

NOVEMBER 1, 2023

## Everything You Wanted to Know About CORRA but Were Afraid to Ask

If you are entering into a Canadian dollar loan agreement this week, you may note that it refers to an avilment and interest rate based on CORRA or Term CORRA rather than the more traditional interest rate avilment based on CDOR.

Based on guidance from the Canadian Alternative Reference Rate working group (**CARR**), effective November 1, 2023, all new loan documents, including material amendments to existing loans, must reference CORRA, Term CORRA or prime rates in place of CDOR.

### What are CORRA, Term CORRA and CDOR?

“**CORRA**” refers to the Canadian Overnight Repo Rate Average; an overnight risk-free rate, determined by calculating what CORRA was for the days preceding an interest period, compounded in arrears and published the next business day.

“**Term CORRA**” is a forward-looking, risk-free rate. It represents the market expectation for what CORRA will be, based on CORRA futures, on a 1- or 3-month term. Parties may prefer the certainty of having determined a rate ahead of an interest period. CARR limits Term CORRA's use, however, to certain products so that the market which establishes that rate is proportionate to the market citing it. Term CORRA, for example, can be referred to in business loans, but not consumer loans. If there are issues in determining Term CORRA, CARR recommends CORRA be used as the backup rate.

While some lenders may prefer to use the forward-looking Term CORRA rate, CARR's general expectation is that most loans which would have referred to a CDOR rate in the past will now refer to the overnight CORRA rate.

The Canadian Dollar Offered Rate (**CDOR**) is a forward-looking, credit-based rate (incorporating a risk premium), determined by surveying Canadian banks for the rate they will lend at via banker's acceptances.

## Discontinuation of CDOR

A 2012 investigation in Britain of the London Interbank Offered Rate (LIBOR) benchmark – at the time, the global reference rate for unsecured short-term borrowing in the interbank market– found that several banks had falsely reported financial data leading to speculation and uncertainty in the market. While no investigation found the interbank bank offered rate CDOR to have been manipulated, regulators wished to move away from benchmarks, such as CDOR, which they saw as more easily biased.

On May 16, 2022, Refinitiv Benchmark Services (UK) Limited, the administrator of CDOR, announced that it would cease circulation and publication of all tenors of CDOR on June 28, 2024. We addressed that development and recommendations on the phase-out of CDOR in a previous update, which can be found at this [link](#).

CARR recommended amending loan agreements to replace CDOR loans with CORRA loans to prepare for CDOR's discontinuation. At that time, CARR expected to develop a Term CORRA rate as an alternative to CORRA. Term CORRA then launched on September 5, 2023.

## Implications of Using Risk-Free Rates (CORRA and Term CORRA) versus a CDOR Rate

CORRA is an overnight risk-free rate based on the cost of overnight general collateral funding in Canadian dollars, using Government of Canada securities as collateral for repurchase transactions. It is a strong benchmark because it is based on an active market (repurchase transactions) rather than relying on expert judgment.

Both CORRA and Term CORRA differ from CDOR in two important ways:

1. **They are “risk free”.** They do not incorporate a bank's funding costs/credit spreads. Borrowers may be surprised, initially, by CORRA and Term CORRA being far less than CDOR, a difference in pricing which lenders generally will make up for with increased applicable margins.
2. **They favour borrowers in periods of financial stress.** As risk-free rates, CORRA and Term CORRA rates do not increase materially in periods of financial stress. The lender offering these rates may, however, see an increase in their cost of funding.

## Existing CDOR Loan Documents

You may be party to CDOR loan facilities which have not matured, been extended or materially amended prior to November 1, 2023. The parties to such a facility must continue to meet their respective requirements through the November 1st deadline.

CARR recommends amending your loan facilities in order to transition to an alternative rate as soon as possible, ideally prior to the CDOR cessation date on June 28, 2024.

If it is not possible to transition your loan facilities to another rate prior to June 28, 2024, consider amending them to include CARR recommended fallback language with the assistance of your legal counsel.

Should you require clarification with respect to any of the foregoing, please do not hesitate to contact Rachel Manno at [rmanno@wildlaw.ca](mailto:rmanno@wildlaw.ca). The author gratefully acknowledges the assistance of articling student [Andrew Jensen](#) in the preparation of this update.

***This update is intended as a summary only and should not be regarded or relied upon as advice to any specific client or regarding any specific situation.***

***If you would like further information regarding the issues discussed in this update or if you wish to discuss any aspect of this commentary, please feel free to contact us.***