

CDOR Transition FAQs

Introduction

The goal of this document is to compile and publicly respond to questions frequently sent to CARR and its members. It will be regularly updated as new questions are provided.

Please [let us know](#) if you have any additional questions. These questions and their responses may eventually be included in this document.

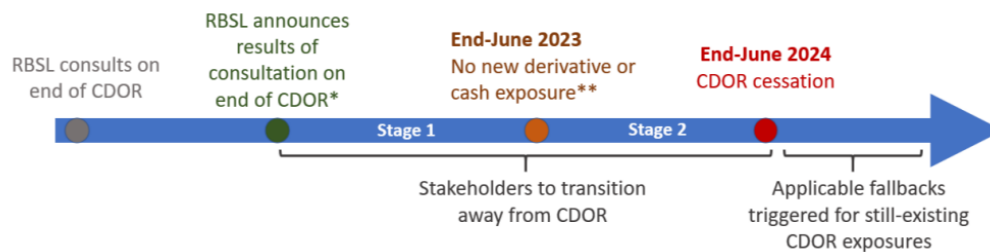
1. General

1.1 Why is CDOR's publication being ceased and when will it stop being published?

- While CDOR has served the Canadian dollar market well for many years, there are certain aspects of CDOR's architecture that pose risks to its future robustness. In 2021, CARR analyzed these issues in the context of the new, higher standards expected of critical interest rate benchmarks to ensure Canada's benchmark regime is robust and resilient in the future. Among other things, CARR's findings included the following:
 - Key global interest-rate benchmarks, including both risk-free and credit sensitive rates, are increasingly being restructured to be primarily based on large volumes of underlying transactions rather than expert judgement. While CDOR is a committed lending rate, the determination of CDOR is based predominantly on expert judgement.
 - The BA lending model, which supports CDOR, is no longer seen as an effective way for banks to provide credit to their corporate clients.
 - As was experienced with LIBOR (and other global survey-based benchmarks), contributing member banks may decide they no longer wish to continue submitting rates voluntarily given the increased obligations and costs to do so, as well as potentially from their own concerns about the future of CDOR in light of CARR's analysis of the rate. This is a key fragility given that only six contributing banks remain on the CDOR panel.
- For more details, please see CARR's December 2021 [CDOR White Paper](#).
- Following a public consultation by CDOR's administrator, Refinitiv Benchmark Services (UK) Ltd (RBSL), the administrator [announced](#) on May 16, 2022 that it will stop publishing all three CDOR tenors after June 28, 2024.

1.2 Why is CDOR's cessation taking place in two stages?

- CARR expects that it will take longer for loans to transition away from CDOR than other products because while other products will mostly transition to overnight CORRA calculated in-arrears, loans may need to transition to a forward-looking term rate. The second stage of CARR's transition plan provides additional time for the creation of Term CORRA for the loan market.



* CDOR’s administrator, Refinitiv Benchmark Services (UK) Limited (RBSL) made this [announcement](#) on May 16, 2022.

** Except where derivatives hedge or reduce CDOR exposures in derivatives or securities transacted before June 30, 2023 or in loan agreements transacted before June 30, 2024.

1.3 How will the June 30, 2023 “no new CDOR” timeline for derivatives and cash securities be enforced?

- On May 16, 2022, the Office of the Superintendent of Financial Institutions (OSFI) published their [supervisory expectations](#) for federally regulated financial institutions (FRFIs) and federally regulated private pension plans to transition from CDOR. These supervisory expectations state “OSFI expects all new derivative contracts (bilateral, cleared, and exchange-traded) and securities (assets and debt liabilities) to transition to alternative reference rates by June 30, 2023, with no new CDOR exposure being booked after that date, with limited exceptions for risk mitigation requirements as referenced in the white paper”. Since OSFI-regulated entities are the primary providers of liquidity in the Canadian financial market, their transition away from CDOR will result in the broader market shift to CORRA, with CDOR-linked products becoming much less liquid after June 30, 2023.

