

Minutes of the Canadian Alternative Reference Rate Working Group

Toronto, May 2, 2019, 11:30 a.m. to 1:30 p.m.

1. Review of international developments

The CARR co-chairs provided a summary of the recent FSB roundtable on the “[Progress on the Transition to Risk-Free Rates](#)”. International regulators stressed the need for a smooth transition to risk-free rates from LIBOR at the roundtable. It was also noted that the US Treasury was considering issuing SOFR based floating rate notes, although if these were to be issued it would be at the earliest in 2020.

The co-chairs updated CARR members on the upcoming ISDA consultation on fallbacks for benchmarks in four currencies – USD LIBOR, CDOR, HIBOR (Hong Kong Interbank Offered Rate) and SOR (Singapore Swap Offer Rate). This consultation will be similar to ISDA’s fallback consultation last year for GBP, JPY, CHF and AUD. ISDA will also launch concurrently a separate consultation on how to deal with a potential pre-cessation trigger for derivatives.

2. Updates from subgroups

The Fallback Language subgroup presented updated draft fallback language for cash products that reference Canadian Dollar Offered Rate (CDOR). The latest draft includes updated triggers, a refined waterfall of potential replacement interest rates, and credit adjustments. In order to maintain consistency between cash products and derivatives, the subgroup recommended that the proposed fallback language be finalized only after ISDA has concluded its consultation on CDOR fallbacks. Members endorsed this recommendation. They also highlighted the desirability for the market to start incorporating appropriate fallback language in new bond issuances. Therefore, CARR members agreed to publish the current draft language (See Appendix).

The Transition subgroup presented an inventory of conventions for floating rate debt issuance referencing new RFRs in other currencies and a draft indicative term sheet for CAD issuance. The subgroup will solicit additional feedback from issuers and investors on the appropriate conventions for floating rate debt that reference CORRA and present its recommendations to CARR at a future date. The subgroup also provided feedback from stakeholders regarding the critical needs of the market regarding CORRA futures. The importance of creating a liquid listed market, maintaining consistency with the methodology adopted for international RFR futures, as well as in Canadian overnight index swaps was emphasized.

The Term Risk-Free Rate subgroup presented a draft survey that will be sent to stakeholders to determine the need and use cases for term risk-free rates. The need to survey a broad range of potential end-users was emphasized. It was suggested that subgroup members engage with various industry groups to reach end-users.

3. Enhanced CORRA Consultation

The Alternative Rate subgroup presented a summary of the responses to the public consultation on the enhanced CORRA methodology, which closed April 30, 2019. Fifteen institutions provided responses to the CORRA consultation. Respondents were broadly supportive of the proposed methodology, although some issues relating to governance, monitoring and transparency for enhanced CORRA were raised. The subgroup will provide a recommendation on the final proposed methodology, taking into consideration the consultation responses, at the next meeting.

The co-chairs provided feedback on the CARR roundtables held in in Calgary, Montreal, Toronto, Vancouver and New York. The co-chairs highlighted developments that would likely lead to the active use of CORRA based financial products. It was underscored that while Canada is a multi-rate jurisdiction, developing a liquid financial market referencing CORRA will ensure market participants have a robust alternative to CDOR.. CARR members agreed to develop a more robust communication strategy to reach a wider set of stakeholders beyond those that attended the CARR roundtables and webinars.

List of attendees

Market representatives

Douglas Paul, AIMCO
Nick Chan, BMO Capital Markets
Karl Wildi, Canadian Imperial Bank of Commerce
Alex Prole, Canadian Imperial Bank of Commerce
Louise Stevens, Canada Mortgage and Housing Corporation
Dave Duggan, National Bank Financial
Jason Chang, OTPP
Edward Devlin, PIMCO
Jim Byrd, Royal Bank of Canada
Paul Hildebrand, Royal Bank of Canada
Patrick Russett, Scotiabank
Brett Pacific, Sun Life Financial
Michael Lin, TD Bank
Nicholas Jewitt, TD Bank

Observers

Jacques Caussignac, Montréal Exchange
Philip Whitehurst, LCH
Joshua Chad, McMillan

Bank of Canada

Harri Vikstedt
Jean-Philippe Dion
Samantha Sohal
Zahir Antia
Tamara Gomes

Jesse Johal
Kaetlynd McRae

Appendix: DRAFT CDOR FALLBACK LANGUAGE

(note: this document will be updated after the conclusion of the ISDA consultation on CDOR fallbacks)

PREAMBLE

There are 3 main components to the fallback language:

- (1) The trigger that forced the discontinuance of the original interest rate, in this case CDOR;
- (2) The replacement interest rate that will be used; and
- (3) Any adjustment that must be made to ensure an equitable move from the discontinued interest rate to the new rate of interest.

Effect of Benchmark Discontinuance Event

If a Benchmark Discontinuance Event shall have occurred prior to the Reference Time for any determination of the Benchmark, the Benchmark shall be replaced by the Replacement Benchmark.

