-day, and one day in arrears, you won't know the final amount of interest for a particular loan until after the loan period ends.
- There was a desire expressed for a rate that would allow a borrower to know their interest rate at the start of a transaction. Term CORRA was designed to fill that gap and give the ability to forecast and manage cashflow and liquidity

- *Risk Free:*

- They do not incorporate a bank's funding costs/credit spreads. For this reason, borrowers may be surprised, that CORRA and Term CORRA rates are lower than CDOR

- *Rate Flip Mechanism:*

- A uniquely Canadian approach that gives borrowers the ability to switch between paying loan interest based on either Compounded CORRA or Term CORRA without having to amend the credit agreement.



# Allowable use cases for Term CORRA

Approved uses for Term CORRA	Not approved uses for Term CORRA
<ul style="list-style-type: none"><li><input type="checkbox"/> Business loans</li><li><input type="checkbox"/> Single currency derivatives for lenders, borrowers and guarantors hedging Term CORRA based loans<sup>1</sup></li><li><input type="checkbox"/> Cross-currency derivatives for borrowers hedging Term CORRA based loans</li><li><input type="checkbox"/> Inter-dealer trading of CORRA-Term CORRA basis swaps, with certain limitations</li></ul>	<p>All other uses of Term CORRA, including but not limited to:</p> <ul style="list-style-type: none"><li><input type="checkbox"/> Consumer loans</li><li><input type="checkbox"/> Floating rate notes</li><li><input type="checkbox"/> Securitizations</li><li><input type="checkbox"/> Capital securities</li><li><input type="checkbox"/> Structured notes</li><li><input type="checkbox"/> Derivative uses not explicitly identified as eligible</li><li><input type="checkbox"/> Fallback rates for any of the products listed above</li></ul>

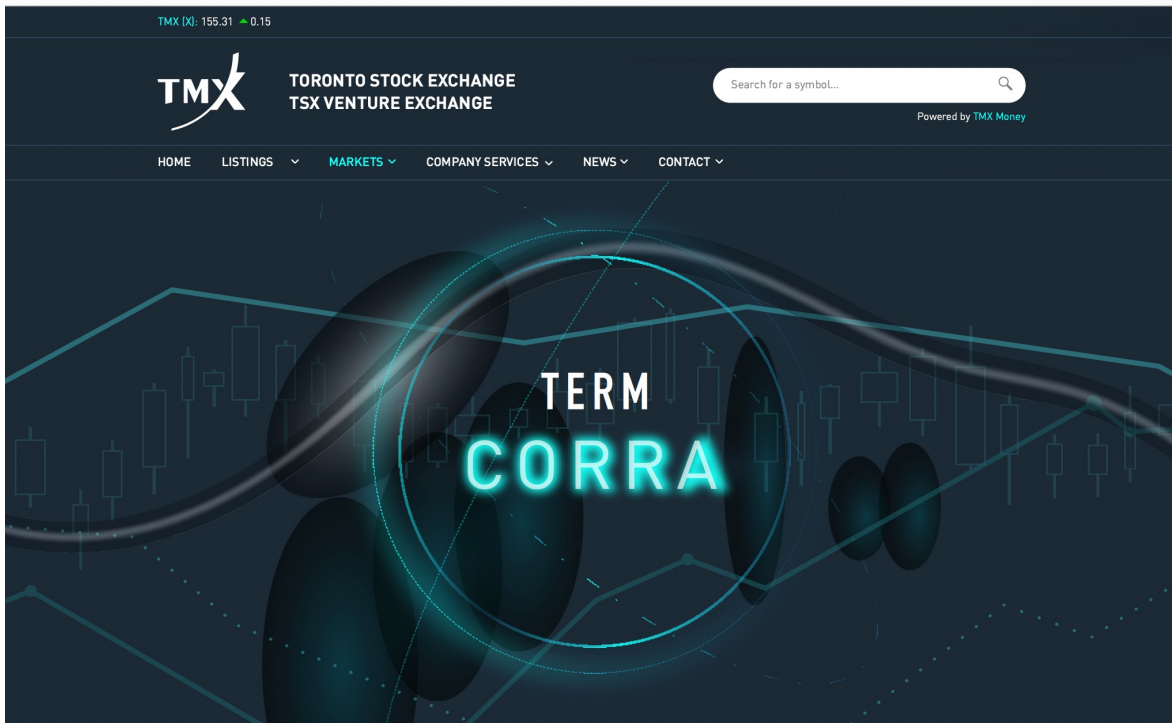
- CARR published its [finalized](#) use cases in August 2023. Additional guidance on use cases can be found on CARR's [FAQs](#).
- Notwithstanding the use cases, CARR encourages those borrowers that have the operational and technical capacity to use overnight CORRA to do so in preference to using Term CORRA, particularly those that hedge their loans with derivatives



<sup>1</sup>Lenders can hedge their Term CORRA loan exposure internally with their own dealer or with external dealers.

# Accessing Term CORRA

- Term CORRA is a licensed data product, available from the TMX Datalinx webstore:



1-month  
Term CORRA Rate  
  
3-month  
Term CORRA Rate

1:00pm ET daily  
on Canadian  
business days

*Launched September 2023*



# Contact Information

If you have any questions related to Term CORRA:



## Methodology, Governance

- Calculation
- Oversight Committee
- Benchmark website
- Complaints
- General inquiries



## Licensing, Price Challenge

- Access
- Market Data Vendors
- Licensing, fees
- Price Challenges



## Use Cases

- Questions or suggestions re Use Cases