1.4 How do I follow CARR’s transition efforts?

- To keep up-to-date with CARR’s work, please [sign up for updates](#) to CARR’s website and [subscribe](#) to the webcast series CARR has developed in partnership with TMX.

1.5 What will happen to my contract when CDOR is discontinued?

- What happens to any cashflows in a contract that references CDOR will depend on the fallback language relating to CDOR in that contract. Please review your CDOR fallback language and speak to your legal or accounting representatives as necessary.

1.6 Could CDOR cease to be published earlier than June 28, 2024?

- No, we expect CDOR to be published until June 28, 2024.

2. Derivatives

2.1 In what circumstances can I transact in CDOR related derivatives and securities after June 30, 2023?

- Market participants are expected to transition all their new derivative (bilateral, cleared and exchange traded) and securities transactions to referencing CORRA, with limited exceptions, after

June 30, 2023. The following activities referencing CDOR in derivatives and securities will still be permitted under CARR's transition plan after June 30, 2023:

- Derivative transactions that hedge CDOR related loans or securities
 - Derivative transactions that reduce CDOR risk
 - Derivative market-making activities that reduce a counterparty's CDOR risk
 - Securities market-making activities relating to those CDOR related securities issued prior to June 30, 2023
 - CDOR-based payments on securities, and derivatives issued prior to June 30, 2023 or in accordance with permitted activities listed above
- Risk-reducing in this context refers to transactions that reduce the overall sensitivity of a firm's assets or liabilities to CDOR. However, reducing the CDOR risk for clients may increase the CDOR risk for the market-maker.

2.2 Can I hedge my legacy CDOR transactions (entered into before June 30, 2023) with a CDOR based swap or BAX futures after June 2023, even if it is not directly reducing current CDOR related exposure?

- Yes, in those special situations that potentially create contingent CDOR exposure and require dynamic risk management, it is permitted to hedge with a CDOR based derivative either in the OTC or ETD market.

2.3 Can I hedge my legacy CDOR swap fixings and resets with BAX futures and CDOR swaps if my gross CDOR position is increasing?

- Yes, hedging swap fixings and resets is permitted, although in general this should result in the net exposure to CDOR decreasing.

2.4 Can I transact with a client to facilitate their CDOR reducing trade if that trade increases my CDOR exposure?

- Yes, dealers can market make to clients as long as the trade reduces the clients CDOR exposure.

2.5 Do the transition timelines for derivatives affect interest-rate futures and swaps differently? Will BAX futures continue to trade until June 28, 2024?

- The June 30, 2023 transition timeline affects interest-rate futures and swaps identically with both types of instruments expected to transition new activity from CDOR to CORRA after that date. After June 30, 2023, market participants are expected to only trade CORRA based swaps and futures, except when reducing existing CDOR related exposure or if hedging CDOR loan related exposure.
- The Montreal Exchange is expected to formalize by the end of 2023 the final conversion process and date in Q2-2024 after which any BAX futures open interest will convert to 3-month CORRA futures, however, BAX futures will continue to trade until June 28, 2024, subject to the restrictions outlined above.

3. Loans

3.1 What are the proposed alternative replacement rates for loans referencing CDOR or BAs?

- The primary alternatives to replace CDOR as a benchmark rate for loans or BAs include CORRA compounded-in-arrears, Term CORRA, and Prime.
- Inappropriate fallback rates include a survey of CDOR submitters (as the CDOR panel will no longer exist), a rate based on Bankers Acceptances (as BAs will no longer be issued after CDOR disappears).

3.2 Can I hedge my CDOR loan with a CDOR based swap after June 2023?

- Market participants that have loan facilities tied to CDOR can hedge their CDOR exposure using CDOR based derivatives until CDOR is no longer published after June 28, 2024. Market participants who actively hedge their exposure may consider moving to CORRA based loan facilities earlier as liquidity in CDOR based derivatives may decline after June 30, 2023 (the end of Stage 1 of CARR's two-staged transition from CDOR).

