

Principles for Enhancements to Fallback Language

Following a review of existing fallback language in Canadian documentation across different products and contracts, it is recognized that current fallback language could be improved. As such, the [Canadian Alternative Reference Rate Working Group \(CARR\)](#) has developed principles to inform the future development of fallback language for cash products.

While adoption of enhancements to fallback language is voluntary as agreed upon by counterparties, it is strongly encouraged that more robust fallback language be developed and implemented as soon as possible. There are currently no plans to discontinue CDOR as a reference rate in the Canadian market, particularly for the key 1- and 3-month tenors, but it should be recognized that CDOR is a voluntary, survey-based measure that is potentially subject to the same type of discontinuation risk as other global IBORs.

General

- Enhancements to fallback language should:
 - be ongoing as market developments, including the introduction of new fallback language and reference rates across products and jurisdictions, inform more robust language
 - promote standardization across products by reducing inconsistencies and ambiguities with necessary customizations clearly described
 - minimize the potential for a floating-rate product to become a fixed-rate product by contemplating additional disruptions to the identified fallback reference rate(s)
 - minimize legal and regulatory risks while considering operational, tax and accounting impacts

Value Transfer

- Fallbacks identified in the fallback language should seek to minimize the expected value transfer through the provision of spread and term adjustments
- Participants should be treated fairly and consistently in the application of the fallbacks and applicable adjustments

Consistency

- In the absence of CDOR, the industry accepted alternative reference rate should be identified as the primary fallback reference rate to limit discrepancies
- Enhancements to fallback language should, to the extent possible, be consistent across cash and derivative products and jurisdictions to ensure hedge effectiveness and reduce disparity

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Transparency

- Fallback reference rates and spread and term adjustments should be clearly presented and participants, through their own due diligence, should understand the implications of the fallback language
- Specific triggers and timing for advancement through the fallback waterfall must be clearly identified and easily evidenced
- Methodologies for the calculation and application of fallback reference rates and spread and term adjustments must be clearly described in the fallback language and easily replicated by participants
- If desirable and feasible, calculation of the fallback reference rate and spread and term adjustments should be conducted by a third party