

1 Q. **Reference: Response to CA-NLH-100, part a**

2 Further to CA-NLH-100, part a (Table 1 and footnotes 2 and 3), please explain how interest rates
3 are set for promissory notes and credit-facility drawings, including whether each rate is fixed for
4 the borrowing term or resets during that term. Reconcile the fixed-rate classification with
5 CORRA-based pricing and distinguish the pricing of actual borrowings from the forecast-rate
6 assumptions.

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9 A. Interest rates on short-term borrowings are determined based on the type of borrowing, the
10 applicable market benchmark, the contractual terms and the timing of the borrowing or
11 applicable interest period.

12 **Promissory Notes**

13 Promissory notes are generally issued for a specified short-term maturity, typically 30 days or
14 less, and are priced at a market-based interest rate agreed with the lender at the time of
15 issuance. Once issued, the interest rate applicable to a particular promissory note is fixed for the
16 term of that individual note. Accordingly, the rate does not reset during the term of that note.

17 The rate applicable to a new promissory note may, however, differ from the rate on a previous
18 note because market interest rates and the issuer's short-term funding conditions may have
19 changed between issuances. Consequently, while each individual note has a fixed rate for its
20 term, the overall cost of promissory-note borrowings can change as existing notes mature and
21 are refinanced or replaced.

22 **Credit-Facility Drawings**

23 The borrowing rate for credit-facility borrowings made using Term CORRA¹ is based on the
24 applicable Term CORRA rate for the selected interest period, plus the applicable contractual
25 credit spread.

¹ Canadian Overnight Repo Rate Average ("CORRA").

1 Term CORRA is a forward-looking benchmark rate derived from market expectations of future
2 CORRA rates and is available for specified tenors, including one- and three-month terms. CORRA
3 is an overnight, transaction-based benchmark administered and published by the Bank of
4 Canada. It measures the cost of overnight general-collateral funding in Canadian dollars, based
5 on repurchase transactions collateralized by Government of Canada treasury bills and bonds.

6 The Term CORRA rate, for credit facility drawings, is established at the commencement of the
7 applicable interest period and remains fixed for that period. At the end of the interest period,
8 the borrowing may be renewed or continued for a subsequent interest period, at which time a
9 new Term CORRA rate is established based on prevailing market conditions. The rate therefore
10 does not reset during the interest period.

11 **Actual Borrowing Rates and Forecast-Rate Assumptions**

12 The fixed-rate classification applies to the rate established for the individual borrowing, whether
13 the borrowing is against the promissory note or credit facility, and does not mean that the rate
14 is independent of a market benchmark such as CORRA. For a Term CORRA borrowing, Term
15 CORRA serves as the market benchmark for determining the borrowing rate at the
16 commencement of the applicable interest period. Once established, the applicable borrowing
17 rate remains fixed for that interest period.

18 The rates reported for actual short-term borrowings represent the rates applicable to
19 borrowings actually undertaken during the period. These rates reflect the applicable market
20 benchmark, borrowing term, contractual spread and market conditions at the time the
21 borrowing was made.

22 In contrast, forecast-rate assumptions are used to estimate the cost of future short-term
23 borrowings for budgeting, forecasting and regulatory purposes. The forecast assumptions
24 incorporate anticipated CORRA rates and applicable spreads.

25 Accordingly, an actual borrowing rate may differ from the forecast rate because the actual rate
26 is established based on market conditions prevailing when the borrowing is undertaken or when
27 a new interest period commences. The forecast rate is an assumption used to estimate future
28 borrowing costs and is updated as market conditions and the underlying forecast assumptions
29 change.