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New changes to the CDOR benchmark are on the horizon

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In addition to the latest updates regarding the revocation of the LIBOR reference rate (read the latest on LIBOR practices here), the market must prepare for yet another upcoming shift in the use of reference rates in the financial market. Refinitiv, the administrator of the Canadian Dollar Offered Rate (CDOR), announced on November 12, 2020, that it will abandon the application of the six- and 12-month CDOR tenors. As a result, six-month and 12-month CDOR tenors will cease to apply as a benchmark rate for bankers' acceptances (BAs) effective May 17, 2021.

Historically, CDOR has been used as an interest rate benchmark for BAs in Canadian dollar denominations — the six largest Canadian banks are surveyed to determine the daily average base rate at which banks are willing to make lending commitments, with an additional margin specific to each borrower. Based on these rates, banks determine the rate at which they will offer credit to corporate borrowers with credit facilities in which CDOR tenors are defined as the applicable reference rate. The rates for one-, two-, three-, six- and 12-month tenors are then determined based on the industry average and published by the administrator (Refinitiv) at 10:15 a.m. ET each business day. The applicable tenor rate is then used to price BAs in Canadian corporate and commercial loans.

Following a consultation in September 2020 with key stakeholders, the CDOR administrator determined that BAs with an underlying six-month and 12-month CDOR tenor were rarely used in the industry. As a result of this feedback and the rarity of their use, Refinitiv decided to make the six-month and 12-month CDOR tenors obsolete and will continue with only the one-, two- and three-month tenors.

Any new debt instruments entered into should not provide for six-month or 12-month tenors beyond May 17, 2021. Notwithstanding the relatively rare use of the six-month and 12-month CDOR tenors, many existing debt instruments provide for these rates. For existing debt instruments that extend beyond May 17, 2021, lenders and borrowers should make transitionary plans for any contracts that reference six-month or 12-month CDOR tenors. They should also:

- review the fallback language stipulated in any current agreements;
- assess what alternative fallback rates will apply to replace existing reference rates;
- determine whether any amendments will be necessary as a result of the upcoming expiration of the applicable CDOR tenors; and
- evaluate any disclosure obligations that will be triggered.

With the market's trending discontinued use of many survey-based benchmarks in favour of more objective "risk-free" rates, governance bodies are looking to make the Canadian reference rate scheme more robust by developing a new Canadian dollar “risk-free” term rate that would operate alongside CDOR. Moving forward, it is anticipated that such rates will become the predominant benchmark in most jurisdictions (including Canada). Yet there remain outstanding concerns that this approach may not be the optimal standard for all financial products, which is a factor to be considered as the structure for these new frameworks is developed.