



August 11, 2021

## **CORRA CANADA MORTGAGE BONDS (CMB)**

### **PURPOSE**

To announce that starting in 2022 the Canada Mortgage Bonds (“CMB”) Program will introduce CORRA as the reference rate for new floating rate CMB offerings of Canada Housing Trust (“CHT”). The outstanding floating rate CMBs will continue to refer to CDOR.

### **BACKGROUND**

To meet CMHC’s mandate on promoting financial stability and facilitating market adoption of the Canadian Overnight Repo Rate Average (CORRA) as a key financial benchmark, CHT will only be offering floating rate CMB in which the coupon is based on the CORRA (“CORRA CMB”). Furthermore, preliminary CORRA fallback provisions are being introduced to further reduce uncertainty around the future of CORRA. These fallback provisions may be further revised in the future based on final recommendations by the Bank of Canada’s Canadian Alternative Reference Rate Working Group (“CARR”) on CORRA fallback language.

### **POLICY AMENDMENT**

Highlights of the CORRA CMB:

- CORRA Observation Period is introduced for the CORRA CMB. In respect of each Interest Period, the CORRA Observation Period refers to 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 Interest Payment Date.
- For each Interest Period, the CORRA CMB Coupon per annum equal to the Daily Compounded CORRA determined for the Observation Period in respect of such Interest Period plus a constant spread.
- For an Observation Period, the Daily Compounded CORRA will be calculated using the CORRA Compounded Index published by the Bank of Canada.

APPENDIX A provides more details on these parameters.

The CORRA Fallback provisions can be found in APPENDIX B.

The CORRA CMB will conform to the Canada Mortgage Bonds™ Program User Guide 2018 (the "CMB User Guide") existing CMB Program guidelines except for the following:

### Eligible Pools:

- At this time all floating rate NHA MBS pools are eligible to be sold to CHT in connection with a CORRA CMB offering as original and replacement assets.
- Once the CORRA NHA MBS is launched, it can be sold to CHT in connection with either a CORRA CMB offering or a fixed-rate CMB offering with a term of 5-years or less as original assets and will be eligible as replacement assets in all CMBs.

### Operational Procedure Changes and Accrued Interest Calculation Conventions:

As further described below, Daily Compounded CORRA cannot be determined more than two Bank of Canada Business Days preceding an interest payment or settlement date. To facilitate settlement planning, the following operational procedural changes and accrued interest calculation conventions will be applied to CORRA CMBs:

#### Calculation of Accrued Interest at Bond Issuance and Upon Sale of CORRA NHA MBS as Original Assets:

Upon reopening of an outstanding CORRA CMB series or the sale to CHT of CORRA NHA MBS as original assets in conjunction with the issuance of CMBs, accrued interest to the settlement date of the CORRA CMB issuance on such outstanding CORRA CMBs of the same series or such CORRA NHA MBS, as applicable, will be estimated on the CMB pricing date, which occurs more than two Bank of Canada Business Days prior to settlement of the CMB issuance using Daily Compounded CORRA Observation Shift Convention methodology and the last provided or published CORRA on or before that pricing date as detailed in APPENDIX C<sup>1</sup>. This estimate of accrued interest will be the final amount payable by investors and swap counterparties, as applicable, and will not be recalculated based on actual CORRA values provided or published after the CMB pricing date. This estimated amount of accrued will be used to complete swap confirmations and supplements to the master transfer agreement and to calculate the approximate yield in CMB offering circulars.

---

<sup>1</sup> As of the date of this Advice, the regular settlement timeline for CMB issuances is T+5.



Calculation of CMB Interest Payments and Corresponding Swap Payments:

The Trust Administrator will prepare and provide to swap counterparties an initial CHT Transfer Advice following the existing process and timing (the “**Preliminary Transfer Advice**”). The Preliminary Transfer Advice will include an estimate of interest amounts related to the CORRA CMB and resulting net swap payment determined using the Daily Compounded CORRA Observation Shift Convention methodology as detailed in APPENDIX C. The CMB interest amount and resulting net swap payment in the Preliminary Transfer Advice are nonbinding and will be superceded by a final Transfer Advice (the “**Final Transfer Advice**”) that will be delivered at a later date once the actual CORRA CMB interest amount can be determined. The Final Transfer Advice will include the actual interest payable on the CORRA CMB (calculated using the CORRA Compounded Index Convention) and the resulting net swap payment amount.

The Trust Administrator will use its best efforts to prepare and distribute the Final Transfer Advice to Swap Counterparties two Bank of Canada Business Days before the Interest Payment Date, but no later than one Bank of Canada Business Day before the Interest Payment Date.

Swap counterparties should make the payments related to the CORRA CMB based on the Final Transfer Advice on the Interest Payment Date.

Revisions to the CMB User Guide reflecting these changes will be made concurrent with the next scheduled update.

### **CMHC GUARANTEE FEES**

Fees will remain consistent with the current fee schedule.

