



March 17, 2014

British Columbia Securities Commission
Ontario Securities Commission
Saskatchewan Securities Commission
Alberta Securities Commission
Manitoba Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Nova Scotia Securities Commission

c/o

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Dear Sirs and Mesdames:

This letter is in response to CSA Staff Notice 91-303 *Proposed Model Provincial Rule on Mandatory Central Counterparty Clearing of Derivatives* ("Model Provincial Rule 91-303") and CSA Staff Notice 91-304 *Model Provincial Rule – Derivatives: Customer Clearing and Protection of Customer Collateral and Positions* ("Model Provincial Rule 91-304"). We thank the Canadian Securities Administrators Over-the-Counter ("OTC") Derivatives Committee (the "Committee") for the opportunity to comment on this important initiative and commend you for taking measures to enhance market stability in line with our G20 commitments.

Central 1 Credit Union ("Central 1") has prepared this submission to be representative of the consolidated comments of the credit union Centrals ("Centrals") of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, and the Atlantic Provinces. The role of these Centrals in their respective jurisdictions is explained in the Appendix of this letter.



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We participated in the roundtable hosted by the British Columbia Securities Commission (the “BCSC”) on February 25, 2014 and are strongly supportive of increasing transparency, mitigating risk, and improving resilience to clearing member defaults in the OTC derivatives market. In the same vein, as noted by the Chair of the BCSC at the roundtable, we are mindful that these new rules may overwhelm smaller market participants, thereby hindering market activity. It is with this in mind that we frame our response to these model provincial rules.

We note that 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 and strongly feel that a similar policy would be appropriate in the Canadian context. Given their comparatively small size, the majority of credit unions do not pose a systemic risk to the system. Furthermore, 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. We are concerned that, should a *de minimus* exemption not be granted, mandatory clearing requirements would result in unnecessary burden on smaller financial institutions, which would run counter to the Federal Government’s priority to encourage competition in the financial services industry, as stated in Budget 2014.

Should the Committee feel that the *de minimus* exemption is not appropriate notwithstanding the argument above, we propose that the language in the model rules be broadened to take into account the special relationship that exists between credit unions and their Centrals, as it is not currently captured under either Section 7 or 8 of Model Provincial Rule 91-303. We note that the Committee specifically requested feedback on whether the proposed non-eligibility of small financial entities for the purpose of the exemption in Section 7(1) would be appropriate.

As stated earlier, most credit unions do not have independent access to funding in capital markets, and thus engage in derivative activity through Centrals, or, using their Central as an intermediary. Centrals also engage in derivative activities to manage their own operational risk. Although there is an ownership relationship between Centrals and their member credit unions, security agreements are signed to allow for the seizure of assets in the event of a default with any parties engaging in derivatives activities, including other Centrals.

Carving out an exemption from Section 7 by amending the “financial entity” requirement in subsection (1)(a), would remove the burden of clearing from the independent member credit unions (or Centrals) when executing a trade through a Central, yet the Central would still retain its requirement to clear trades it executes outside the credit union system. As such, the aggregate risk of the credit union system is accounted for within the regulatory framework. We also

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note that all requirements under 7(2) would be met if this exemption were granted. Similarly, the relationship between Central 1, trading members, and other Centrals is comparable to an intragroup transaction as defined in Section 8, except for the requirement to have consolidated financial statements. All other requirements under Section 8(2) would be met should an exemption be granted in this category.

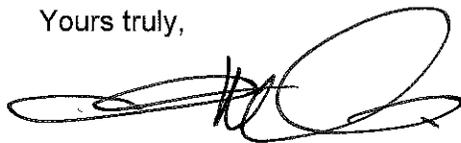
In addition, we propose that Model Rule 91-304 be amended to permit the central to post collateral and meet the reporting requirements on behalf of the credit unions (or Centrals) trading with it. Since Centrals hold the liquidity of the credit union system and has security agreements with its members, this would not pose any additional credit risk to the system while still allowing for maximum market participation by smaller financial entities that would face disproportionate burden in meeting these enhanced collateral requirements.