3.3 Will my hedge accounting treatment remain effective after transitioning to CORRA? Will the derivative hedge still function as intended upon the cessation of CDOR?

- Whether the CDOR derivative hedge continues to match the exposure that is being hedged depends on the fallback language in the underlying hedged instrument as well as the date at which the respective instruments transition. Therefore, please consult your accountant regarding your specific exposures and the effectiveness of any hedging transaction.
- Note that after CDOR ceases to be published, derivative transactions subject to ISDA documentation that have been entered into post-January 25, 2021, or that are subject to the ISDA fallback protocol, will move to CORRA compounded-in-arrears plus the published ISDA spread adjustment unless otherwise agreed to.

3.4 Will my cost to hedge a Term CORRA loan with a Term CORRA derivative be potentially higher than the cost to hedge a CORRA compounded-in-arrears loan with a CORRA derivative

- Yes, the cost of transacting in Term CORRA derivatives will most likely be higher than CORRA derivatives, similarly to the case in the US with Term SOFR versus SOFR derivatives. Trading and liquidity in the Canadian dollar derivatives market will transition to CORRA-based derivatives with the disappearance of CDOR and market participants that want to minimize their hedging costs should consider moving to CORRA compounded-in-arrears loans. The cost differential between the two types of derivatives (i.e. the basis between Term CORRA and CORRA derivatives) will be driven by market supply and demand dynamics.

3.5 Can I enter into new loans referencing CDOR or BAs until June 28, 2024?

- No, you should not enter into new loans referencing CDOR or BAs after November 1, 2023. For more details, see CARR's Transitioning Loans from CDOR to CORRA – Best Practices.
- For clarity, the November 1 milestone does not impact the ability to draw on existing CDOR or BA loan facilities that have not yet matured, or that have been extended or been subject to material amendments prior to November 1.

- After November 1, 2023, lenders will still be expected to comply with contractual obligations in existing credit agreements referencing CDOR or BAs and to meet contractual requirements of these agreements including but not limited to drawdowns, extensions (if at the Borrower's option) or pre-documented increases (e.g., construction facilities that become available after meeting any preconditions). Permitted activities include:
 - Rollover of existing BA draws, interest term renewals or new draws under an existing loan (term or revolver);
 - Draws on committed and uncommitted facilities entered into prior to the No "New" CDOR or BA exposures date;
 - New loan agreements and extensions of existing loan agreements that were underwritten or committed to prior to the No "New" CDOR or BA exposures date but that close after November 1;
 - Accordion activation or usage in the normal course of business, not paired with extension of term; and
 - Purchase of existing CDOR loans in the secondary market.

3.6 What should be considered when switching loans from CDOR to CORRA?

- Please see CARR's Transitioning Loans from CDOR to CORRA – Best Practices.

4. Fallback language

4.1 What is CDOR fallback language?

- CDOR fallback language refers to the language in the financial contract that defines what happens to any payment that references CDOR once the rate is no longer available, either on a temporary or permanent basis.

4.2 Can I switch my contract away from CDOR before CDOR cessation or do I need to wait until June 2024?

- Yes, market participants can switch their contracts prior to CDOR cessation with the agreement of their counterparty (i.e., lender, borrower, investor, or issuer). Switching earlier may be operationally more straightforward than relying on the CDOR fallback.

4.3 When and how can I amend my contract to include robust fallback language?

- Please review any contracts that reference CDOR or BAs to ensure that the fallback language is robust. If the language is not robust and/or does not align with CARR's recommended fallback language, please speak to the applicable counterparties about amending the language in the contract.

4.4 What will happen to my CDOR-based contracts if I don't update my fallback language prior to CDOR cessation?

- This depends on the legal documentation for your contracts or financial instruments. Generally speaking, if CDOR stops being published and your contracts have inadequate fallback language, it may become difficult to calculate any remaining payments or cash flows associated with the

contracts. This could potentially lead to contract frustration and/or legal disputes. Please consult your lawyer for advice.

