

# BAX Fallback Provision & Implementation Plan

Following client validation, Montréal Exchange plans to convert all eligible BAX futures to equivalent 3M CORRA futures contracts on April 26, 2024.



December 2023

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SECTION 1

# Fallback Provision Background & Principles

# Fallback Background For 3M Canadian Bankers' Acceptance Futures (BAX<sup>®</sup>)

## Refinitiv CDOR Phase-out

Refinitiv announced on May 16, 2022 that all remaining CAD CDOR tenors will cease to be calculated and published after June 28, 2024. This follows the Canadian Alternative Reference Rate working group (CARR) white paper published on December 16, 2021, which recommended the cessation of CDOR and a public consultation regarding impact of the potential cessation.

## MX/CDCC Fallback Rules

During the year, Montréal Exchange (MX) and CDCC will amend their rulebook\* for BAX futures to clarify fallback event procedures for 3M CDOR cessation, with relevant conversion processes, in anticipation of the last publication of CDOR on June 28, 2024.

## Latest Fallback Update

Based on latest market feedback, and to be more closely aligned with recently published industry OTC IRS transition timelines, the proposed BAX Futures fallback provision is to convert outstanding BAX positions to equivalent 3M CORRA Futures on April, 26, 2024. Until then, MX is working on implementing the necessary operational steps to promote an orderly industry-wide transition.

# Key Fallback Principles For BAX

## CDOR-based Fallbacks: aligned with the standards of the ISDA's fallback methodology for OTC swaps

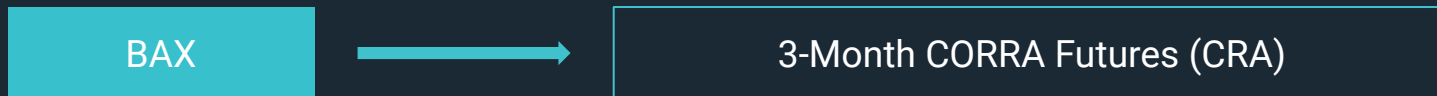
- By the end of 2023, MX plans to formalize the fallback procedures to the rulebook for BAX futures.
- Proposed update takes into consideration client feedback, operational viability, and economic accuracy

## Key Principles For BAX Futures Fallback Provision

- Eligible open positions at the time of conversion would be terminated and replaced by an equal number of corresponding 3M CORRA futures (CRA) contracts.
- On conversion day, daily settlement price of BAX will be obtained by subtracting the ISDA fallback spread adjustment of 32.138 bps from daily CRA futures settlement prices. Closing BAX and opening CRA positions generated using the daily settlement prices will not impact P&L.
- Only positions in BAX futures with underlying futures expiring after June 28, 2024 are in scope and eligible for conversion.
- Post conversion, the June 2024 BAX contracts will be the only remaining listed BAX contracts and will be available for trading until expiration (Monday June 17th).

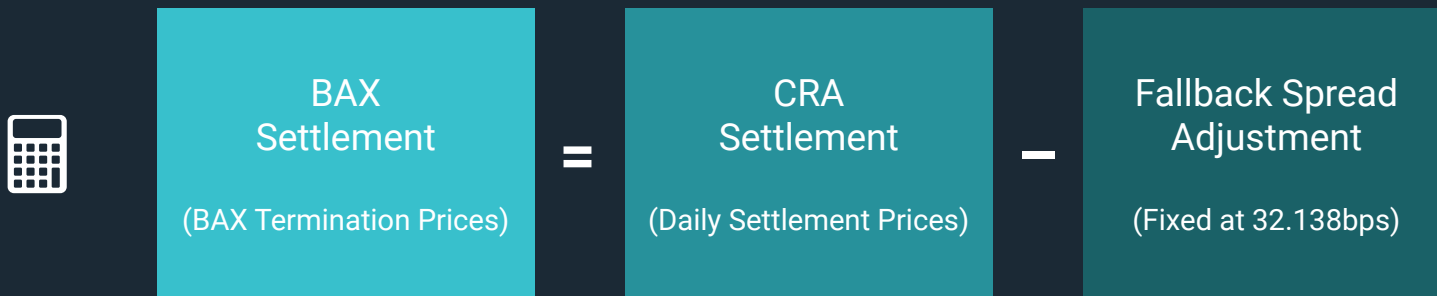
**BAX options expiring after June 2024 are not listed. Outstanding contracts will expire according to the standard process. No conversion will occur for BAX options.**

