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May 13, 2015

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Nova Scotia Securities Commission
Nunavut Securities Office
Ontario Securities Commission
Office of the Superintendent of Securities, Newfoundland and Labrador
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island

c/o

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
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Josée Turcotte
Secretary
Ontario Securities Commission
20 Queen Street West
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Toronto, Ontario M5H 3S8
Fax: 416-593-2318
comments@osc.gov.on.ca

Dear Mesdames:

This letter is in response to proposed National Instrument 94-101 *Mandatory Central Counterparty Clearing of Derivatives* (the **Clearing Rule**), and proposed Companion Policy 94-101CP *Mandatory Central Counterparty Clearing of Derivatives* (the **Clearing CP**).

Concentra Financial Services Association ("Concentra") thanks the Canadian Securities Administrators for the opportunity to comment on these proposed model rules.

Concentra is Canada's only retail association, defined and governed by the *Cooperative Credit Associations Act*. Concentra is federally-regulated deposit taking institution, supervised by the Office of the Superintendent of Financial Institutions ("OSFI"). It is a national financial institution with assets over $7 billion, primarily consisting of residential and commercial mortgages and securities. The company offers a variety of services to credit unions across the country, which includes loan syndication and securitization, deposits, foreign exchange and financial consulting, including interest rate derivatives Concentra has.

Concentra uses derivatives as a risk mitigation tool for hedging purposes only. The company may use interest rate derivatives, foreign exchange forwards and cross currency swaps to manage interest rate and foreign currency exposures.

Concentra also supports Canadian credit unions with their access to financial derivatives. As individual credit unions do not have the business volume to be supported by the major derivative sell-side participants, Concentra operates as an intermediary to facilitate the interest rate risk and foreign exchange risk mitigation activities of credit unions and their members/clients.

On average, Concentra transacts with approximately 20 credit union clients in plain vanilla interest swaps with terms generally under 5 years. The number of transactions varies, but typically 1-5 derivative positions are booked per annum per client and each transaction being between $5 and $10 million in size. Each derivative transaction entered into by Concentra with a credit union ("Customer Transaction") is hedged fully with a back-to-back trade ("Hedge Transaction") that Concentra enters into with a Canadian Schedule 1 bank ("Bank Counterparty").

Concentra is supportive of increasing transparency, mitigating risk, and improving the OTC derivatives market. In the same vein, we are mindful that these new rules may overwhelm smaller market participants including credit unions, thereby hindering market activity. It is with this in mind that we frame our response to these proposed rules.

Concentra supports the phased in approach that is proposed in the Clearing Rule. However, Concentra respectfully suggests that both the registration regime is finalized and the trade reporting rule is in full effect for counterparties across Canada before imposing the mandatory clearing requirement for OTC derivative market participants. Implementation under the Clearing Rule would be a significant undertaking and could potentially force changes to business models when there was little or no systemic risk to the Canadian or global OTC derivative market.

Concentra and its credit union clients face a number of operational changes and increasing transactional costs under the proposed clearing requirements including costs to set up agreements with central clearinghouses, clearing members, and re-negotiation of CSA Master Agreements and collateral support annexes in some cases. Other fees may include clearing member fees, clearinghouse fees, execution fees and the requirement for initial and variation margin. Furthermore, with no access to a central clearinghouse in Canada, the impacts to day-to-day operations for Concentra, its credit union clients and other smaller market participants would be so substantial and costly that hedging becomes uneconomical. Consequently, a relatively simple transaction between two local counterparties becomes overly complex and international in nature creating significant barriers to entry for the smaller Canadian market participants.

These additional operational requirements and increased costs to transact in OTC derivatives along with some market participants potentially being exempt from the rule including Crown corporations or entities and other end-users that are not "financial entities" will lead to an un-level playing field. Concentra suggests that all market participants be subject to the same clearing requirements and / or exemptions from it to provide better transparency and a more equitable playing field within the Canadian OTC derivative market.

Securities regulators in the United States of America and the European Union have included *de minimus* exemptions for financial institutions that fall below a certain threshold. Concentra suggests that a similar policy would be appropriate in the Canadian context given the Canadian OTC derivative markets' comparatively small size and because the majority of credit unions do not pose a systemic risk to the system. Moreover, unlike other small entities that would be subject to these new rules, credit unions are subject to rigorous regulatory supervision that ensures they adhere to sound financial practices.

Concentra is concerned that, should a *de minimus* exemption not be granted, mandatory clearing requirements would result in unnecessary burdens on smaller financial institutions. For example, Concentra transacts in derivatives as an end-user for the purposes of hedging and mitigating commercial risk. In contrast to other end-users, Concentra and its credit union clients cannot rely on either the end-user hedging and intra-group transactions as per the proposed Clearing Rule, placing the organizations at a competitive disadvantage. The relatively low volume and small notional dollar value of these trades, in comparison to the global derivative landscape, would most likely pose little to no systemic risk potential. Please note that the majority of these trades are not yet being reported to a trade repository since the trade reporting rule is not in effect in the applicable jurisdictions.

To conclude, Concentra respectfully requests that these comments be considered by the Committee as potential negative impacts of the proposed Clearing Rule to the OTC derivative market.

Concentra would be pleased to provide the Committee with further comments and any additional information with respect to its participation in the OTC derivative market that may be useful in consideration of the proposed Clearing Rule.

Should you have any questions, please do not hesitate to contact me at kelly.sanheim@concentrafinancial.ca

Yours truly,

Kelly Sanheim
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Concentra Financial Services Association