REFINITIV BENCHMARK SERVICES (UK) LIMITED

CANADIAN DOLLAR OFFERED RATE (CDOR)

OUTCOME STATEMENT FOLLOWING CONSULTATION ON POTENTIAL CESSATION OF CDOR

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1. INTRODUCTION

The Canadian Dollar Offered Rate benchmark ("CDOR") is a daily benchmark reference rate for Bankers' Acceptance ("BA") borrowings. The Canadian BA market exists primarily within Canada and, at about 20% of the overall money market, constitutes the largest sector of the Canadian dollar money market after Government of Canada treasury bills. CDOR is currently the primary interest rate benchmark in Canada and is widely used in other Canadian dollar financial instruments including interest rate swaps, exchange-traded futures, loans and floating rate notes.

Refinitiv Benchmark Services (UK) Limited ("RBSL") is the administrator of CDOR. CDOR is an interest rate benchmark subject to the UK Benchmark Regulation[1] ("BMR"). As administrator, RBSL is responsible for collecting input data, determining and publishing CDOR, and for all aspects of governance, oversight, compliance and integrity of CDOR. RBSL is required to comply with Multilateral Instrument 25-102 *Designated Benchmarks and Benchmark Administrators* ("MI 25-102")[2], a rule adopted and administered by certain members of the Canadian Securities Administrators ("CSA"). In Canada, the Ontario Securities Commission and the Autorité des marchés financiers previously designated CDOR as a designated benchmark and RBSL as its designated benchmark administrator under applicable legislation. RBSL has adopted policies and procedures to comply with these regulations. CDOR is not considered a critical benchmark for the purposes of the BMR but is designated as a critical benchmark and interest rate benchmark as defined by MI 25-102.

On December 16, 2021, the Canadian Alternative Reference Rate working group ("CARR") issued a white paper ("White Paper") recommending that "RBSL should cease the calculation and publication of CDOR after June 30, 2024". The CARR recommendation has been unanimously endorsed by all members of both CARR and the Canadian Fixed-Income Forum ("CFIF").

Following the CARR recommendation, RBSL issued a public consultation on January 31, 2022 seeking feedback from users of and stakeholders in CDOR regarding the impact of any potential cessation of CDOR. The consultation ran until March 2, 2022.

After reviewing the feedback received, RBSL reached a conclusion regarding the future of CDOR. This conclusion was communicated to the UK Financial Conduct Authority ("FCA") and submitted to the Ontario Securities Commission and the Autorité des marchés financiers in accordance with the requirements for critical benchmarks under MI 25-102 together with a cessation plan. RBSL received approval from the Ontario Securities Commission and the Autorité des marchés financiers to proceed with its conclusion and therefore published a CDOR Cessation Notice on May 16, 2022 announcing that **the calculation and publication of all tenors of CDOR will permanently cease immediately following a final publication on Friday June 28, 2024**.

This outcome statement summarises the feedback received following the RBSL consultation and identifies any actions that may or will be taken as a result either of the feedback received or in accordance with CARR's existing plan.

RBSL notes that the mandate for managing the wider transition process away from CDOR to alternative benchmarks in Canada, primarily CORRA, lies with CARR. RBSL has worked closely with CARR in identifying actions arising from the feedback received by RBSL.

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[1] The Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019

[2] RBSL is also subject to Ontario Securities Commission Rule 25-501 (Commodity Futures Act) *Designated Benchmarks and Benchmark Administrators*, which is required because MI 25-102 would not apply to Ontario commodity futures law.

2. RBSL CONSULTATION ON THE POTENTIAL CESSATION OF CDOR

The RBSL consultation on the potential cessation of CDOR was published on January 31, 2022 and closed on March 2, 2022. The consultation was widely distributed via the Refinitiv CDOR website, Refinitiv Eikon, CARR, ISDA, trade associations and a direct alert to users of CDOR via Refinitiv products.

The consultation invited feedback from users of and stakeholders in CDOR regarding the impact of any potential cessation of CDOR. As noted in the consultation, RBSL is responsible for mitigating any risks to CDOR before they materialise and for ensuring the ongoing representativeness of CDOR as required by the applicable benchmark regulations. RBSL's assessment of the sustainability and viability of CDOR is within the context of ongoing and future compliance of CDOR with all relevant benchmark regulations.

