Information on discontinuation of Canadian Dollar Offered Rate (CDOR)

This is to keep our clients informed about the discontinuation of CDOR after June 28, 2024.

What is CDOR?

CDOR is currently the primary commercial interest rate benchmark in Canada. It is a survey-based benchmark measuring the average rate at which the six Canadian surveyed banks are willing to lend to corporate borrowers with existing committed Bankers' acceptance (BA) credit facilities. However, it is used in a much wider array of financial contracts and is currently published for three tenors: 1,2, and 3 months.

What is happening now?

The International Organization of Securities Commissions (IOSCO) recently called for greater attention, in credit sensitive benchmarks, to the size of underlying markets referencing a benchmark in relation to the volume of trading in the products used to determine the benchmark and whether there is sufficient underlying data to support the benchmark in both normal times as well as stress periods. However, in the case of CDOR, CAD 70 – 100 billion worth of BAs provide the pricing mechanism for over CAD 20 trillion in exposure referencing CDOR.

Given the above, in December 2021, Canadian Alternative Reference Rate Working Group (CARR) published a white paper recommending that the administrator of CDOR, Refinitiv Benchmark Services (UK) Limited (RBSL), cease the publication of CDOR after the end of June 2024. Subsequently, on May 16, 2022, RBSL has announced that CDOR's publication will be discontinued after June 28, 2024.

CARR has recommended a two-staged transition to move Canadian financial products away from CDOR. In the first stage, all new Canadian dollar interest rate derivatives and cash security transactions would move to referencing Canada's risk-free rate i.e. Canadian Overnight Repo Rate Average (CORRA) published by Bank of Canada (BoC), by the end of June 2023. The second stage provided an additional year for bilateral and syndicated loans to transition to CORRA.

In the case of Canadian dollar derivatives and securities, CARR expects that these products will transition to CORRA (calculated in-arrears) and can do so within the shorter timeframe given the experience and lessons learned from the London Interbank Offered Rate (LIBOR) transition. Loan products may also transition to CORRA in-arrears, but CARR will consider 1- and 3-month term-CORRA for loan products based on public consultation. These term-CORRA rates could begin being published by the end of Q3 2023 in case consultation shows a strong need for such rates.

What is CORRA?

CORRA, originally developed in 1997, is a transaction-based overnight risk-free interest rate benchmark that measures the secured (i.e. collateralized) overnight funding rate in Canada for Government of Canada “general collateral”. The Bank of Canada calculates CORRA based on overnight repo transactions between any two unaffiliated counterparties that are collateralized by Government of Canada securities. To summarize, CORRA is transparent, transaction based and is administered by Bank of Canada making it a reliable benchmark.

CARR recommends writing new contracts based on CORRA whenever possible, and provides a range of tools to support market participants transitioning to CORRA. For contracts that still need to reference CDOR, CARR recommends incorporating language so that those contracts fall back to CORRA when CORRA inevitably becomes unavailable.

Further information can be accessed on the following link:

- https://www.bankofcanada.ca/markets/canadian-alternative-reference-rate-working-group/

In case you require further information or any clarification, please contact us at following email id: cdorcanada@icicibank.com

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