

CDOR transition accelerated to November 1 for new-money loans and material amendments to existing loans



Simon J.C. Williams

A new directive issued by CARR establishes an earlier interim milestone date to move all new loan agreements (including material amendments to existing loan agreements) entered into after November 1, 2023 away from CDOR to a CORRA overnight benchmark interest rate.

What you need to know

- Beginning November 1 of this year, CDOR should be abandoned as an interest rate benchmark and new CAD-based loan agreements should instead accrue interest based on (i) an overnight CORRA rate, (ii) the new Term CORRA rate or (iii) a bank's prime rate.
- The new Term CORRA rate is expected to be published by CanDeal in concert with TMX and available to market participants beginning in September 2023.
- The Canadian Alternative Reference Rate working group (CARR) [published on July 27](#) a set of [best practices](#) (the CARR Best Practices) and recommended [CORRA loan definitions and mechanics](#) (the CARR Loan Mechanics) to assist industry players transition their loan exposure from CDOR to overnight CORRA or Term CORRA.
- Loan agreements with corresponding interest rate hedges are susceptible to emergent basis risk given differences between the CARR Loan Mechanics and ISDA's analogous CDOR replacement mechanics for derivatives.

Hastening CDOR's departure from Canadian markets

The CARR Best Practices establish a new interim milestone date of November 1, 2023 after which no new CDOR or bankers' acceptance (BA) related loan contracts should be entered into. CARR's stated goal in doing so is to facilitate and expedite the transition of the Canadian loan market away from CDOR and BAs. Importantly, "new contracts" also includes material amendments to existing agreements, including changes to pricing, term extensions and facility increases.

Many readers will by now be aware that CDOR (a credit-sensitive rate like LIBOR) is in the process of being phased out and replaced with CORRA (a risk-free rate like SOFR). For an in-depth discussion of the differences between CDOR and CORRA, please see our recent thought piece [here](#). The final sunset date for CDOR rates to be published is June 28, 2024.

To date, market practice has generally been to incorporate into loan agreements [CARR's Recommended Fallback language](#) pursuant to which loans will continue to bear interest at the CDOR rate through June 28, 2024, and then automatically toggle to a CORRA-based rate. An advantage to adopting the CARR fallback language approach is that it allows market participants to “wait-and-see” whether a published Term CORRA rate will be officially recognized and available prior to the CDOR sunset date. The CARR publication has now definitively answered that question in the affirmative, confirming that CanDeal, in collaboration with TMX, will begin publishing Term CORRA in September 2023¹.

As noted in an [earlier bulletin](#), because CORRA is an overnight rate, a term version must be synthetically constructed using CORRA interest rate futures traded on the Montréal Exchange. As such, Term CORRA is a much thinner market with lower volumes and liquidity thanks to overnight CORRA, giving it inherent dependencies that make it more financially fragile on a long-term basis. For this reason, the CARR Loan Mechanics provide for a “fallback from the fallback” rate so to speak, insofar as outlining a mechanism to fallback from Term CORRA to overnight CORRA in the event Term CORRA ceases to be available or is no longer representative of the economic cost of borrowing, and a second-order fallback rate from overnight CORRA to some other alternative benchmark rate to be agreed as between the borrower and lender taking into account any governmental guidance on the matter and prevailing market conventions.

The right to Rate Flip

Interestingly, the CARR Loan Mechanics language employs a novel feature referred to as the “Rate Flip”, which gives borrowers the ability to toggle between paying loan interest based on either Term CORRA or daily compounded CORRA merely upon giving notice to the lender / administrative agent, thereby avoiding the time and cost associated with entering into a full-blown amendment with its lenders. This ability enables borrowers to navigate over time the different trade-offs between the two types of CORRA rates; i.e., operational simplicity and certainty of funding rate in the case of Term CORRA, versus lower hedging costs in the case of daily compounded CORRA.

Beware of basis risk

Whereas the CARR Loan Mechanics adopt Term CORRA as the first step in the replacement rate selection hierarchy, the analogous ISDA framework uses overnight CORRA. Moreover, the ISDA rate replacement mechanics provide for CDOR-based derivatives to flip to CORRA on the CDOR cessation date (June 28, 2024). As a result, if market participants do not actively intervene and rely instead on the respective “auto-pilot fallback provisions” of their loan and ISDA agreements, they will potentially open the window to introducing basis risk both in terms of the benchmark rate itself as well as the timing of when the rate flips (e.g., on or before CARR's new interim milestone date of November 1, 2023 versus the CDOR cessation date of June 28, 2024).

While basis risk is not necessarily materially adverse to a hedged loan transaction, it should be identified, quantified, and modelled into financial projections and assumptions where appropriate. That is particularly the case in highly leveraged transactions such as project finance where interest expense is required to be fixed and hedged for the duration of the loan tenor or beyond. However, there are cases where the deal parties may nonetheless agree to utilize the more borrower-friendly Term CORRA rate under the loan agreement, but permit the borrower to hedge based on overnight compound CORRA, which, as noted, has a much deeper and more liquid trading presence in the derivatives market resulting in lower hedging costs.

Avoid unintended consequences

As a suggested practice point, industry participants are encouraged to review the existing fallback regimes in their loan agreements and any related hedges, consider what fallback benchmarks are operative and when, and take action if necessary to preemptively amend existing loan and derivatives agreements in order to ensure that their borrowing and hedging instruments achieve the intended results without onboarding undue risk.

FOOTNOTES

1. <https://www.bankofcanada.ca/wp-content/uploads/2023/07/best-practices-transitioning-loans-cdor-corra.pdf>

To discuss these issues, please contact the author(s).

This publication is a general discussion of certain legal and related developments and should not be relied upon as legal advice. If you require legal advice, we would be pleased to discuss the issues in this publication with you, in the context of your particular circumstances.

For permission to republish this or any other publication, contact [Richard Coombs](#).

© 2026 by Torys LLP.

All rights reserved.