The RBSL consultation provided details regarding trends that may affect the future compliance of CDOR with benchmark regulations including its representativeness with respect to the underlying Bankers' Acceptance (BA) market. It highlighted a general move away from BA issuance by banks as well as the increasing disproportionality between the financial exposure referencing the 3-month CDOR tenor and the issuance of 3-month BAs. The RBSL consultation asked the following questions.

Question 1: Please indicate any material impacts, issues or problems presented by a potential cessation of CDOR and provide details of such impacts, issues or problems.

Question 2: Please indicate any specific use cases of CDOR that may not be substantially covered by the potential alternatives or fallbacks to CDOR.

Question 3: Does a potential cessation date of June 30, 2024 provide sufficient time to prepare for a potential cessation of CDOR? If not, please provide details of any concerns or problems.

Question 4: CARR proposes a two-staged approach to the transition from CDOR, with derivatives and securities expected to transition to CORRA by June 30, 2023 with limited exceptions. Does CARR's proposed end date provide sufficient time for these instruments to transition from using CDOR? If not, please provide details of any concerns or problems.

Question 5: Please indicate any other factors relating to a potential cessation of CDOR that RBSL should consider when reaching a decision on the future of CDOR.

RBSL received feedback from 33 non-financial corporations, banks, fund management companies, pension funds, trade associations and government entities. In many cases, the responses were detailed and extensive. RBSL thanks all respondents for providing their feedback. This feedback ensured that RBSL had a wide and representative set of views to consider when reaching its decision regarding the future of CDOR.

3. FEEDBACK TO THE RBSL CONSULTATION

Overall, there was a broad consensus on the appropriateness of ceasing CDOR following a suitable transition period. The most common reasons cited in support of CDOR cessation were (i) the desirability of aligning the Canadian interest rate benchmark environment with the conventions adopted in recent years in other markets and (ii) moving to a benchmark that would be resilient and robust into the future. The majority of the feedback focused on the steps necessary to transition the Canadian financial markets from a CDOR environment to a CORRA environment efficiently and successfully. Some respondents stated explicitly that they have no concerns at all with CDOR cessation given the preparation work being done by CARR.

The principal points raised by respondents are as follows.

1. The most common point raised in the feedback was a stated need for a term rate for particular use cases such as corporate and commercial loans and trade finance to be made available before the cessation of CDOR. Approximately half the respondents raising this point referred to a generic term rate and the remainder referred specifically to a Term CORRA benchmark.

   The degree of commitment to a replacement term rate varied from a strong preference for its introduction to statements that it is a clear necessity for the ongoing orderly functioning of some parts of the Canadian dollar financial market in the absence of CDOR.

2. The handling of "tough legacy" financial products currently referencing CDOR was raised repeatedly, with the focus being securities rather than loans given their longer tenor, wider range of investors and the difficulty associated with renegotiating existing bond indentures. Recommendations in the feedback included the possibility of creating a synthetic CDOR rate as in the UK or a CDOR fallback rate, recommended CDOR loan fallback language for inclusion in products where possible and the possibility of a legislative solution including safe harbour provisions for products currently lacking robust fallback language and that mature after June 2024 as has been adopted in the US.

3. Many respondents requested a detailed roadmap from CARR with clear milestones, citing roadmaps published by the ARRC in the US and the RFR Working Group in the UK as useful precedents. Features suggested for a CARR roadmap included (i) a CORRA first initiative under which inter-dealer trading conventions would switch from CDOR to CORRA for linear interest rate swaps on a specific date, (ii) a date for moving cleared OTC derivatives from CDOR to CORRA and (iii) steps for educating users in how CORRA should be used to replace CDOR in various use cases (covering conventions for using CORRA, documentation, operating procedures and IT systems) with a particular focus on domestic firms that have had little direct experience of LIBOR transition.

   Challenges exist in terms of operational complexity and payment processes in switching from in-advance CDOR products to in-arrears CORRA products, particularly where extensive or complicated books exist. Some firms and stakeholders with no prior experience of LIBOR cessation may face difficulties in adapting to in-arrears payments and valuation processes without sufficient guidance, time and vendor support.

4. The two-stage timeline suggested by CARR involving an end date of June 2023 for no new cash or derivative

exposures to CDOR (with certain exceptions) and a cessation for CDOR of June 2024 was generally viewed as tight but achievable. Several respondents noted that complying with this timeline was dependent on the development of liquidity in cash and derivative CORRA products but it was also noted that such liquidity would not develop without a specific deadline in place to focus attention and encourage transition. It was also noted that any decision by RBSL to cease calculation and publication of CDOR should be clear and unambiguous in order to trigger the transition process by existing CDOR users.

