

DIRECTION TO ISSUERS ON APPLICABLE FALLBACK PROVISIONS FOR CDOR NHA MBS

PURPOSE

To provide direction to Issuers on the applicable fallback provisions for the Canadian Dollar Offered Rate (CDOR) in the NHA MBS Program following the cessation of the publication of CDOR on June 28, 2024.

BACKGROUND

On May 16, 2022, Refinitiv Benchmark Services (UK) Limited, the administrator of CDOR, announced that the calculation and publication of all tenors of CDOR will permanently cease immediately following a final publication of CDOR on Friday June 28, 2024.

Certain NHA MBS bearing interest based on the one-month CDOR contain the following provisions for determining the alternative rates (i.e. fallback provisions) that will apply if CDOR is discontinued as a reference rate:

- (a) Fallback provisions providing for the alternative reference rate selected or recommended by the central bank, reserve bank, monetary authority, relevant regulatory supervisor or any similar institution (including any committee or working group thereof), or identified through any other applicable regulatory or legislative action or guidance, that is consistent with accepted market practice for debt obligations, as determined by CMHC (the **Interim Fallback Provision**); or
- (b) Fallback provisions providing for Fallback Rate (CORRA) as the first alternative reference rate in a replacement rate waterfall recommended by the Bank of Canada's Canadian Alternative Risk-Free Rate (**CARR**) working group in 2021 (the **CARR Recommended Fallback**, and together with the Interim Fallback Provision (**NHA MBS Fallback Provisions**)).

Each of the NHA MBS Fallback Provisions contains a clause (the **Conforming Changes Clause**) that provides that the Issuer shall, as directed by CMHC, make such adjustments to the alternative reference rate and the spread thereon, as well as the business day convention, interest payment dates and related provisions and definitions, in each case that are consistent with accepted market practice or applicable regulatory or legislative action or guidance for the use of such alternative reference rate for debt obligations such as the NHA MBS.

On October 24, 2023, the Mortgage-Backed Securities Issuers Association (MBSIA) recommended that CMHC utilize the Conforming Changes Clause in consultation with Issuers to calculate the fallback rate for CDOR NHA MBS using One-Month Daily Compounded CORRA together with the CARR recommended spread adjustment of 0.29547% instead of using the Fallback Rate (CORRA).

[CDOR Fallback Considerations Letter \(mbsia.ca\)](https://mbsia.ca/CDOR-Fallback-Considerations-Letter)

On November 30, 2023, CARR amended the CARR Recommended Fallback for CDOR NHA MBS and recommended that:

- The One-Month Daily Compounded CORRA calculation methodology currently being used in newly issued CORRA NHA MBS be used to calculate the CORRA compounded-in-arrears rate for all CDOR NHA MBS outstanding on or after July 1, 2024, rather than the Fallback Rate (CORRA) calculation methodology that the fallback provisions included in such CDOR NHA MBS may currently refer to.
- The one-month CDOR to CORRA spread adjustment of 0.29547% announced by Bloomberg in May 2022, as defined in its IBOR Fallback Rate Adjustments Rule Book, should be added to the One-Month Daily Compounded CORRA to calculate the fallback rate for CDOR NHA MBS.
- CDOR NHA MBS Issuers and CMHC should implement these recommended changes through operation of the Conforming Changes Clause included in the NHA MBS Fallback Provisions.

[CARR amends the Recommended Fallback for CDOR NHA MBS \(bankofcanada.ca\)](https://www.bankofcanada.ca)

POLICY AMENDMENT

A. Direction to Issuers of CDOR NHA MBS Containing NHA MBS Fallback Provisions

CMHC has determined that use of the One-Month Daily Compounded CORRA calculation methodology currently being used in newly issued CORRA NHA MBS plus the one-month CDOR to CORRA spread adjustment of 0.29547% announced by Bloomberg, as recommended by CARR and the MBSIA, is consistent with accepted market practice for CDOR NHA MBS and that this methodology should be used to calculate interest on all CDOR NHA MBS containing NHA MBS Fallback Provisions.