# Fallback Process For BAX



## ONE-TIME CONVERSION\*

Closing of BAX position at a price based on CRA Futures settlement – ISDA Fallback Spread Adjustment



SECTION 2

# Operational Process & Timeline

# Overview Of Conversion Process

Previous Friday (T - 7)



- BAX configuration adjusted to handle 4 decimals

Friday prior to conversion (T)



- Settlement: BAX price = CRA price - ISDA Spread Adjustment
- Mark to market procedure based on the settlement prices

Weekend

(prior to market open on next trading day)\*



- Input of closing BAX trades and opening CRA trades\*
- Trade prices equal to settlement prices on date T (no MtM impact)

*\*Conversion will be subject to a one-off conversion fee, charged by CDCC, with the benefit of encouraging an early transition. Further details will be set forth in the list of fees for CDCC, which will be amended in due course.*

Monday following the conversion (T+1)



- Input of cash adjustments\*\*
- BAX contracts not available for trading (except BAXM24) on MX
- Monday CDCC reports will display the closing / opening trades inputted over the weekend
- Early expiry is performed on converted BAX contracts

*\*\*The ISDA Spread Adjustment used in the calculation is 32.138bps. BAX settlement prices (on T) will be truncated to 4 decimals. The impact of the 5th decimal will be handled via a cash adjustment (see details in following slides).*



# Operational Process & Timeline

## STEP 1

Change number of decimal configuration on the previous Friday (T - 7)

- On the previous Friday (T - 7), prior to the end of day, CDCC will change the decimal locator from 3 to 4.
- CDCC Futures Reports will display 4 decimals for BAX when applicable.
- Risk Array file will display 4 decimals.
  - Visible in record P; 81 and 82.

# Operational Process & Timeline

## STEP 2

### Mark to market on Date T settlement for T+1

- On Date T, the end of day settlement price will be adjusted by the ISDA Adjustment Spread.
- To avoid impacting any participant, the 5th decimal locator will be truncated.
- This process will be performed for all BAX contracts subject to the conversion (BAXU24 to BAXH26 inclusively).

\*Prices will be available in the usual CDCC reports

\*\*EOD will follow usual timelines

#### EXAMPLE

- Given a CRA end of day price of 96.575
- Given a ISDA Spread Adjustment of 0.32138
- MX and CDCC BAX end of day price would be:  $96.575 - 0.32138 = 96.25362$
- After truncation 96.2536

# Operational Process & Timeline

## STEP 3

### Settlement price on Date T

- On Date T, based on the adjusted settlement price, CDCC will compute mark to market as usual.

\*Mark to market will be available in the usual CDCC reports.

\*\*Mark to market computation and payments follow usual operational timeline.

#### EXAMPLE

- Given 1 position long on a BAX
- Given a previous price (either previous end of day price or previous trade price) of 98
- Given an adjusted BAX price of 96.2536

Mark to market example =  $(98 - 96.2536) \times 2500 \times 1 = \$4,366.00$

\*Member pays CDCC \$4,366.00

# Operational Process & Timeline

## STEP 4

During the weekend prior to start of business of T+1 CDCC inputs closing BAX trades

- On Date T+1 CDCC would perform closing trades against 0961F to close the outstanding BAX positions.
- Trade price would be Date T adjusted price to avoid additional mark to market.

\*Trades would be visible in the usual CDCC trading reports.

\*\*0961F is a CDCC clearing account.

\*\*\*Trade would be inputted before T+1 market open.

## EXAMPLE

- Given 1 position long on a BAX
- Given a date T adjusted BAX price of 96.2536

→ Trade would be 1 Long BAX close @ 96.2536

# Operational Process & Timeline

## STEP 5

During the weekend prior to start of business of T+1, CDCC inputs opening CRA trades

- On Date T+1 CDCC would perform opening trades against 0961F to open the resulting CRA position.
- Trade price would be date T CRA to avoid additional mark to market.

\*Trades would be visible in the usual trading reports.

\*\*0961F is a CDCC clearing account.

\*\*\*Trade would be inputted before T+1 market open.

## EXAMPLE

- Given 1 position long on a BAX
- Given a CRA Date T price of 96.575

→ Trade would be 1 Long CRA open @ 96.575

# Operational Process & Timeline

## STEP 6

On T+1 CDCC performs manual Mark to market adjustments

- Since CDCC truncated the adjusted final price of the BAX to avoid impacting external systems, cash adjustments will be performed to compensate for the loss of precision.