5. A number of respondents noted that RBSL as benchmark administrator should engage with CDOR contributor banks, CARR and other stakeholders to review the methodology for CDOR in order to maintain representativeness for CDOR submissions in the likely scenario that Bankers' Acceptance issuance in the primary market and trading in the secondary market diminishes as the June 2023 and June 2024 deadlines approach.

6. The issue of non-linear products such as swaptions was raised, with guidance requested for the handling of such products under a transition from CDOR to CORRA particularly with respect to the settlement of cleared physical swaptions.

In addition, the following points were raised by some respondents.

- The existing CDOR contributor panel is relatively small. Any loss of one or more contributor(s) would be a risk to the immediate viability of CDOR.

- The cessation of CDOR is likely to lead to a reduction or possible cessation in the issuance of BAs. In the absence of a replacement term rate for CDOR, reduced BA issuance may lead to less transparency in loan rates to clients. A replacement term rate would provide a consistent basis for all lenders to set loan rates.

- BA issuance is concentrated at the 1-month tenor and provides an important cash management instrument for money market funds. A cessation of CDOR would lead to a reduction or potential cessation in BA issuance and currently there are few if any alternative 1-month instruments with similar characteristics for money market funds. Without clear alternative investment instruments, the disappearance of BAs may lead to distortions in the Canadian money market for potential alternatives, including the trading of secondary 1-month Government of Canada T-bills.

- An RBSL cessation announcement in 2022 would lead to the ISDA credit spread adjustment being fixed around 2 years before the actual cessation date, in contrast to 9 months for most LIBOR settings. This may have an effect for counterparties when derivatives fall back to the ISDA rate once CDOR ceases to be published.

- Some respondents noted that the ISDA fallback rates and the CARR CORRA conventions are sufficient to handle existing use cases of CDOR.

- Some respondents noted that LIBOR cessation has prepared users for CDOR cessation. However, some respondents also raised the possibility of bandwidth constraints given that the first stage of CARR's two-stage timeline (June 2023) coincides with the cessation date for the remaining USD LIBOR tenors.

4. OUTCOMES FOLLOWING FEEDBACK

The feedback received to the RBSL consultation has highlighted a number of key considerations and practical steps in the transition from a CDOR based environment to a CORRA based environment for the Canadian financial markets. In considering the feedback, RBSL notes that many suggested actions fall within the mandate of CARR rather than the mandate of RBSL as benchmark administrator for CDOR, and that some of the points raised have already been covered by CARR. Following the publication of the white paper, CARR's primary objectives were updated to include the transition from CDOR to CORRA in preparation should RBSL decide to cease the publication of CDOR. The objectives are to:

1. "Support the adoption of, and transition to, CORRA as a key financial benchmark for Canadian derivatives, floating rate securities and loans.
2. "Prepare a comprehensive transition plan for all products referencing CDOR.
3. "Determine the need for a forward-looking term CORRA benchmark as well as the ability to create one that is IOSCO compliant. The intended use of term CORRA would be limited to CDOR based loan products and their associated derivatives.
4. "Execute the transition plan if RBSL makes the determination that CDOR's publication should cease."

RBSL has discussed key feedback on an anonymized basis with CARR in accordance with CARR's objectives and in order to determine appropriate actions. Consequently, in addressing the feedback received to the RBSL consultation, RBSL makes reference to both the actions already taken and those planned by CARR. CARR has also published a market notice responding to the CDOR Cessation Notice (in English and in French).

In respect of the principal points raised by respondents to the consultation, RBSL notes the following.

1. <u>Term Rates</u>

RBSL has communicated to CARR respondents' clear views favouring the introduction of a term rate prior to the cessation of CDOR and further, RBSL understands that CARR has independently established the level of demand for a term rate amongst existing users of CDOR. RBSL notes that a term CORRA rate is the focus of the CARR Term CORRA subgroup. On May 16, 2022, CARR issued a public consultation to consider aspects of the methodology and use cases for a term rate (see the CARR market notice for details). RBSL is satisfied that CDOR users' need for a term rate for certain use cases currently fulfilled by CDOR is fully appreciated by CARR and welcomes the steps being taken by CARR.