For avoidance of doubt where the CDOR NHA MBS include the CARR Recommended Fallback, the foregoing One-Month Daily Compounded CORRA plus the spread adjustment should be used instead of Fallback Rate (CORRA). CMHC further directs that Issuers implement these changes as set forth in amended and restated fallback calculation methodology provided in the Appendix through operation of the Conforming Changes Clause.

Issuers do not need to modify the existing CMHC 2834 for all CDOR NHA MBS containing NHA MBS Fallback Provisions.

B. Reporting Requirements in CMHC 2840 - Issuer's Monthly Accounting Report after July 1, 2024

These changes only applied to CDOR NHA MBS (Pool Type 880, 980, 885 and 985):

- Coupon Base Rate (9D) will be reported as One-Month Daily Compounded CORRA + CARR recommended spread adjustment of 0.29547% in lieu of one-month CDOR after CDOR cessation.
- Annual Coupon (3H) will be reported as One-Month Daily Compounded CORRA + CARR recommended spread adjustment of 0.29547% + constant spread to CDOR.

These reporting requirements will ensure the difference between the above two fields remain the same as the constant spread to CDOR and is consistent with the spread shown in the CMHC 2834 to avoid any potential confusion.

EFFECTIVE DATE OF CHANGE

The Applicable Fallback for CDOR in the NHA MBS Program will take effect on July 1, 2024.

ENQUIRIES

For further details on these policy changes, please contact Geneviève Julien by email at gjulien@cmhc.ca. For any other related questions on the NHA MBS Program, please contact the CMHC Securitization Centre by email at securitization@cmhc.ca.



Louise Stevens

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APPENDIX - AMENDED AND RESTATED FALLBACK CALCULATION METHODOLOGY FOR CDOR NHA MBS CONTAINING NHA MBS FALLBACK PROVISIONS

Following cessation of CDOR, Issuers should calculate interest on all CDOR NHA MBS containing NHA MBS Fallback Provisions using the following methodology:

CDOR Fallback Provisions

If the Calculation Agent determines that any of the events described below in paragraphs (a), (b), (c) or (d) have occurred, the Calculation Agent shall substitute for the CDOR Rate, the rate calculated in accordance with paragraphs (a), (b), (c), or (d), but subject to the provisions of paragraph (f), as applicable, provided that: (i) the rate calculated in accordance with paragraph (b) shall only apply if the rate calculated in accordance with paragraph (a) may not be determined by the Calculation Agent, (ii) the rate calculated in accordance with paragraph (c) shall only apply if neither rate calculated in accordance with paragraphs (a) or (b) may be determined by the Calculation Agent, and (iii) the rate calculated in accordance with paragraph (d) shall only apply if none of the rates calculated in accordance with paragraphs (a), (b) or (c) may be determined by the Calculation Agent. Where the Interest Rate is substituted for the CDOR Rate in accordance with paragraphs (a), (b), (c) or (d) below, the Interest Rate for each monthly Interest Period will be calculated by the Calculation Agent on the Interest Determination Date occurring during that Interest Period and the Payment Date for that Interest Period will occur in the immediately following month.

(a) CDOR

- (i) **Index Cessation Effective Date with respect to 1 Month CDOR.** Upon the occurrence of an Index Cessation Event, the rate for a Reset Date occurring on or after the Index Cessation Effective Date will be calculated by the Calculation Agent as if references to the CDOR Rate were references to the Interest Rate as defined below.

The “**CDOR Rate**” applicable to any Interest Period hereunder shall be an annual rate of interest equal to 1 Month CDOR on the first business day of such Interest Period (each a “**Reset Date**”) plus or minus the applicable spread in basis points, provided that if the CDOR Rate is less than zero with respect to any Interest Period, no interest shall be owing or payable by or to the Issuer for that Interest Period.

“**Interest Period**” means each monthly period while the securities are outstanding from, and including, the 1st day of each month to, but excluding, the 1st day of the following month.