\*CDCC proposes to give a CSV to each member to showcase the adjustment breakdown per position.

\*\*Cash adjustments would be rounded to 2 decimals.

## EXAMPLE

- Given 1 position long on a BAX
- Given an adjusted BAX price of 96.2536
- Given an untruncated adjusted price of 96.25362

Manual cash adjustment (mark to market)

$$-(96.25362 - 96.2536) \times 2500 \times 1 = - \$0.05$$

\*Member receives \$0.05 from CDCC.

# Operational Process & Timeline

## STEP 7

### T+1 Reporting

Trading on the applicable BAX would no longer be possible at the Exchange.

No clearing position should remain at that point on the converted products.

CDCC will report the trades inputted over the weekend in the Monday end of day reports.

Applicable to all BAX contracts subject to the conversion (BAXU24 to BAXH26 inclusively).

#### EXAMPLE

Trades will be visible in CDCC MT51, MT66, MT99 reports after Monday end of day.

# Operational Process & Timeline

## STEP 8

### T+1 Early expiry

CDCC will perform an early expiry of the BAX contracts which entails modifying their last trade and expiry date

- Last Trade Date would be set to T+1
- Expiry Date would be set to T+1

Applicable to all BAX contracts subject to the conversion (BAXU24 to BAXH26 inclusively).

#### EXAMPLE

BAX26MR18

Last Trade Date = T+1; Expiry Date = T+1

\*Expiry Date will be reflected in the risk array file.



# Operational Process & Timeline

## STEP 8

T+1 End of day

- At the end of day batch, applicable BAX contracts would expire at the settlement price of Date = T.
- No further member impact since positions are already moved to related CRA contracts.

