CDOR TRANSITION FAQs

Interest Rate Benchmark Reform in Canada

1. How has Canada approached interest rate benchmark reform?

The Canadian Alternative Reference Rate Working Group (CARR), sponsored by the Canadian Fixed-Income Forum, was established to coordinate Canadian interest rate reform. CARR's primary objectives include:

- analyze the current status of the Canadian Dollar Offered Rate (CDOR) and its efficacy as a benchmark, as well as make recommendations on the basis of that analysis; and
- support and encourage the adoption of, and transition to, the Canadian Overnight Repo Rate Average (CORRA) as a key financial benchmark for Canadian derivatives and securities.

2. What is CDOR?

CDOR is a benchmark reference rate for bankers' acceptance (BA) borrowings denominated in Canadian dollars that is administered and posted daily by Refinitiv Benchmark Services (UK) Limited (RBSL).

CDOR is based on a survey of the principal market-makers for Canadian dollar BA (currently, the six largest Canadian banks) who are asked to provide rates at which they would be willing to lend (offer) funds against primary BA market issuances to clients with existing credit facilities that reference CDOR plus a fee. CDOR is quoted for terms to maturity of:

- up to and including May 14, 2021: one, two, three, six and twelve months
- from May 17, 2021 onwards: one, two, and three months.

3. What is CORRA?

The Canadian Overnight Repo Rate Average (CORRA) is a measure of the average cost of overnight secured funding. It is the trimmed median repo rate comprised of both inter-dealer and dealer-to-client trades where data can be obtained. The lower volume-weighted 25th percentile is trimmed with the intent to exclude "specials" and just include general collateral.

In July 2018, CARR, aligning with international benchmark reform, identified CORRA as the rate "best meeting its criteria for a domestic risk-free rate (RFR)".

Transition from CDOR to CORRA

All contracts indexed to CDOR and maturing after cessation will need to be renegotiated or transitioned on or before cessation of the index. Market participants are encouraged to review their contracts and assess the need for fallback language to help prepare for the Transition.

4. When will the transition start and what is the timeline?

CARR outlines the processes and timelines needed for the transition from CDOR for the market participants in the Transition Roadmap

While CARR has presented its recommendations, the decision to cease publication of CDOR ultimately lies with RBSL. Only a notice from RBSL announcing the cessation of CDOR would trigger the start of the CARR recommended stages of transition.

- **Stage 1:** will run until June 30, 2023. By the end of stage 1 all new derivatives contracts and cash securities can only use CORRA, with no new derivatives or cash CDOR-based transactions after June 30, 2023, except in limited circumstances.
- **Stage 2:** will run until June 30, 2024 to provide firms with incremental time to transition their loan agreements and allow for more existing CDOR-based cash securities exposures to mature prior to cessation.

5. What are the key differences between CDOR and CORRA?

CORRA is fundamentally different in nature than CDOR.

Comparing CDOR and CORRA	
CDOR	**CORRA**
Unsecured rate at which banks are willing to **lend**	Secured **borrowing rate** (nearly risk-free)
Canadian BA market participants	Broad array of market participants (multiple industries)
Based on submissions solely from major Canadian banks	Fully based on repo transactions
Forward-looking rate with term rates	Currently a backward-looking overnight rate
Built-in credit component based on credit conditions in the Canadian BA market	No credit component; comparing relative value will need an adjustment
Monthly volume of CAD$200 - 250 billion	Expected to be based on CAD$10 - 20 billion of underlying **daily** transactions

6. Do I need to wait until CDOR is permanently discontinued to replace it with CORRA?

No, you do not need to wait until CDOR is permanently discontinued to replace it with CORRA. Some market participants may choose to voluntarily amend CDOR-linked transactions without waiting for the actual cessation of CDOR. In some cases, it may be more efficient for market participants to execute new transactions to transition a contract or portfolio from CDOR to CORRA. Alternatively, some market participants may choose to undertake various bilateral or multilateral portfolio compression exercises to reduce the number of transactions on their books.

Fallback language and the ISDA 2020 Fallback Protocol

7. What is fallback language?

Fallback language refers to the contractual provisions that outline the process by which a replacement rate can be implemented if a benchmark, such as CDOR, is no longer available.