“**Interest Rate**” (or “**NHA MBS Coupon**”) means in respect of each Interest Period, the rate per annum equal to One-Month Daily Compounded CORRA determined on the Interest Determination Date for the Observation Period in respect of such Interest Period, adding the Bloomberg Spread Adjustment and then adding or subtracting the applicable constant spread used to calculate the CDOR Rate, with the resulting percentage rounded, if necessary, to the fourth decimal place, with 0.00005% being rounded upwards, provided that if the Interest Rate is less than zero with respect to any Interest Period, no interest shall be owing or payable by or to the Issuer for that Interest Period.

“**Interest Determination Date**” means the date that is two Bank of Canada Business Days preceding the first calendar day of the month following the relevant Interest Period.

“**Observation Period**” means, in respect of each Interest Period, the period from, and including, the date two Bank of Canada Business Days preceding the first date in such Interest Period to, but excluding, the date two Bank of Canada Business Days preceding the 1st day of the month following such Interest Period.

“**One-Month Daily Compounded CORRA**” for an Observation Period means the rate calculated as follows, with the resulting percentage rounded, if necessary, to the fifth decimal place, with 0.000005% being rounded upwards and -0.000005% being rounded downwards:

$$\text{One – Month Daily Compounded CORRA} = \left(\frac{\text{CORRA Compounded Index}_{end}}{\text{CORRA Compounded Index}_{start}} - 1 \right) \times \left(\frac{365}{d} \right)$$

Where:

- *CORRA Compounded Index_{start} = CORRA Compounded Index value on the date two Bank of Canada Business Days preceding the first date of the relevant Interest Period.*
- *CORRA Compounded Index_{end} = CORRA Compounded Index value on the date two Bank of Canada Business Days preceding the first calendar date of the month following the relevant Interest Period.*
- “d” is the number of calendar days in the relevant Observation Period.

(b) CORRA Compounded Index

If:

- (a) the CORRA Compounded Index_{start} or the CORRA Compounded Index_{end} is not published or displayed by the Administrator or an authorized distributor by 11:30 a.m. Toronto time (or an amended publication time, if any, as specified in the Administrator's methodology for calculating the CORRA Compounded Index) on the Interest Determination Date for such Interest Period, or
- (b) a Fallback Index Cessation Effective Date with respect to CORRA Compounded Index has occurred,

then the Interest Rate will be calculated by the Calculation Agent as if references to One-Month Daily Compounded CORRA in the Interest Rate definition were references to Daily Compounded CORRA calculated using the following method, with the resulting Daily Compounded CORRA rounded, if necessary, to the fifth decimal place, with 0.000005% being rounded upwards and -0.000005% being rounded downwards (the “**Daily Compounded CORRA Observation Shift Convention**”):

$$\text{Daily Compounded CORRA} = \left(\prod_{i=1}^{d_o} \left(1 + \frac{\text{CORRA}_i \times n_i}{365} \right) - 1 \right) \times \frac{365}{d}$$

Where:

- “ d_0 ” for any Observation Period is the number of Bank of Canada Business Days in the relevant Observation Period.
- “ i ” is a series of whole numbers from one to d_0 , each representing the relevant Bank of Canada Business Day in chronological order from, and including, the first Bank of Canada Business Day in the relevant Observation Period.
- “ $CORRA_i$ ” means, in respect of any Bank of Canada Business Day “ i ” in the relevant Observation Period, a reference rate equal to the daily CORRA rate for that day, as published or displayed by the Administrator or an authorized distributor at 11:00 am Toronto Time (or an amended publication time, if any, as specified in the Administrator's methodology for calculating the CORRA) on the immediately following Bank of Canada Business Day, which is Bank of Canada Business Day “ i ” + 1.
- “ n_i ” for any Bank of Canada Business Day “ i ” in the relevant Observation Period, means the number of calendar days from, and including, such Bank of Canada Business Day “ i ” to, but excluding, the following Bank of Canada Business Day, which is Bank of Canada Business Day “ i ” + 1.
- “ d ” is the number of calendar days in the relevant Observation Period.

