



IIAC ADVISORY

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Canadian Overnight Repo Rate (CORRA)

The Investment Industry Association of Canada (IIAC) is seeking views from member firms and other interested market participants on the composition of the Canadian Overnight Repo Rate (CORRA), given the recent introduction of the Canadian Derivatives Clearing Corporation's (CDCC) new fixed-income central counterparty (CCP) system. CORRA is the volume weighted average of Government of Canada general collateral ("GC") repo trades executed through specific inter-dealer brokers. Given that some of these trades are now cleared through the CCP, the IIAC proposes that these trades be included in the calculation of the CORRA.

About CORRA

The CORRA is a measure of the average cost of overnight collateralized funding. It is set as the volume weighted average rate of overnight repo transactions conducted on-screen through designated inter-dealer brokers between 6:00am and 4:00pm and as reported to the Bank of Canada. The CORRA is limited to repo transactions that involve general (non-specific) Government of Canada collateral. In the event that less than C\$500 million in eligible overnight trades are reported, CORRA is set at the Bank of Canada's target for the overnight rate. Published daily by the Bank of Canada, the CORRA provides a transparent measure of the cost of overnight funding.

Background

On February 21, 2012, as part of an IIAC industry lead initiative, a new fixed-income central counterparty clearing facility was launched in Canada. Operated by the Canadian Derivatives Clearing Corporation,

the CCP represents an important new piece of capital market infrastructure and is recognized as systemically important by the Bank of Canada¹.

During the first months of the CCP's roll-out, a very limited number of Government of Canada securities were eligible for clearing through the CCP. The CCP has, however, steadily expanded its list of securities eligible for clearing, with virtually all Government of Canada bonds now accepted. This has also had a corresponding effect on the volume of "GC" repo cleared through the CCP. Further, additional participants have since indicated interest in centrally clearing through the CCP and it is envisaged that participation will gradually increase with the roll-out of future phases of the CCP.²

Given the growth in the volume of "GC" repo cleared through the CCP, the IIAC has been reviewing the appropriateness of expanding the CORRA to include this "GC" CCP repo activity transacted through inter-dealer brokers.

Considerations

The IIAC has canvassed members of its Repo Committee for its views on this matter. The IIAC Repo Committee consists of experienced professionals active in domestic repo markets from twelve IIAC member firms who are also designated as Primary Dealers by the Bank of Canada. Not all dealers on the committee are current participants of the CCP³.

The significant majority of Repo Committee members have expressed the view that **all** Government of Canada "GC" repo traded on the inter-dealer broker screens should be included in the CORRA - including transactions destined for clearing through the CCP. The primary reason cited by committee members in support of this view was, that, for the CORRA to continue to be a holistic representation of overnight "GC" funding in domestic repo markets it should capture as broad a data set (volume) as possible.

Request for Industry Feedback

Given the considerations described above, the IIAC has decided provisionally to include all CDCC cleared "GC" trades executed through inter-dealer broker screens in the CORRA calculation from October 29, 2012. However, given the CORRA's significance to the broader market, particularly the overnight index swaps (OIS) market, the IIAC would welcome any feedback from IIAC Members firms and other market participants with an interest in this matter.

Written comments are to be provided to: capitalmarkets@iiac.ca by **October 15th, 2012**. Please include 'CORRA Feedback' in the subject line. The IIAC will compile a summary of the comments received which may be made public.

¹ The CCP is designated by the Bank of Canada as subject to their ongoing regulatory oversight under the Payment Clearing and Settlement Act effective April 30 2012 <http://www.bankofcanada.ca/2012/04/press-releases/bank-of-canada-designates-canadian-derivatives-clearing-service-under-the-payment-clearing-and-settlement-act/>

² Refer to CDCC Rule A-1A for CDCC Membership Criteria http://www.cdcc.ca/f_rules_en/cdcc_rules_en.pdf

³ Seven IIAC member firms or their affiliates currently participate in the fixed income CCP. These institutions collectively comprise the significant majority of bond trading in Canada.