

CORRA Consultation Responses

To the CARR Working Group,

The Investment Industry Association of Canada (IIAC) is pleased to provide views on the Canadian Alternative Reference Rate Working Group's (CARR) recommended approach to an enhanced Canadian Overnight Repo Rate Average (CORRA). A working group comprised of IIAC Members assisted in evaluating CARR's recommendations.

Overall, the IIAC working group was supportive of the recommendations and encloses some additional feedback using the questionnaire template.

In addition, the IIAC and its members would be interested in being involved in future consultations on the development of a term CORRA risk-free rate as well as the discussions around operational issues.

Yours Sincerely,



Todd

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Appendix A: Response Form for Consultations on Proposed Enhancements to CORRA

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Organization name: The Investment Industry Association
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Organization type: Industry Association

Instructions

The Canadian Alternative Reference Rates Working Group (CARR) is seeking respondents' views on the proposed enhancements to CORRA outlined in the accompanying consultation document. Please e-mail a PDF of your response using this template to CORRAconsultation@bank-banque-canada.ca no later than April 30th, 2019 with the subject line "CORRA Consultation Responses". All responses will be confidential. CARR will publish an anonymized summary of comments on the CARR website after the consultation period closes. We ask respondents to coordinate their responses across their organization to provide a single response per institution.

If you have any questions regarding the consultation, e-mail CORRAconsultation@bank-banque-canada.ca.

Consultation Questions

Question 1: Do you support expanding the trades used for the calculation of an enhanced CORRA to include repo transactions between all unaffiliated counterparties, but excluding those relating to repos conducted with the Bank of Canada or as part of the Receiver General auctions? If you do not support this, please explain why.

Yes, the IIAC supports the expanded use of repo trades as being proposed by CARR.

The IIAC believes that expanding the base of repo transactions comprising CORRA will provide for a representative overnight risk-free rate.

One dealer is in agreement that tom-next trades should be excluded from the calculation of enhanced CORRA but did indicate an interest in further exploring the potential future eligibility of tom-next (t/n) trades.

Question 2: Do you support including only overnight repos for same-day settlement in an enhanced CORRA? If you do not support this, please explain why.

Yes, we support the inclusion of only overnight repos for same-day settlement.

Limiting inclusion to only overnight repos for same-day settlement will still provide a large enough base of transactional data for a representative overnight risk-free rate to be calculated.

We concur with the rationale presented by CARR for excluding t/n trades from the calculation. Specifically, that t/n trades may include a lot of specials and trading around certain dates that may not be representative of the g/c market. If, however, the t/n market continues to grow as some believe it will, it may need to be re-evaluated for inclusion in an enhanced CORRA in the future.

Question 3: Do you agree with the proposal to limit the calculation of an enhanced CORRA to repos in Canadian dollars and that involve Government of Canada securities only? If you disagree, please explain why.

Yes, the IIAC supports the proposal to limit the calculation to repos transacted in Canadian dollars and that involve Government of Canada securities only.

Adding securities other than Government of Canada bonds and T-bills may add an element of credit risk into the rate. Given that Government of Canada securities represent a significant majority share of repo trading we expect there to be sufficient trading volume to undertake a robust calculation without having to introduce other asset types.

Question 4: Do you agree with CARR's recommendation of using a 25 per cent trimmed median methodology for calculating the enhanced CORRA? If you disagree, please explain why.

Yes, the IIAC supports using a 25 per cent trimmed median methodology.

This methodology appears statistically representative and it aligns Canadian practices with the 25% trimmed median that is planned to be used in the U.S.

An IIAC Member commented whether the period of a significant market disruption (2008-09) was studied when determining the 25% trimmed median.

Question 5: Do you believe that the differences between the proposed enhanced CORRA and the current CORRA are material enough to impact the transition to the enhanced rate? If yes, please explain why.

No.

The IIAC agrees that, despite the different methodologies and pool of transactions, the differences between current CORRA and enhanced CORRA are likely not material enough to impact the transition to the enhanced rate.

Question 6: Are there any other considerations pertaining to the calculation methodology that you believe CARR should discuss?

None at the moment