November 27, 2023

Martin Jannelle
Director, Business Advisory & Regulatory Affairs (Post-Trade)
Canadian Derivatives Clearing Corporation (CDCC)
1800-1190 Avenue des Canadiens-de-Montréal
P.O. Box 37
Montreal, Quebec, H3B 0G7

Subject: Request for comments amendments to rules, operations manual, risk manual and default manual of Canadian Derivatives Clearing Corporation (CDCC) regarding the implementation of the Secured General Collateral (SGC) repurchase transaction.

Dear Mr. Jannelle,

Casgrain & Company Limited (hereafter "Casgrain" or "We" or "Us") appreciates the opportunity to provide comments to the CDCC regarding the proposed implementation of the SGC notes. Upon reviewing the proposed changes, we have noted that certain amendments potentially obstruct the overall competitiveness among primary dealers. A healthy financial market thrives on competition, and the diversity of all participants from large established players, to smaller independent firms, drives innovation, efficiency, and resilience in our financial ecosystem. The proposed amendments, as they currently stand, risk skewing this balance, potentially creating an environment where only a select few can participate in the SGC program. Stakeholders of Canada's financial system should consider the broader impact of these amendments on market liquidity.

Regulation that limits SGC Note issuance to dealers that maintain a minimum of two "AA-" credit ratings will exclude four of the eleven primary dealers from participating in the SGC program. The dealers that may be negatively affected include Laurentian Bank Securities, HSBC Securities, Merrill Lynch Canada, and Casgrain. Consequentially, their ability to finance trading activity will be hampered relative to those with access to the program. Dealers that meet credit rating requirements may benefit from reduced financing costs through easier access to the repo market, which creates a risk of further concentrating Canada's financial services into the hands of a few large institutions (Exhibit 1).

Exhibit 1: Canadian Primary Dealer Credit Ratings

Dealer	S&P	Moody's	DBRS	Fitch	Eligible Issuer
BMO Nesbitt Burns Inc.	A+	Aa2	AA	AA-	**Y**
Casgrain & Company Limited	N/A	N/A	N/A	N/A	**N**
CIBC World Markets Inc.	A+	Aa2	AA	AA-	**Y**
Desjardins Securities Inc.	A+	Aa1	AA	AA-	**Y**
HSBC Securities (Canada) Inc.	A+	A1	A (high)	A+	**N**
Merrill Lynch Canada Inc.*	N/A	N/A	N/A	N/A	**N**
Laurentian Bank Securities Inc.	BBB	N/A	A (low)	N/A	**N**
National Bank Financial Inc.	A	Aa3	AA	A+	**Y**
RBC Dominion Securities Inc.	AA-	Aa1	AA (high)	AA-	**Y**
Scotia Capital Inc.	A+	Aa2	AA	AA-	**Y**
The Toronto-Dominion Bank	AA-	Aa1	AA (high)	AA-	**Y**

*Assumption: Merrill Lynch Canada Inc. is regarded as a standalone entity, separate from Bank of America

SGC Notes are expected to carry a yield between that of Bankers' Acceptance paper (BA) and Canada T-bills, and as such, those admissible to the program would benefit from favourable financing terms relative to dealers that secure funding at levels in and around the BA rate. Furthermore, any downgrades to primary dealers below the minimum threshold could create turbulence within Canada's money market and could jeopardize the success of the newly created SGC program. By the same token, the creation of a new money-market instrument, that excludes at least four of the eleven primary dealers, may send mixed signals in relation to the overall support of the institutions that underpin our financial system. In the spirit of encouraging fair competition and providing the best chances for the success of the SGC program, decision makers should consider removing minimum credit rating requirements.

The trust afforded to Canada's primary dealers in both good times and in bad, have enabled them to act as counterparties in various transactions without the need of an established credit rating. The Bank of Canada permits unrated primary dealers to act as a counterparty in various liquidity programs, including its overnight repo/reverse-repo programs. Eligibility standards for CDCC clearing members do not require credit ratings from primary dealers; rather, they impose minimum capital requirements as a means of reducing counterparty risk.

Investment dealers, along with their clients, are typically well positioned to assess and price the risks associated with various financial instruments. Allowing market participants to purchase SGC notes from unrated sponsors can encourage a more natural and responsive market dynamic, where risk assessment and pricing are determined by actual market forces rather than regulatory impositions. Expanding SGC Note issuance to all dealers would not only increase its availability, but also increases the diversity among SGC Note offerings, providing a broader range of credit exposures to potential investors.

Rather than limiting participation to SGC program, regulators and market participants alike, should consider the importance of modernizing existing financial infrastructure by supporting the development of Canada's domestic repo market. We understand that the SGC Note presents an innovative and tailored solution to fill the void left from Canada's now terminal BA market. However, market participants should also consider the long-term benefits that arise from the development of tri-party repo and centralized clearing, such as those offered by the Canadian Depository for Securities (CDS) and the CDCC. Both of these aspects of securities financing could enable dealers to reduce the cost of financing and could limit the risk exposure faced by all participants in Canada's financial markets. Development of these alternative initiatives could potentially increase liquidity in Canada's domestic financial market far more than the SGC program alone, as it includes all primary dealers as liquidity providers.

Regulation is undoubtedly vital for market stability. However, excessive regulatory constraints, such as credit rating requirements for SGC sponsors, can inadvertently lead to reduced liquidity. It is essential to strike a balance where regulations safeguard interests without constricting market fluidity or limiting participation. We recognize and appreciate the efforts of CDCC in enhancing Canada's financial infrastructure, and we believe that prudential regulation is crucial for ensuring a fair and competitive landscape for all investment dealers. We look forward to a continued dialogue and are committed to contributing constructively to the development of a robust and inclusive financial market in Canada.

Sincerely,

R. Casgrain
Casgrain & Company Limited