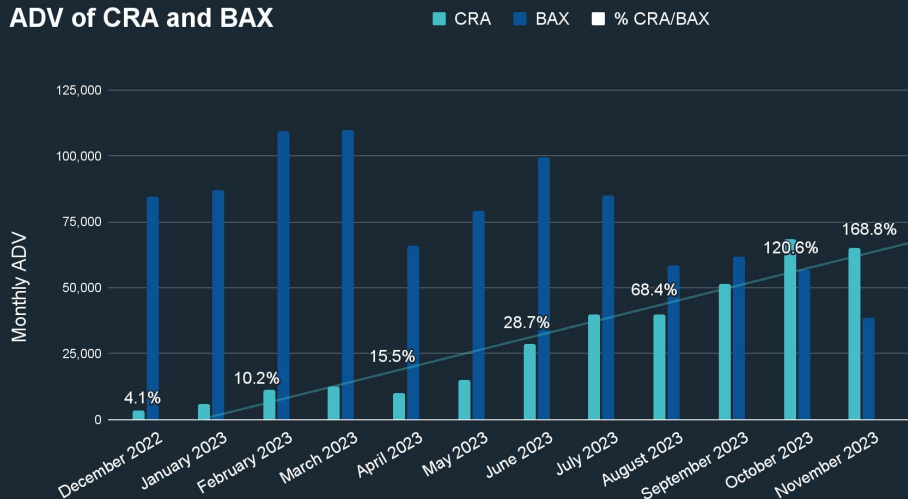
# Appendix

# Contract mapping

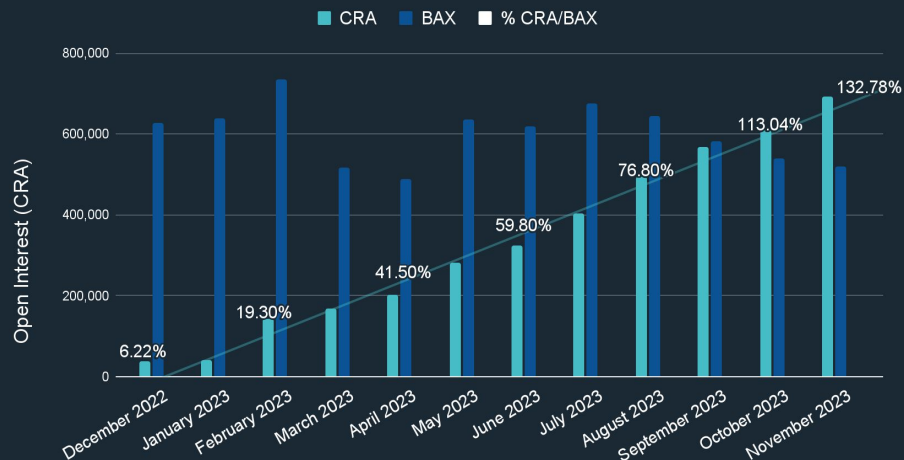
BAX contract listed on conversion date (CDCC Symbol)	BAX contract: Bloomberg symbol	BAX contract expiry date	What happens on conversion date (April 26, 2024)	What happens on conversion date (April 26, 2024) - CDCC Symbology	CRA expiry date (following the conversion)
BAXM24	BAM4 Comdty	June 17, 2024	<b>Contract not converted</b> - available for trading until expiry date	<b>Contract not converted</b> - available for trading until expiry date	
BAXU24	BAU4 Comdty	September 18, 2024	BAXU24 converted in CRAU24 contract	BAX24SP16 converted in CRA24SP18 contract	December 18, 2024
BAXZ24	BAZ4 Comdty	December 18, 2024	BAXZ24 converted in CRAZ24 contract	BAX24DC16 converted in CRA24DC18 contract	March 19, 2025
BAXH25	BAH5 Comdty	March 19, 2025	BAXH25 converted in CRAH25 contract	BAX25MR17 converted in CRA25MR19 contract	June 18, 2025
BAXM25	BAM5 Comdty	June 18, 2025	BAXM25 converted in CRAM25 contract	BAX25JN16 converted in CRA25JN18 contract	September 17, 2025
BAXU25	BAU5 Comdty	September 17, 2025	BAXU25 converted in CRAU25 contract	BAX25SP15 converted in CRA25SP17 contract	December 17, 2025
BAXZ25	BAZ5 Comdty	December 17, 2025	BAXZ25 converted in CRAZ25 contract	BAX25DC17 converted in CRA25DC17 contract	March 18, 2026
BAXH26	BAH6 Comdty	March 18, 2026	BAXH26 converted in CRAH26 contract	BAX26MR18 converted in CRA26MR18 contract	June 17, 2026

# CRA OI & ADV Are Trending Up

## ADV of CRA and BAX



## Open Interest of CRA and BAX



2023	Q1 ADV	Q2 ADV	Q3 ADV	Open Interest (Nov 30)
CRA	9,917	18,357	43,633	691,783
BAX	102,082	82,270	67,999	520,990
<b>CRA % of BAX</b>	<b>~10%</b>	<b>~22%</b>	<b>~64%</b>	<b>~133%</b>

# Marketing Outreach

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TMX and the Canadian Alternative Reference Rate working group (CARR) are hosting a series of CDOR to CORRA Transition Webcasts. Banking industry and market experts come together to share insights and perspectives on various fac...see more

**CDOR Transition Webcast Series**

SOCIAL MEDIA POSTS

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Did you know that **TMX Group** is working in partnership with regulatory bodies and market participants to develop robust listed CORRA markets and fallbacks for CDOR-linked contracts? Need answers about transitioning from MX Thre ...see more

**FAQ on the transition to CORRA**

**TMX** THE FUTURE IS YOURS TO SEE.®

May 2023

**MONTRÉAL EXCHANGE**

**Benchmark Transition Cheat Sheet From CDOR to CORRA**

CHEAT SHEET

<u>VENDOR INFORMATION - FUTURE VENDOR CODES</u>	<u>Bloomberg</u>	<u>Refinitiv</u>
CRA Outrights	CORA Comdty	CRA
CRA Spreads	CORF0B1	CRAF0-B1
BAX CRA Inter Commodity Spread	<b>CORBA</b>	CRA-BAXF20
COA Outrights	OORA Comdty	OAC
COA Spreads	OORF00ORB1	OACF0-B1
COA CRA Inter Commodity Spread	Pending	OAC-CRAF20

# For more information

CORRA  
Microsite

[m-x.ca/corra](https://www.m-x.ca/corra)

FAQ –  
Transitioning to CORRA

[https://www.m-x.ca/f\\_publications\\_en/corra\\_faq\\_en.pdf](https://www.m-x.ca/f_publications_en/corra_faq_en.pdf)

Benchmark Transition Cheat  
Sheet From CDOR to CORRA

[https://www.m-x.ca/f\\_publications\\_en/benchmark\\_transition\\_cdor\\_corra\\_en.pdf](https://www.m-x.ca/f_publications_en/benchmark_transition_cdor_corra_en.pdf)

CDOR Transition  
Webcast Series

<https://app.tmx.com/cdor-transition-webcast-series/>

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