“Benchmark” means, initially, CDOR; provided that if a Benchmark Discontinuance Event and its related Benchmark Replacement Date have occurred with respect to CDOR or the then-current Benchmark, then **“Benchmark”** means the applicable Benchmark Replacement.

“Benchmark Discontinuance Event” means the occurrence of one or more of the following events with respect to a Benchmark:

1. a public statement or publication of information by or on behalf of the administrator of such Benchmark announcing that such administrator has ceased or will cease to provide such Benchmark, permanently or indefinitely, provided that, at the time of the statement or publication, there is no successor administrator that will continue to provide such Benchmark; or
2. a Benchmark rate is not published by the administrator of such Benchmark for five consecutive business days and such failure is not the result of a temporary moratorium, embargo or disruption declared by the administrator of such Benchmark or by the regulatory supervisor for the administrator of such Benchmark and the Benchmark cannot be determined by reference to an Interpolated Period, or the administrator has published the previous day’s Benchmark Rate for five consecutive business days; or
3. a public statement by the regulatory authority¹ for the administrator of such Benchmark announcing that such Benchmark is no longer representative or may no longer be used.

“Benchmark Replacement Date” means:

1. for purposes of clause (1) of the definition of **“Benchmark Discontinuance Event,”** the later of (a) the date of such public statement or publication of information and (b) the date on which the administrator of the relevant Benchmark permanently or indefinitely ceases to provide such Benchmark; and

¹ As of April 2019, there is no regulatory authority in Canada with the power to deem a benchmark as non-representative or to announce that it may no longer be used. The relevant institutions for benchmark governance in Canada as of April 2019 are: i) the *Office of the Superintendent of Financial Institutions*, which supervise the effectiveness of governance and risk controls surrounding banks’ CDOR submission processes; and ii) Refinitiv Benchmarks Services (UK) Limited which is the administrator, calculation agent & publisher of CDOR and CORRA

2. for purposes of clause (2) of the definition of “Benchmark Discontinuance Event,” the first business day following such five consecutive business days; and
3. for purposes of clause (3) of the definition of “Benchmark Discontinuance Event,” the later of (a) the date of such public statement and (b) the date as of which the Benchmark may no longer be used, or, if applicable, the date as of which the Benchmark is no longer representative.

If a Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time for any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination and such determination will be made using the applicable Replacement Benchmark.

“CDOR” means the Canadian Dollar Offered Rate, as published by Refinitiv Benchmark Services Limited or any successor thereto as administrator.

“CORRA” means the Canadian Overnight Repo Rate Average, as published by Refinitiv Benchmark Services Limited or any successor thereto as administrator.

“Corresponding Period” with respect to a Replacement Benchmark means a period or maturity (including overnight) having approximately the same length (disregarding business day adjustments) as the term period for CDOR.

“Interpolated Period” with respect to a Benchmark means the period determined by interpolating on a linear basis between: (1) such Benchmark for the longest period (for which such Benchmark is available) that is shorter than the Corresponding Period and (2) such Benchmark for the shortest period (for which such Benchmark is available) that is longer than the Corresponding Period.

“ISDA” means the International Swaps and Derivatives Association, Inc. or any successor thereto.

“ISDA Fallback Adjustment” means the spread adjustment (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark for the applicable tenor.

“ISDA Definitions” means the 2006 ISDA Definitions published by ISDA, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published by ISDA from time to time.

“Policy Interest Rate” means The Bank of Canada’s target for the interest rate at which major financial institutions borrow and lend one-day funds among themselves, which is located on the Bank of Canada’s website at: <https://www.bankofcanada.ca/core-functions/monetary-policy/key-interest-rate/>.

“Reference Time” with respect to any determination of a Benchmark means the time as set out by the methodology of the administrator.

“Replacement Benchmark” means the first of the below alternative possible rate replacements that can be determined as of the Benchmark Replacement Date:

1. the rate as determined by the relevant regulatory authority, plus the Replacement Benchmark Spread;
2. Term CORRA plus the Replacement Benchmark Spread;
3. the rate that is applicable under “CAD-CORRA-OIS-COMPOUND” (as such term is defined in the ISDA Definitions), plus the Replacement Benchmark Spread; or
4. the Policy Interest Rate, compounded daily and paid in arrears, plus the Replacement Benchmark Spread.

“Replacement Benchmark Spread” with respect to any Replacement Benchmark, means the first of the below alternative possible spread adjustments that can be determined as of the Benchmark Replacement Date:

1. the spread adjustment that shall have been selected, endorsed or recommended by the relevant regulatory authority for the applicable Unadjusted Replacement Benchmark; or
2. the ISDA Fallback Adjustment.

“Term CORRA” means the forward-looking term rate for the applicable Corresponding Period (or, if there is no Corresponding Period, such rate for the Interpolated Period) based on CORRA that has been selected or recommended by the relevant regulatory authority.

“Unadjusted Replacement Benchmark” means the Replacement Benchmark excluding the applicable Replacement Benchmark Spread.