Fallback language acts as a guide for identifying replacement rates should the original rate become unavailable. The language should contemplate a scenario where the original rate (i.e. CDOR) is permanently unavailable. This is particularly important in circumstances where a contract's maturity date falls after the referenced rate's cessation.

8. What is the ISDA Protocol?

The International Swaps and Derivatives Association (ISDA) created the [ISDA 2020 IBOR Fallbacks Protocol] (Protocol) to enable parties to amend certain Master Agreements. The Protocol provides a mechanism for parties to amend their existing derivatives transactions to incorporate ISDA's fallback terms, providing a clear transition from certain rates (i.e. CDOR) to new rates (i.e. CORRA) upon the occurrence of certain events (i.e. CDOR cessation), while allowing existing agreements to remain in place. For Canadian rates See pages 69-76 of ISDA's Fallback Supplement.

a) What contracts are covered by the ISDA Protocol?

The Protocol allows parties to amend ISDA Master Agreements and Non-ISDA Master Agreements – including Global Master Repurchase Agreements (GMRAs) and Global Master Securities Lending Agreements (GMSLAs).

b) If there were terms within the ISDA that were customized, would these revert to "standard" language by adhering to the Protocol?

If clients have included customized floating rate options, adhering to the ISDA protocol would override those.

c) If a client chooses to enter into bilateral negotiations instead of signing the Protocol, are there any requirements to file with ISDA?

No, if clients choose to engage in bilateral negotiations to amend their ISDA, there are no requirements to file with ISDA and also no ISDA fees.

d) Could a transaction incorporate fallback language without adhering to the ISDA Protocol?

Yes. ISDA has produced template bilateral amendment agreements (short form and long form versions) that allow parties to apply the terms of the Protocol to transactions without the need to adhere to the Protocol. In certain instances, it may be advisable to bilaterally amend transactions. Parties should consider their particular circumstances in determining whether to adhere to the Protocol, bilaterally amend transactions, or use a combination of both.

e) Has BMO adhered to the Protocol?

Yes, BMO adhered to the Protocol in advance of its publication (in escrow), along with 237 other market participants in order to demonstrate our support for this mechanism to remediate legacy derivate trades. BMO chose to adhere because of the efficiency advantages of amending many bilateral agreements all at once. The Protocol will remain open for parties to adhere to for the duration of the transition.

9. What is being done to ensure that new OTC derivatives agreements are ready for the transition?

The ISDA 2020 IBOR Fallbacks Protocol became effective on January 25, 2021. All new derivatives transactions governed under an ISDA and entered into after the Protocol effective date automatically reference CORRA as the fallback rate to CDOR.

10. What about legacy derivative transactions?

The Protocol allows market participants to choose to incorporate the revisions into their legacy derivatives trades (trades entered into before January 25, 2021). By adhering to the Protocol, parties adopt the updated benchmark fallback language for all their OTC derivative agreements unless the parties choose to exclude certain agreements from being amended by the Protocol.

11. My swap is remediated and now has appropriate fallback language; is there anything else I should do?

If your swap has been remediated to include appropriate fallback language (either by Protocol adherence or bilateral changes) you may want to proactively renegotiate your trade(s) to include new rates (i.e. CORRA) ahead of the existing rate's (i.e. CDOR) cessation. This may be especially important for those trades that are used to hedge loan exposure as the fallback language is slightly different between products. Once your swaps (and loans) include fallback language there is no drop dead date for renegotiation.

12. What sort of adjustment is included in the fallback language to help equate CDOR and CORRA?

The decision to cease publication of CDOR ultimately lies solely with RBSL. A formal cessation announcement from RBSL will set the spread adjustment within ISDA's fallback protocol framework. Indicative spread adjustments and fallback rates can be found in, Bloomberg Resources for LIBOR Transition.

13. What will happen to swaps cleared through a central counterparty (CCP)?

For cleared derivatives, LCH and CME have indicated their intent to align with ISDA to include fallback provisions into their rulebooks. We do not anticipate changes to clearing legal agreements to support this transition. Any inclusion of fallback provisions will be applied to cleared transactions through the CCP rule-book changes.

If you have any questions or would like additional information, please reach out to the IBOR Transition Office at IBOR.TransitionOffice@bmo.com.