



June 13, 2022

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: Consultation on a potential new term interest rate to replace CDOR in certain financial instruments**

Via email: [CARR-TARCOMConsultation@bank-banque-canada.ca](mailto:CARR-TARCOMConsultation@bank-banque-canada.ca)

Dear Mr. Vikstedt and Mr. Wildi:

BAFT<sup>1</sup> (The Bankers Association for Finance and Trade) appreciates the opportunity to comment a potential new term interest rate to replace CDOR in certain financial instruments. We welcome the Canadian Alternative Reference Rate (CARR) working group's recognition that Term CORRA is needed where market participants need advance knowledge and certainty of their interest rate obligations or where the rate is used for discounting future cash flows such as in trade finance.

Use of Term CORRA for trade finance will enable the effective ability to price trade financing activity across the product set. Forward-looking term rates are used by the global trade industry for financing and risk mitigation and allow for simplicity in daily high volume, low value activity across a myriad of underlying products, many of which commonly have discounting features.

The following sections responds to questions in the Consultation. We appreciate you taking into account our industry's perspective.

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<sup>1</sup> [BAFT](http://www.BAFT.org) is the leading global forum for bringing the financial community, its solution providers and stakeholders together to collaborate on defining best market practices that facilitate efficient delivery of trade and cash management products and service offerings for their clients.

**Does your institution need a Term CORRA rate? If so, for what purpose and how would you use Term CORRA? Please be as explicit as possible.**

Trade financing assists customers with direct financing of their commercial activities with buyers and suppliers to meet their domestic and international financing requirements. It also supports cross border import and export finance requirements, risk mitigation and improving working capital efficiency. Trade finance exposures are diverse in nature, shorter in tenor, self-liquidating and exhibit different terms and payment patterns than other corporate banking products. Trade transactions have multiple counterparties across different client segments which include consumers, top tier local corporates, large multinational corporations, global suppliers, financial institutions and government agencies. For the lenders to be able to continue to offer this funding solution widely relied on by many corporates, forward- looking term rates are essential.

A large number of trade finance products currently rely on a forward-looking term rate, which is transparent, observable and fixed for a defined period of time, for instance a 24-hour window. In trade transactions, there are often multiple parties involved, the buyer, supplier and the two counterparties' banks. In the absence of a transparent and observable forward-looking term rate, with the 24 hour fixed window, the banks in these transactions could be applying different rates. In a discounted trade finance product a bank provides cash flow to a supplier today, which is otherwise due to them at a point in time in the future based on the original terms of sale, and therefore, it is provided at a discounted value. 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 or overnight reference rate. There must be a forward-looking term CORRA rate to enable the calculation that is also observable and transparent to the parties involved in the transaction.

Trade payable and receivable discount financing products are usually initiated by larger corporate buyers and often geared towards helping to improve working capital efficiency of their SME corporate suppliers, who may be less sophisticated, often lack a dedicated treasury function and may have less capability to adapt their processes and technologies to handle the transition. While the suppliers may be smaller, the importance of these products and costs of using them upfront cannot be ignored. The discount is passed on to these smaller suppliers who pay a lower discount rate for an early payment option that if it were too costly, would not be a viable solution to improve their working capital.

The financing of account receivables in trade finance receivables products are often initiated by more sophisticated suppliers to receive early payment on their outstanding invoices to their customers (i.e. accounts receivables on the suppliers' balance sheet). The supplier sells a receivable or multiple receivables to a financial institution. The discounted cost of account receivable financing typically includes a reference rate component with such rate derived from the forward CDOR curve, matching the financing tenor of the receivable being purchased, and therefore would require a term CORRA rate to transition to.

This calculation of the discount must be completed on the day that the money is advanced. Therefore, there must be a forward-looking rate to enable the calculation that is also observable and transparent to the parties involved so that the costs of utilizing this funding option are known to all parties and all parties can effectively manage their cash flows and working capital. A Term CORRA rate would be required now that CDOR's cessation has been announced to avoid disruption in the flow of commercial goods and settlement of payments.

**CARR is considering recommending that Term CORRA be limited to only the 1- and 3-month tenors. If only one of these tenors was available, which would you need and why?**

Market practice across global trade (both traditional trade products and structured supply chain trade finance solutions) has necessitated CDOR as the single benchmark of choice for CAD. 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 12- month and thus, the lack of a planned CORRA term structure up to a 12- month rate creates significant impact.

We also note that forward looking term rates enables the ability for the industry to interpolate mid-period dates for trade financing where the short-term periods align to the payment flow, e.g. 75 days, 120 days. For that reason we would urge the development of Term CORRA beyond the 3-month tenor once sufficient liquidity is established. In the interim, we would urge the CARR to proceed with publication of both the 1- and 3-month tenors.

**If Term CORRA was not available, would your institution use overnight CORRA? If not, could you please explain why and what other alternatives would you consider?**

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 or overnight 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. For the lenders to be able to continue to offer this funding solution widely relied on by many corporates, forward- looking term rates are essential. We welcome CARR's recognition of trade finance as an eligible use case and look forward to the publication term CORRA in advance of CDOR's cessation.

Should further discussion of any of these matters be desired, please do not hesitate to contact me at ([drodriguez@baft.org](mailto:drodriguez@baft.org); 202-663-4986).

Sincerely,

Diana Rodriguez  
Vice President, International Policy  
BAFT