

CARR confirms Term CORRA is under development

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In January 2023, the Canadian Alternative Reference Rate work group (CARR) published a market notice that confirms Term CORRA benchmarks are under development and includes links to other CARR publications and materials that provide information about the Term CORRA benchmark. Responses to the Public Consultation launched by CARR on May 16, 2022 showed significant interest from Canadian companies for a forward looking term rate to replace CDOR in loans and associated derivative hedges. As a result, CARR has been working on the feasibility, construction and parameters of Term CORRA with broad industry input and representation, and efforts are now underway to develop a one- and three-month Term CORRA benchmark. This announcement is a significant and highly anticipated development in Canada's transition away from CDOR.

Most notably:

1. Calculation methodology

Term CORRA will be calculated from one- and three- 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.

As a public good, CARR has developed and published its recommended methodology to use to calculate Term CORRA. There may be circumstances that necessitate changes to the methodology (such as if the depth of liquidity in the CORRA futures contracts is not sufficiently robust). Under these circumstances, a public consultation on the changes would take place, along with other steps required by the regulatory regime set out in MI 25-102 (as defined below).

1. Administration and publication of Term CORRA

Subject to the necessary regulatory approvals, Term CORRA will be produced and managed by CanDeal Innovations Inc. (CanDeal), with TSX Inc. and TMX Datalinx, each providing complementary skills and experience necessary to provide a robust benchmark (including CanDeal's experience in construction of Canadian yield curves and TMX Datalinx's experience providing real-time and historical data products and services to customers).

The benchmark administrator for Term CORRA will be subject to Canadian benchmark regulation, in particular Multilateral Instrument 25-102 *Designated Benchmarks and Benchmark Administrators* (MI 25-102). MI 25-102 imposes a number of requirements on the benchmark administrator, including with respect to reporting, policies and procedures, and public notification and disclosure.

Any entity that originates financial products referencing Term CORRA or redistributes it will be required to enter into a licensing agreement, available at a commercially reasonable cost. End-users, such as corporate borrowers, will not require a license until the CDOR cessation

date in June 2024, but will have to agree to standard terms and conditions and, following the CDOR cessation date, could be required to enter into licensing agreements if it wants to continue to access Term CORRA. CanDeal and TSX are targeting Q2-2023 to begin publishing the rate in beta form, and the end of Q3-2023 for the official publication date.

1. Use Cases

CARR's approved use cases for Term CORRA (the Use Cases) set out the products that have been approved to use Term CORRA as a reference rate. CARR notes that the vast majority of the financial products (or exposure) currently referencing CDOR will transition to overnight CORRA calculated in-arrears, which is consistent with the practice in other jurisdictions. However, it acknowledges that, in certain Use Cases, a forward looking term rate is appropriate. CARR has approved the following: loan products, trade finance (i.e. the discounting of receivables) and derivatives used for hedging Term CORRA-based loans. Any other uses of Term CORRA are not permitted.

CARR notes that the reason for limiting the uses for Term CORRA is to ensure that the size of the market referencing Term CORRA is appropriate to the size of the market used to determine Term CORRA. Further, CARR encourages 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. The overnight CORRA derivative market is expected to be much deeper and more liquid than the Term CORRA derivative market, and the ISDA fallback rate waterfall (in the fallbacks protocol, supplement and 2021 Interest Rate Definitions) refers to rates based on overnight CORRA.

1. Sustainability of Term CORRA

Each of the CARR materials include a note with respect to the sustainability and robustness of Term CORRA. Its ongoing viability will depend upon the liquidity of the underlying CORRA futures contracts that are used to derive Term CORRA and, if the depth of liquidity is not sufficiently robust, the benchmark administrator will need to change the methodology (which, as noted above, requires certain steps to be taken). If such changes do not result in a sufficiently robust benchmark, the benchmark administrator will need to, pursuant to MI 25-102, either (i) take steps necessary to ensure that Term CORRA accurately and reliably represents that part of the market or the economy that it is intended to represent or (ii) cease publication of Term CORRA (with appropriate notice). As a result, CARR expects that Term CORRA users (i) include robust fallback language, and suggests overnight CORRA calculated in arrears as the fallback rate; and (ii) build operational capacity to transact in such fallback rates in the event of Term CORRA cessation.

Lisa and Jasmyn have been actively involved with CARR in this process and are part of the CARR Accounting, Tax and Regulatory subgroup (as co-Chair and co-Secretary, respectively), and the CARR Loan Fallback Language working group. They also have been involved in the CARR Cash Securities subgroup.