(c) CORRA

- (i) **No Fallback Index Cessation Effective Date with respect to CORRA.** If neither the Administrator nor authorized distributors provide or publish CORRA and a Fallback Index Cessation Effective Date with respect to CORRA has not occurred, then, in respect of any day for which CORRA is required, references to CORRA will be deemed to be references to the last provided or published CORRA.
- (ii) **Fallback Index Cessation Effective Date with respect to CORRA.** If a Fallback Index Cessation Effective Date occurs with respect to CORRA, then the Interest Rate for an Interest Determination Date occurring on or after the Fallback Index Cessation Effective Date with respect to CORRA will be calculated by the Calculation Agent as if references to One-Month Daily Compounded CORRA in the Interest Rate definition were references to Daily Compounded CORRA calculated using the Daily Compounded CORRA Observation Shift Convention methodology set forth above as if references in that methodology to CORRA for each day on or after such Fallback Index Cessation Effective Date were references to the CAD Recommended Rate, to which the Calculation Agent shall apply a spread and make such adjustments as are necessary to account for any difference in term structure or tenor of the CAD Recommended Rate by comparison to CORRA, if any.

(d) CAD Recommended Rate.

- (i) **No Fallback Index Cessation Effective Date with respect to CAD Recommended Rate.** If there is a CAD Recommended Rate before the end of the first Bank of Canada Business Day following the Fallback Index Cessation Effective Date with respect to CORRA but neither the Administrator nor authorized distributors provide or publish the CAD Recommended Rate and a Fallback Index Cessation Effective Date with respect to it has not occurred, then, in respect of any day for which the CAD Recommended Rate is required, references to the CAD Recommended Rate will be deemed to be references to the last provided or published CAD Recommended Rate.

(ii) **No CAD Recommended Rate or Fallback Index Cessation Effective Date with respect to CAD Recommended Rate.** If there is no CAD Recommended Rate before the end of the first Bank of Canada Business Day following the Fallback Index Cessation Effective Date with respect to CORRA; or there is a CAD Recommended Rate and a Fallback Index Cessation Effective Date subsequently occurs with respect to it, then the Interest Rate for an Interest Determination Date occurring on or after the Fallback Index Cessation Effective Date with respect to CORRA or the Fallback Index Cessation Effective Date with respect to the CAD Recommended Rate (as applicable) will be calculated by the Calculation Agent as if references to One-Month Daily Compounded CORRA in the Interest Rate definition were references to Daily Compounded CORRA calculated using the Daily Compounded CORRA Observation Shift Convention methodology set forth above as if references in that methodology to CORRA for each day on or after such Fallback Index Cessation Effective Date were references to the BOC Target Rate.

(e) **BOC Target Rate.**

In respect of any day for which the BOC Target Rate is required, references to the BOC Target Rate will be deemed to be references to the last provided or published BOC Target Rate as of the close of business in Toronto on that day.

(f) **Applicable Fallback Rate Conforming Changes**

Notwithstanding the foregoing, in connection with the implementation of an Applicable Fallback Rate, CMHC or an unaffiliated third party financial institution of national standing in Canada appointed by CMHC may direct the Calculation Agent to make such adjustments to the Applicable Fallback Rate or the spread thereon, as well as the Bank of Canada Business Day convention, Interest Determination Dates and related provisions and definitions, including observation dates for reference rates, in each case that are consistent with accepted market practice for the use of the Applicable Fallback Rate for debt obligations such as the NHA MBS in such circumstances. The directions of CMHC or such financial institution, if applicable, shall be binding on the Calculation Agent, CMHC and the holders of record of NHA MBS.

(g) **Definitions.**

For the purposes of paragraphs (a), (b), (c), (d), (e) and (f) above, the following terms shall have the meaning set out below:

“**Administrator**” means the Bank of Canada or any successor administrator for CORRA and/or the CORRA Compounded Index or the administrator (or its successor) of another Applicable Fallback Rate, as applicable.

“**Applicable Fallback Rate**” means one of CORRA Compounded Index, CORRA, the CAD Recommended Rate, or the BOC Target Rate, as applicable.

“**Bank of Canada Business Day**” means a day that Schedule I banks under the Bank Act (Canada) are open for business in Toronto, Ontario, Canada, other than a Saturday or a Sunday or a public holiday in Toronto (or such revised regular publication calendar for an applicable rate as may be adopted by the Administrator from time to time).