### **EFFECTIVE DATE OF CHANGE**

The first CORRA CMB is expected to be issued as early as February 2022.

---

For more information on these changes, please contact  
Canada Housing Trust No. 1, Scott Allen (416-594-8724) at the Trust Administrator.



**APPENDIX A: Summary of the CORRA CMB**

**Interest:** *Paid quarterly in arrears on each Interest Payment Date, while the Bonds are outstanding.*

*For each Interest Period, interest will be calculated on the basis of the actual number of days in such Interest Period and a 365-day year.*

**Interest Period:** *Each quarterly period from, and including, an Interest Payment Date (or, in the case of the first Interest Period, the issue date) to, but excluding, the next following Interest Payment Date (or in the case of the final Interest Period, the Maturity Date).*

**Observation Period:** *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 Interest Payment Date.*

**Interest Payment Dates:** *the 15th day of each March, June, September and December of each year in which the CORRA CMB is outstanding.*

**Interest Determination Date** *Interest Payments will be determined by the Calculation Agent on the date that is two Bank of Canada Business Days preceding the Interest Payment Date (or Maturity Date).<sup>2</sup>*

**Interest Rate:** *For each Interest Period, the rate per annum equal to the Daily Compounded CORRA determined for the Observation Period in respect of such Interest Period plus x.xx%. The Interest Rate has a floor of 0% and with the resulting percentage rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards.*

---

<sup>2</sup> Accrued interest may be determined more than two Bank of Canada Business Days in advance of the accrual end date, in which case the accrued interest amount will be estimated as set forth on Appendix C.



**Daily Compounded CORRA:**

For an Observation Period will be calculated using the following method (the “CORRA Compounded Index Convention”) as follows, with the resulting percentage rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards:

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

Where:

- CORRA Compounded Index<sub>start</sub> = 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<sub>end</sub> = CORRA Compounded Index value on the date two Bank of Canada Business Days preceding the Interest Payment Date relating to such Interest Period (or in the case of the final Interest Period, the Maturity Date).
- “d” is the number of calendar days in the relevant Observation Period.

**Bank of Canada Business Day:**

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).

**Administrator:**

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 Rate, as applicable.

**CORRA:**

The Canadian Overnight Repo Rate Average administered by the Bank of Canada (or any successor administrator).

**CORRA Compounded Index:**

The measure of the cumulative impact of CORRA compounding over time administered and published by the Bank of Canada (or any successor administrator).



## APPENDIX B: CORRA FALLBACK PROVISIONS

### Temporary and Permanent Cessation Fallbacks

#### CORRA Compounded Index

(i) **No Index Cessation Effective Date with respect to CORRA Compounded Index.** If the CORRA Compounded Index<sub>start</sub> or the CORRA Compounded Index<sub>end</sub> is not published or displayed by the Administrator or an authorised 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 in the case of the final Interest Period, the Maturity Date), and an Index Cessation Effective Date with respect to CORRA Compounded Index has not occurred, the Daily Compounded CORRA will be calculated by the Calculation Agent using the following method (the “**Daily Compounded CORRA Observation Shift Convention**”):

$$\text{Daily Compounded CORRA} = \left( \prod_{i=1}^{d_0} \left( 1 + \frac{\text{CORRA}_i \times n_i}{365} \right) - 1 \right) \times \frac{365}{d}$$

Where:

- “d<sub>0</sub>” 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<sub>0</sub>, 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<sub>i</sub>” 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<sub>i</sub>” 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



(ii) **Index Cessation Effective Date with respect to CORRA Compounded Index.** If an Index Cessation Effective Date occurs with respect to CORRA Compounded Index, then the Interest Rate for an Interest Determination Date occurring on or after the Index Cessation Effective Date with respect to CORRA Compounded Index will be the rate determined by the Calculation Agent using the Daily Compounded CORRA Observation Shift Convention methodology set forth above.

### **CORRA**

(i) **No Index Cessation Effective Date with respect to CORRA.** If neither the Administrator nor authorized distributors provide or publish CORRA and an 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) **Index Cessation Effective Date with respect to CORRA.** If an Index Cessation Effective Date occurs with respect to CORRA, then the Interest Rate for an Interest Determination Date occurring on or after the Index Cessation Effective Date with respect to CORRA will be the rate determined by the Calculation Agent using the Daily Compounded CORRA Observation Shift Convention methodology set forth above as if references in that methodology to CORRA for each day in respect of which CORRA is required by the Calculation Agent for that determination were references to the CAD Recommended Rate.

### **CAD Recommended Rate**

(i) **No 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 Index Cessation Effective Date with respect to CORRA but neither the Administrator nor authorized distributors provide or publish the CAD Recommended Rate and an 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 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 Index Cessation Effective Date with respect to CORRA; or there is a CAD Recommended Rate and an Index Cessation Effective Date subsequently occurs with respect to it, then the Interest Rate for an Interest Determination Date occurring on or after the Index Cessation Effective Date with respect to CORRA or the Index Cessation Effective Date with respect to the CAD Recommended Rate (as applicable) will be the rate determined by the Calculation Agent using the Daily Compounded CORRA Observation Shift Convention methodology set forth above as if references in that methodology to CORRA for each day in respect of which CORRA is required by the Calculation Agent for that determination were references to 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 (the "**BOC Target Rate**").