2. <u>Tough Legacy Products</u>

RBSL is informed that CARR has begun to compile a detailed breakdown of securities that expire post the June 30, 2024 date to identify financial products that might be classified as either 'legacy' or 'tough legacy' products with a view to introducing plans for the remediation of the problems presented by tough legacy products. The initial action is to assess the size of this 'tough legacy' exposure. The remediation actions will depend on this assessment and could include re-papering of existing products to include more robust fallback language, issuers purchasing or exchanging existing 'tough legacy' securities for new CORRA based securities, and the potential introduction of a legislative solution which would reference a robust CDOR fallback rate, if required and feasible. RBSL recognises the comprehensive approach planned by CARR and its commitment to resolving this issue.

3. **CARR Roadmap**

RBSL has communicated respondents' recommendations for a detailed CARR roadmap containing initiatives such as a 'CORRA First' date for inter-dealer markets, key milestones intended to promote the liquidity in CORRA products, particularly interest rate swaps and futures contacts, and educational measures addressing the need for awareness regarding CORRA conventions, contract documentation and language, operating procedures and IT system enhancements. CARR's objectives clearly align with the recommendations. On May 16, 2022, CARR published a transition roadmap which will be updated as necessary, similar to roadmaps from NWGs involved in LIBOR transition (see the CARR market notice for details).

4. **Two-Stage Transition Timeline**

The need for the development of liquidity in CORRA product prior to the cessation of CDOR is widely recognised. RBSL notes that CARR's membership includes most of the major Canadian liquidity providers in Canadian dollar securities and derivatives, and that it is developing milestones in consultation with key market participants in order to effectively migrate liquidity from CDOR to CORRA prior to the June 2023 date for cessation of new CDOR product issuance.

RBSL's CDOR Cessation Notice itself is clear with respect to the cessation date for CDOR and includes no contingencies.

5. **CDOR Methodology**

As the cessation date for CDOR approaches, BA issuance is widely expected to reduce or possibly cease altogether. RBSL as benchmark administrator for CDOR is committed to working with contributor banks, CARR and other CDOR stakeholders to maintain the representativeness and integrity of CDOR. RBSL notes that (i) the existing methodology provides for the use of expert judgment by contributor banks in accordance with their submission procedures, (ii) changes to the methodology itself are possible and (iii) any changes to the CDOR methodology would be subject to the RBSL Benchmark Change and Cessation Policy which requires that any material changes are subject to a public consultation.

In addition, RBSL will review its monitoring and surveillance framework to ensure that it remains effective in the event that BA issuance declines or ceases. CARR's white paper also states that it is CARR's expectation that the six CDOR panel member banks will continue to support BA issuance, to the extent possible, until the June 30, 2024 cessation date.

6. **Non-Linear Derivatives**

RBSL notes that the issues faced in the treatment of non-linear derivatives and the identification of solutions are the focus for the CARR Derivatives Subgroup.

In addition, RBSL notes the following points. While outside the remit of RBSL or CARR it is a relevant consequence of the cessation of CDOR.

- CDOR's cessation is likely to result in materially reduced or stopped BA issuance, leading to an absence of a key 1-month cash management investment product for money market funds and other investors. RBSL notes that the Canadian Fixed Income Forum has convened a number of workshops to "connect issuers, investors, and dealers to address information gap, discuss constraints faced by different players in the market, and identify potential solutions."
- The period between the CDOR Cessation Notice being published and the cessation date for CDOR in

June 2024 means that the ISDA credit spread adjustment is fixed around 2 years before the actual cessation date. However, this is comparable to the period between the announcement of the end of LIBOR in March 2021 and the effective cessation date for the major USD LIBOR settings in June 2023.

- The first stage in CARR’s two-stage timeline (June 2023) coincides with the effective cessation date for the remaining USD LIBOR settings. Use of the remaining USD LIBOR settings will have transitioned to USD SOFR prior to June 2023 and additionally, CDOR itself will continue to be calculated and published until June 2024.

5. SUMMARY

RBSL as the regulated administrator of CDOR has followed a robust governance process with respect to the cessation decision to cease the publication of CDOR on June 30, 2024.

RBSL recognises that respondents to the consultation have raised a number of key practical points regarding the transition from CDOR to CORRA that should be addressed. CARR is the mandated body for managing the transition process. RBSL has communicated the feedback received in the aggregated and anonymised form as summarised above and is satisfied that CARR has, or will, systematically and substantially address each point. RBSL will continue to work with CARR for the duration of the cessation period to ensure a smooth and efficient transition from CDOR to CORRA and to provide support for market participants and other CDOR stakeholders.

RBSL welcomes feedback. Any comments or queries regarding this outcome statement should be sent to index_queries@refinitiv.com and include “CDOR Cessation” in the email subject line.