“BOC Target Rate” means the Bank of Canada’s Target for the Overnight Rate as set by the Bank of Canada and published on the Bank of Canada’s website).

“Bloomberg IBOR Fallback Rate Adjustments Rule Book” means the IBOR Fallback Rate Adjustments Rule Book published by Bloomberg Index Services Limited (or a successor provider as approved and/or appointed by ISDA from time to time) as updated from time to time in accordance with its terms.

“Bloomberg Spread Adjustment” means the 1-month CDOR to CORRA fixed Spread Adjustment of 0.29547% announced by Bloomberg on May 16, 2022 in accordance with the Bloomberg IBOR Fallback Rate Adjustments Rule Book.

“CAD Recommended Rate” means the rate (inclusive of any spreads or adjustments) recommended as the replacement for CORRA by a committee officially endorsed or convened by the Bank of Canada for the purpose of recommending a replacement for CORRA (which rate may be produced by the Bank of Canada or another administrator) and as provided by the Administrator of that rate or, if that rate is not provided by the Administrator thereof (or a successor administrator), published by an authorized distributor.

“Calculation Agent” means the Issuer.

“CORRA” means the Canadian Overnight Repo Rate Average administered by the Bank of Canada (or any successor administrator).

“CORRA Compounded Index” means the measure of the cumulative impact of CORRA compounding over time administered and published by the Bank of Canada (or any successor administrator).

“Fallback Index Cessation Effective Date” means, in respect of a Fallback Index Cessation Event, the first date on which the Applicable Fallback Rate is no longer provided. If the Applicable Fallback Rate ceases to be provided on the same day that it is required to determine the rate for an Interest Determination Date but it was provided at the time at which it is to be observed (or, if no such time is specified, at the time at which it is ordinarily published), then the Fallback Index Cessation Effective Date will be the next day on which the rate would ordinarily have been published.

“Fallback Index Cessation Event” means:

(A) a public statement or publication of information by or on behalf of the Administrator or provider of the Applicable Fallback Rate announcing that it has ceased or will cease to provide the Applicable Fallback Rate permanently or indefinitely, provided that, at the time of the statement or publication, there is no successor administrator or provider that will continue to provide the Applicable Fallback Rate; or

(B) a public statement or publication of information by the regulatory supervisor for the Administrator or provider of the Applicable Fallback Rate, the Bank of Canada, an insolvency official with jurisdiction over the Administrator or provider for the Applicable Fallback Rate, a resolution authority with jurisdiction over the Administrator or provider for the Applicable Fallback Rate or a court or an entity with similar insolvency or resolution authority over the Administrator or provider for the Applicable Fallback Rate, which states that the Administrator or provider of the Applicable Fallback Rate has ceased or will cease to provide the Applicable Fallback Rate permanently or indefinitely, provided that, at the time of the statement or publication, there is no successor Administrator or provider that will continue to provide the Applicable Fallback Rate.

“Index Cessation Effective Date” means, in respect of one or more Index Cessation Events, the first date on which 1 Month CDOR is no longer provided. If 1 Month CDOR ceases to be provided on the Relevant Original Fixing Date but it was provided at the time at which it is to be observed pursuant to the terms of the NHA MBS, then the Index Cessation Effective Date will be the next day on which the rate would ordinarily have been published.

“Index Cessation Event” means:

(A) a public statement or publication of information by or on behalf of the administrator of CDOR announcing that it has ceased or will cease to provide 1 Month CDOR permanently or indefinitely, provided that, at the time of the statement or publication, there is no successor administrator that will continue to provide 1 Month CDOR; or

(B) a public statement or publication of information by the regulatory supervisor for the administrator of CDOR, the Bank of Canada, an insolvency official with jurisdiction over the administrator for CDOR, a resolution authority with jurisdiction over the administrator for CDOR or a court or an entity with similar insolvency or resolution authority over the administrator for CDOR, which states that the administrator of CDOR has ceased or will cease to provide 1 Month CDOR permanently or indefinitely, provided that, at the time of the statement or publication, there is no successor administrator that will continue to provide 1 Month CDOR.

“Relevant Original Fixing Date” means, unless otherwise agreed, the day on which 1 Month CDOR would have been observed.”