## **BOC Target Rate**

***No Index Cessation Effective Date with respect to BOC Target Rate.*** If neither the Administrator nor authorized distributors provide or publish the BOC Target Rate and an Index Cessation Effective Date with respect to the BOC Target Rate has not occurred, then, 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.

## **Applicable Fallback Conforming Changes**

Notwithstanding the foregoing, in connection with the implementation of an Applicable Rate upon the happening of an Index Cessation Event, the Calculation Agent may, in consultation with CHT and CMHC, make such adjustments to the Applicable Rate or the spread thereon, as well as the 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 Rate for debt obligations such as the Canada Mortgage Bonds in such circumstances.

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

**“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;

**“Index Cessation Effective Date”** means, in respect of an Index Cessation Event, the first date on which the Applicable Rate is no longer provided. If the Applicable 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 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 or provider of the Applicable Rate announcing that it has ceased or will cease to provide the Applicable 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 Rate; or





(B) a public statement or publication of information by the regulatory supervisor for the Administrator or provider of the Applicable Rate, the Bank of Canada, an insolvency official with jurisdiction over the Administrator or provider for the Applicable Rate, a resolution authority with jurisdiction over the Administrator or provider for the Applicable Rate or a court or an entity with similar insolvency or resolution authority over the Administrator or provider for the Applicable Rate, which states that the Administrator or provider of the Applicable Rate has ceased or will cease to provide the Applicable 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 Rate.



## APPENDIX C: ESTIMATED INTEREST AND ACCRUED INTEREST CALCULATION

This section provides the methodology on the accrued interest calculation methodology to be used when the period between trade date/calculation date and settlement date/payment date is longer than two Bank of Canada Business Days.

This can happen in the following situations related to the CORRA NHA MBS/CMB:

- Sell CORRA NHA MBS as original assets to CMB
- Reopen a CORRA CMB
- Prepare the monthly Preliminary Transfer Advice

For example, if the trade date is five Bank of Canada Business Days preceding the settlement date, the daily CORRA for the period between the trade date and the end date of the Observation Period are not yet available on the trade date. This methodology assumes the daily CORRA for those days are the same as the last available CORRA as of the trade date.

The details are shown as follows:

<b>Settlement Date:</b>	The date the transaction is reported to settle
<b>Accrued Interest Calculation Date (Trade date):</b>	Five Bank of Canada Business Days preceding Settlement Date
<b>Accrual Period:</b>	<p>For CORRA CMB, “Accrual Period” means the period from, and including, the Interest Payment Date for that series of CORRA CMB immediately preceding the Settlement Date (or, in the case of the first Interest Period, the original issue date for that series of CORRA CMB) to, but excluding, the Settlement Date of such CORRA CMB.</p> <p>For CORRA NHA MBS, “Accrual Period” means the period from, and including, the first calendar day of the month in which the Settlement Date occurs to, but excluding, the Settlement Date of such CORRA NHA MBS.</p>
<b>Observation Period for Accrued Interest:</b>	The period from, and including, the date two Bank of Canada Business Days preceding the first date in the corresponding Accrual Period to, but excluding, the date two Bank of Canada Business Days preceding the Settlement Date.



**Interest Rate for Accrued Interest:**

The rate per annum equal to Daily Compounded CORRA determined for the Observation Period for Accrued Interest plus x.xx%. The Interest Rate for Accrued Interest has a floor of 0% and with the resulting percentage rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards.

**Daily Compounded CORRA for Accrued Interest:**

The reference rate for Accrued Interest shall be determined using the **Daily Compounded CORRA Observation Shift Convention methodology** set forth above as if references in that methodology to “Observation Period” were references to the “Observation Period for Accrued Interest,” references to “Interest Determination Date” were references to the “Accrued Interest Calculation Date,” and references to “Interest Period” were references to the “Accrual Period” and for any Bank of Canada Business Day “i” for which CORRA is required that will occur after the Accrued Interest Calculation Date, CORRA<sub>i</sub> for such day “i” shall be deemed to be references to the last provided or published CORRA on or before the Accrued Interest Calculation Date.

For avoidance of doubt, the Accrued Interest amount determined by the foregoing methodology will: (i) when used to determine accrued interest payable by investors upon a CMB bond reopening or accrued interest payable by swap counterparties on CORRA NHA MBS sold to CHT as original assets, be final and will not be adjusted or superceded to reflect actual CORRA values provided or published after the Accrued Interest Calculation Date, and (ii) when used in a Preliminary Transfer Advice, be a non binding estimate that will be superceded by a subsequent Final Transfer Advice.