4.5 Are there plans to implement a legislative solution to address ‘tough legacy’ contracts which either do not have appropriate fallbacks or are not amended in time by CDOR’s cessation date?

- No, given the small size of Canada’s “tough legacy” issue, CARR has determined that there is not a sufficient case for pursuing a so-called legislative solution for Canada. In most cases, these tough legacy contracts can be remediated by updating them with CARR’s recommended fallback language.

4.6 What is a spread adjustment?

- Spread adjustments are meant to account for the economic difference between the replacement rate and CDOR in the fallback methodology for CDOR, or other benchmark rates.
- Bloomberg’s spread adjustments for derivatives with ISDA’s fallback language was [announced](#) in May 2022.
- While Bloomberg’s spread adjustments reflect the historic economic difference between CORRA and CDOR calculated as of the date of the RBSL announcement, they may not reflect the economic difference at a given point in time, and market standards may continue to evolve as we approach the CDOR Cessation Date.
- Once CDOR ceases to be published, CARR expects the market to transition to CORRA plus an all-in spread, without the need for a specific spread adjustment.
- The spread adjustment is sometimes referred to as a “credit spread adjustment” (CSA).

5. CORRA

5.1 What is CORRA and what makes it a better/more robust rate than CDOR?

- CORRA is a transaction-based overnight risk-free interest rate benchmark that measures the secured (i.e. collateralized) overnight funding rate in Canada for Government of Canada “general collateral”. The Bank of Canada calculates CORRA based on overnight repo transactions between any two unaffiliated counterparties that are collateralized by Government of Canada securities.
- CORRA is a more robust rate than CDOR because it is a transaction-based benchmark linked to the deep and liquid market for overnight Government of Canada repos. The underlying volume of daily repos from which CORRA is calculated has generally been in the \$15 to \$20 billion range. In contrast, CDOR is based on expert judgement.

5.2 What sort of financial products can reference overnight CORRA?

- Any financial contracts that need to reference a short-term Canadian interest-rate benchmark can reference overnight CORRA. CORRA is provided for free by the Bank of Canada on the CORRA webpage found on the Bank of Canada website. Please see the [Bank of Canada website](#) for more

details on CORRA. Note that the use of Term CORRA will be restricted (see Question 6.4). **5.3 How does CORRA compare to risk-free rates (RFRs) selected in other countries?**

- All major jurisdictions have developed overnight RFRs. The primary difference is whether the rate is secured or unsecured, and this depends on the underlying structure of the jurisdictions funding or money market. CORRA is a secured RFR similar to SOFR (US) and SARON (CH), while SONIA (UK), €TER (EU), and TONA (JP) are unsecured overnight rates. CARR has provided a [comparison table](#).

6. Term CORRA

6.1 What is Term CORRA and how does it differ from CORRA Compounded in arrears?

- Term CORRA is a forward-looking version of overnight CORRA that represents the market's expectation, based on CORRA futures, of each daily CORRA setting compounded to a 1- or 3-month term.

6.2 Will Term CORRA be IOSCO compliant and when?

- Term CORRA has been constructed to be compliant with IOSCO's Principles for Financial benchmarks from its launch. It is expected that Term CORRA will be a regulated, by the OSC and AMF, as an interest-rate benchmark under Multilateral Instrument 25-102. See the OSC and AMF request for comments [published](#) on July 6, 2023.

6.3 Do I need a licensing agreement to use Term CORRA?

- A licensing agreement is only needed for those firms that provide financial instruments referencing Term CORRA (e.g. bilateral or syndicated loans). Users of instruments linked to Term CORRA do not need a license, however, they may be required to acknowledge that they abide by the terms and conditions for the use of Term CORRA.
- A license may be required by market participants for access to Term CORRA in real-time. Term CORRA will be available to the public for free on a delayed basis (T+1 4pm ET) on the CanDeal website.
- Specific licensing details will be provided by TMX Datalinx. These will align with CARR's recommendations.

