

## Equipment Finance Companies - CDOR Cessation and End of BA Borrowing is Around the Corner – Time to Update Reference Rates

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Since the Bank of Canada's announcement to cease the use of the Canadian Dollar Offered Rate (CDOR) after June 28, 2024 (the CDOR Cessation Date), much attention has been given to how the Canadian loan market should approach the transition to the use of Canadian Overnight Repo Rate Average (CORRA). In addition to CDOR no longer being published, Bankers' Acceptance (BA) based lending will also be discontinued after the CDOR Cessation Date. However, not much focus has been given to specialized finance companies including equipment finance companies, of how this impacts their standard form documents and internal credit policies.

Many equipment financing companies in Canada currently use either CDOR or BA rates as their reference rates when establishing variable rate finance facilities. The cessation of those indexes will require finance companies to update their standard documents. A myriad of documents may be impacted including:

- Inventory finance agreements;
- Loans, leases and other equipment finance that have a variable rate; and
- Finance agreements with default or late interest rates or discount rates set out in a lease or loan referable to CDOR or a BA rate.

After November 1, 2023, new loan contracts should no longer reference CDOR or BA loans. The recommended replacement rates for Canadian dollar loans after November 1, 2023 are overnight CORRA compounded in-arrears, Term CORRA, or prime. The purpose of this milestone date is to further ease the transition to alternative reference rates by ensuring that the number of loans that need to be amended to include alternative reference rates before the CDOR Cessation Date does not grow.

As such, equipment finance companies need to be proactive to consider (i) amending their standard form documents to work for new deals without reference to the CDOR or a BA rate before the CDOR Cessation Date, and (ii) considering what existing paper may need to be modified in advance on the CDOR Cessation Date.

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