Term CORRA Analysis – Raising Awareness of Level 1 and Level 2 Rates

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CanDeal Benchmark Administration Services Inc. (**CBAS**) is publishing this Notice for information. The Notice gives a high-level overview of the calculation of Term CORRA rates using a waterfall methodology comprised of two levels (Level 1 (**L1**) and Level 2 (**L2**)) and describes the circumstances where there may be significant differences between the L1 and L2 methodologies. Borrowers and lenders need to be aware of these differences due to the impact on interest expense.

CBAS calculates Term CORRA rates following the Term CORRA Methodology using data from 1- and 3- month CORRA futures traded on the Montreal Exchange. This is a waterfall methodology comprised of two levels:

- **Level 1:** When there is sufficient liquidity in the 1-month and 3-month CORRA futures, this approach uses trade and order book data to produce a L1 Term CORRA.

- **Level 2:** The L2 rate is calculated using the previous day's L1 rate plus the backward-looking day-over-day change in CORRA, compounded over the tenor of the benchmark. The L2 calculation is used only when an L1 calculation cannot be used and is expected to be a rare event. SOFR does not calculate a L2 rate but uses the previous day's inputs when necessary.

While the L1 rate is reflective of market moves that happened the day it is calculated, the L2 rate may not be, because it is backward-looking. The rates may be significantly different on days with significant market events or announcements.

For example, the L1 rate may fluctuate significantly on a day where the Bank of Canada announces changes to interest rates or when there is significant news that impacts the likelihood of future changes to the target rate. The L2 rate, which is backward-looking, would not change in response to the news. Both rates would be considered to be correct under the current methodology, with the discrepancy due to the differences in the L1 and L2 methodologies.

The chart included below shows some recent history of the L1 and L2 results for 1-Month Term CORRA. The blue arrows illustrate that the L2 result is the same as the prior day L1 result during this period, and the orange arrows highlight some days where the difference between the L1 and L2 result is material.

1 Month Term CORRA
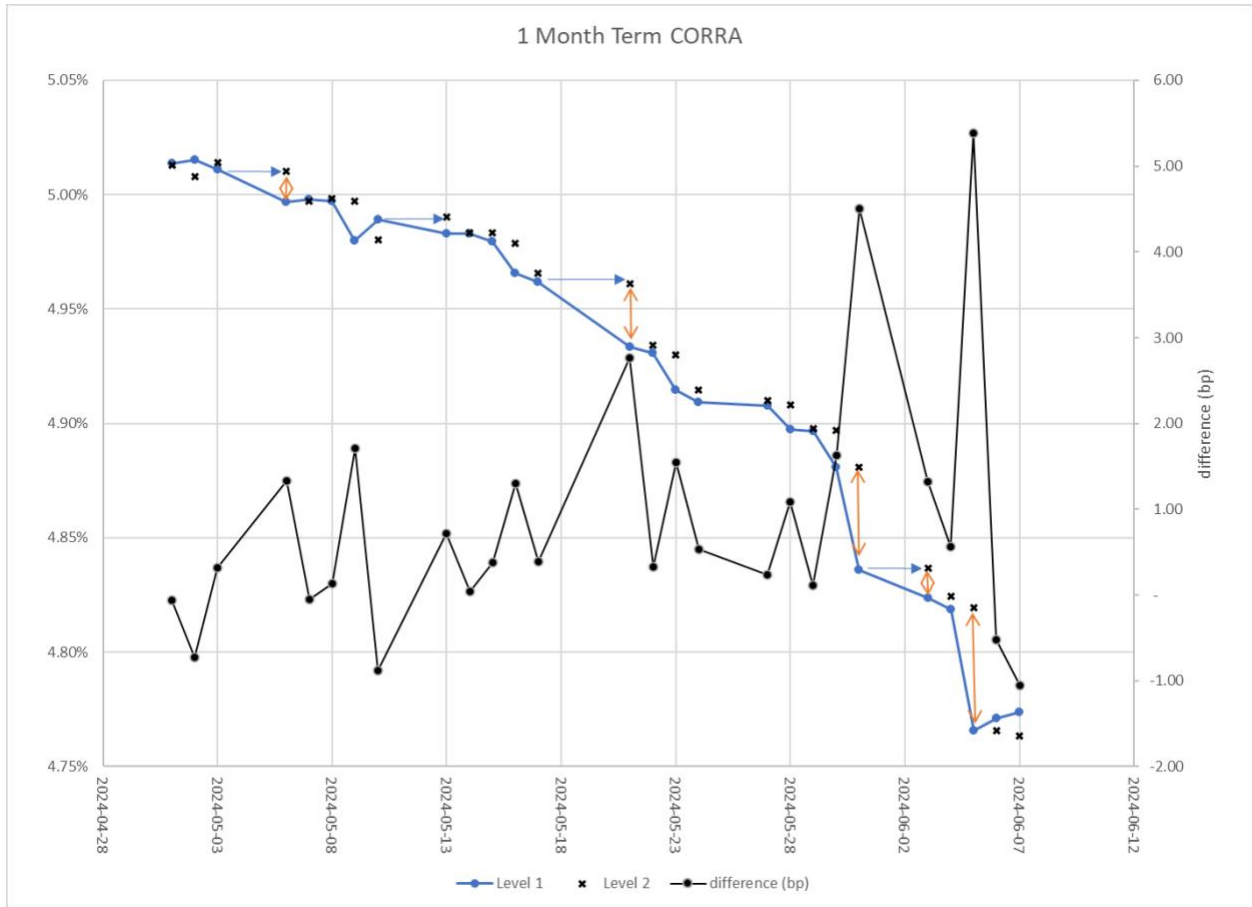
For more information

Please contact benchmarks@candeal.com if you have any questions.

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