



March 1, 2021

Mr. Harri Vikstedt
Co-Chair, Canadian Alternative Reference Rate Working Group
Senior Director, Financial Markets
Bank of Canada

Mr. Karl Wildi
Co-Chair, Canadian Alternative Reference Rate Working Group
Managing Director and Vice-Chair, Global Markets
CIBC Capital Markets

RE: Cessation of 6 month and 12 month CDOR

Dear Mr. Vikstedt and Mr. Wildi:

BAFT (The Bankers Association for Finance and Trade) appreciates the opportunity to comment on the expected cessation of 6-month and 12-month CDOR on May 14, 2021. We understand that the Canadian Alternative Reference Rate Working Group (CARR), under your leadership, is assessing the impact of the discontinuance of the 6-month and 12-month tenors of CDOR in financial instruments that reference CDOR and is looking to address issues that may arise from such discontinuance. Allow us to bring to your attention the disproportionate impact that the trade finance industry will bear as a result of the discontinuance.

BAFT is an international financial services industry association whose membership includes a broad range of financial institutions throughout the global community. As a worldwide forum for analysis, discussion, and advocacy in international financial services, BAFT's nearly 300 members provide leadership to build consensus in preserving the safe and efficient conduct of the financial system worldwide. BAFT member institutions have been working steadily to prepare for IBOR transition across currencies. Recognizing the limited attention given to the unique characteristics and requirements necessary for trade finance products to transition, in January 2020 BAFT formed a global working group to assess and address the challenges that institutions will face during the transition.

Global trade relies upon accessible financing for trade transactions. Trade financing assists customers with their import and export requirements, by providing import/export financing and trade risk mitigation. Trade finance exposures are diverse in nature, smaller in value, shorter in tenor, self-liquidating and exhibit different behavior and payment patterns from other corporate banking products. Bank-intermediated transactions now represent more than a third of world trade.

CDOR has long been the commonly used benchmark interest rate for trade finance in Canada. Trade finance transactions frequently reference CDOR 6-month and 12-month tenors. Market practice across global trade (both traditional trade products and structured supply chain trade finance solutions) has necessitated CAD CDOR as the single benchmark of choice. Trade finance institutions quote the forward-looking CAD CDOR term rates ahead of the period irrespective of whether interest is taken in advance or in arrears. The tenors of such loans in trade finance vary from a week to 360 days and cessation of the 6-month and 12-month rates creates significant impact without a replacement term rate.

The trade finance businesses inability to pivot to an alternative 6-month or 12-month tenor presents a challenge with lack of an industry accepted benchmark and industry standard for CAD trade finance loans. Options such as Bloomberg published compounded in arrears CORRA interest rates are not viable alternatives because the rates do not reflect the future tenor. Discounted trade finance products have been specifically identified as a use case for which forward-looking term rates are required due to the inability to discount cash flows with an in-arrears reference rate. There must be a forward-looking rate to enable the calculation that is also observable and transparent to the parties involved in the transaction.

As CARR considers how to address the issues that will arise from the discontinuance of CDOR tenors, we stress the importance of the development of a forward-looking term CORRA reference rate. Until such time, we recommend CARR to re-consider continuing the publication of the existing Refinitiv calculated 6-month and 12-month tenors.

BAFT would welcome the opportunity for future dialogue on the topics raised. In the meantime, we would encourage the CARR to delve deeper into the impact of the cessation on the trade finance industry and on the businesses that we serve.

We appreciate you taking into account our industry's perspective. Should further discussion of any of these matters be desired, please do not hesitate to contact Diana Rodriguez, Vice President, International Policy at drodriguez@baft.org.

Very truly yours,

Tod R. Burwell
President and Chief Executive Officer