Finally, the Centrals oppose the inclusion of an exemption for crown corporations in Section 11 of Model Provincial Rule 91-303, as this does not represent a risk-based approach to the oversight and regulation of the OTC market in Canada. Crown corporations such as Business Development Canada and Farm Credit Canada are in the business of financial services and actively compete within the financial services sector in Canada. These entities pose market risk to the financial system and should not be granted preferential treatment over credit unions and other financial entities.

In closing, we would be pleased to provide the Committee with any additional information as may be required in consideration of comments provided above with respect to the model rules.

Should you have any questions please do not hesitate to contact me at cmilne@central1.com or by telephone at 604-730-6307.

Yours truly,



Charles Milne
Chief Investment Officer
Central 1 Credit Union *on behalf of*
Credit Union Central Alberta Ltd.
Credit Union Central of Saskatchewan
Credit Union Central of Manitoba
Atlantic Central

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Appendix: Credit Union Centrals

Central 1 Credit Union (British Columbia and Ontario)

Central 1 is the central credit union, trade services provider, liquidity provider and clearing facility for the 43 credit unions in British Columbia and 90 in Ontario. We are a market rated financial entity that is regulated federally by the Office of the Superintendent of Financial Institutions (“OSFI”) and provincially by the Financial Institutions Commission (“FICOM”) of British Columbia. Central 1 represents a consumer-oriented, full-service retail financial system that serves 3.3 million members and collectively holds more than \$90 billion in assets.

The core purpose of Central 1 is to maintain the liquidity reserves of the British Columbia and Ontario credit union system. Central 1, inter alia, also provides payments and settlement services to credit unions and their provincial Centrals, and accesses capital markets on their behalf as the majority of credit unions do not have independent access to funding in the capital markets.

Credit Union Central Alberta Ltd. (Alberta)

Credit Union Central Alberta Ltd. is the central banking facility, service bureau and trade association for Alberta's 33 credit unions, which comprise over \$20 billion dollar of assets. It is an advocate of the financial cooperative model, and provides leadership and support to the credit unions they represent. Credit Union Central Alberta Ltd. provides quality products and services to credit unions including lending, treasury, risk management, audit, purchasing, strategic planning, communications and payment services. Credit Union Central Alberta Ltd. is regulated federally by the OSFI and provincially by the Credit Union Deposit Guarantee Corporation.

Credit Union Central of Saskatchewan (“SaskCentral”) (Saskatchewan)

SaskCentral represents 53 credit unions in Saskatchewan, which comprise approximately \$18.2 billion dollars in assets. SaskCentral develops a wide range of business and financial solutions and undertakes numerous activities for and on behalf of Saskatchewan credit unions. Its core services are those business functions that are critical and closely related to an organization’s strategy, while the ancillary services are those activities that are responses to current and emerging opportunities and needs of credit unions. SaskCentral is regulated by the Financial and Consumer Affairs Authority.

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Credit Union Central of Manitoba (Manitoba)

Credit Union Central of Manitoba (CUCM) provides centralized services to the Manitoba credit union system, comprised of 38 credit unions with over \$23 billion dollars in assets. Those services include lending and lending adjudication, treasury, audit and risk management, strategic planning, communications and payment services. CUCM is regulated provincially by the Financial Institutions Regulatory Branch of Manitoba, and federally by OSFI.

Atlantic Central (Nova Scotia, New Brunswick, Newfoundland and Labrador, and Prince Edward Island)

Atlantic Central's role is to provide liquidity management, payments processing and trade association services that support 56 credit unions in Atlantic Canada. Atlantic Central's member credit unions comprise approximately \$4.35 billion in assets. Atlantic Central provides leadership, advocacy and a range of support services in the fulfillment of these key functions. Atlantic Central is regulated federally by OSFI and provincially by the Nova Scotia Office of the Superintendent of Credit Unions. Atlantic Central's subsidiary, League Savings and Mortgage, supports Atlantic credit unions by providing financial services to credit unions, their members, and others. League Savings and Mortgage is also regulated federally by OSFI.