6.4 What sort of financial products can reference Term CORRA?

- The use of Term CORRA will be limited to loans and trade finance, as well as associated derivatives. For more details, please see [CARR's approved use cases for Term CORRA](#).

6.5 How will Term CORRA's administrator be supervised?

- Term CORRA's administrator is expected to be a Designated Benchmark Administrator under Canadian benchmark regulation introduced in 2021 known as Multilateral Instrument 25-102, and it will be supervised by the OSC and AMF.

6.6 What happens if the data underpinning the calculation of Term CORRA is not sufficiently robust? What implications does this have for Term CORRA?

- Term CORRA is expected to be regulated as an interest-rate benchmark by the OSC and AMF, which means that for the rate to be published the underlying market from which the rate is calculated from needs to be sufficiently robust.
- If the underlying market is not sufficiently robust then CanDeal, as the Term CORRA administrator, will need to adjust the calculation methodology to ensure a robust benchmark can be calculated, if this is not possible, they will need to cease its publication.
- Therefore, all users of Term CORRA are expected to have sufficiently robust fallbacks for Term CORRA in their contracts. In most cases this fallback would be to CORRA compounded-in-arrears.

6.7 How can I feel comfortable using Term CORRA, when there will only be nine months of historical data for Term CORRA prior to CDOR cessation?

- Term CORRA is a point in time estimate of the fixed rate on a 1- and 3-month CORRA based overnight index swap (OIS). CORRA-based OIS derivatives have existed since the early 2000s and indicative end of day rates for both tenors are available on Bloomberg going back daily to 2002.
- CanDeal has started publishing a beta version of the rates, for illustrative basis, on July 5, 2023.

7. Bankers' Acceptances (BAs)

7.1 Why will BAs not be available after CDOR cessation?

- With the cessation of CDOR's publication, the BA based lending model which creates the BAs that are issued will be discontinued and therefore BA issuance will cease after June 2024. As a result, there will be no or very limited BA issuance taking place after June 2024. Canada is the last major jurisdiction to retain this type of lending structure developed in the 1960s, with many having modernized their lending structures decades ago away from BAs.
- Based on discussions with the CDOR panel member banks, BA issuance is expected to remain relatively robust until the end of 2023, however, BA issuance is expected to progressively drop as we approach the CDOR cessation date.
- BA based lending is expected to transition to either overnight CORRA or Term CORRA with no money market discount instrument (i.e., BA) being created as a result of the loan drawdown.
- For more details see CFIF's [BA White Paper](#).

7.2 Will I still have access to BA borrowing options after CDOR cessation?

- No, the BA based borrowing option will no longer exist after the end of CDOR and you will either need to remediate your existing lending facilities or rely on any robust fallback that is already in place. CARR's recommendation is for borrowers to remediate their contracts before the June 28, 2024 end of CDOR instead of relying on any fallback. Please reach out to your banker(s) to discuss your specific situation.

7.3 If I have a loan indexed to the "prevailing BA discount rate" will I still be impacted by the CDOR cessation and why?

- Yes, after CDOR's cessation BAs will cease being issued, and hence BA rates will no longer be available to determine a discount rate. These types of facilities are expected to move to another rate such as overnight CORRA or Term CORRA. Please reach out to your banker(s) to discuss your specific situation.

7.4 Will my borrowing rate on a CORRA-based loan differ from that of the rate on my existing BA/CDOR based loans? Why has my margin/credit spread adjustment amount changed?

- It is expected that the all-in borrowing rate will be roughly equivalent. However, since CORRA reflects an overnight risk-free rate and does not include a bank funding/credit spread, it is much lower than CDOR. Therefore, banks will need to adjust borrower-specific credit spreads higher to account for this difference.

7.5 Are new investment products being developed to replace BAs and, if so, when will they become available?

- CFIF has formed a working group to assess potential options to replace BAs. A CFIF market notice announcing this can be found [here](#).