Cassels

Interest Rates Watch: Canadian Alternative Reference Rates Working Group Agrees to Begin Process of Developing a Term CORRA Benchmark

Jennifer Wasylyk

October 7, 2022

Welcome back to our *Interest Rates Watch* series, developed to provide timely updates and practical advice on developments related to interest rates and benchmarks on a regular basis. As always, we are here to help.

Following the announcement of Refinitiv Benchmark Services (UK) Limited, the administrator of the Canadian Dollar Offered Rate (CDOR), that the calculation and publication of all tenors of CDOR will permanently cease following a final publication in June 2024, the Canadian Alternative Reference Rates working group (CARR) launched a public consultation on whether there is a need for a forward-looking term rate based on the Canadian Overnight Repo Rate Average (Term CORRA).

The feedback from such public consultation confirmed that there is a strong demand for a Term CORRA benchmark, noting that a Term CORRA benchmark would result in less operational complexity and cost, and provide cash flow certainty and a forward-looking discount rate.

As a result, CARR has agreed to begin the process of developing a Term CORRA benchmark, limited at least initially to 1- and 3-month tenors. Publication of a Term CORRA benchmark is expected to begin by the end of Q3 2023, less than one year before CDOR publication will cease. This window is significantly shorter than the lead time that market participants had in respect of the cessation of USD LIBOR, where the recommended replacement rate (the forward-looking Secured Overnight Financing Rate term rate) was formally recommended almost two years in advance of the announced date for final publication of USD LIBOR. Accordingly, it will be important for market participants to monitor developments in this space closely and take proactive steps to prepare for the cessation of CDOR, including reviewing existing paper to identify where CDOR fallback language must be incorporated and ensure that new originations referable to CDOR include robust fallback language.

As noted in our previous article on this topic, CARR has released recommended fallback language for new and existing syndicated loan agreements which provides for the replacement of CDOR with an alternative benchmark rate on the date that all available tenors of CDOR have permanently or indefinitely ceased to be provided. Such fallback language incorporates a two-step benchmark waterfall process for determining the applicable replacement rate, with the result that CDOR would be replaced by:

- to the extent Term CORRA is available on the replacement date, Term CORRA plus an applicable spread adjustment; or
- to the extent Term CORRA is not available on the replacement date, daily compounded CORRA plus an applicable spread adjustment.

We will be monitoring developments and issuing further articles relating to interest rates. Find other articles in our Interest Rates Watch Series here.

This publication is a general summary of the law. It does not replace legal advice tailored to your specific circumstances.