

March 19, 2014

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Manitoba Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Nova Scotia Securities Commission
Ontario Securities Commission

c/o

John Stevenson, Secretary
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Anne-Marie Beaudoin,
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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") CSA Staff Notice 91-304 *Model Provincial Rule – Derivatives: Customer Clearing and Protection of Customer Collateral and Positions* ("Model Provincial Rule 91-304").

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 regulated federally by the Office of the Superintendent of Financial Institutions ("OSFI") through application of the Regulations of the *Trust and Loan Companies Act*. As per these new derivative regulations, Concentra will be required to become regulated provincially by Saskatchewan's Financial and Consumer Affairs Authority ("FCAA").



Concentra is a small national financial institution offering a variety of services to credit unions across the country. Concentra has assets over \$6 billion, primarily consisting of residential and commercial mortgages and securities. These services include loan syndication and securitization, deposits, foreign exchange and financial consulting, including interest rate derivatives.

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

Concentra supports credit unions in their access to financial derivatives. Individual credit unions do not have the business volume to be supported by the major derivative suppliers in the country. Concentra operates as an intermediary to facilitate the risk mitigation activities of credit unions. The types of transactions are similar to those conducted by Concentra. All derivative transactions booked with a credit union are then backed by an offsetting derivative transaction with bank counterparties and subject to collateral requirements. By offering this service to credit unions, Concentra will be required to register with the FCAA as a derivatives dealer. Currently Concentra services roughly 20 credit unions and corporate clients with a total notional amount outstanding at less than \$500 million.

The activity of Concentra with respect to derivatives is reviewed by OSFI. In addition, Concentra holds capital against risks associated with derivatives through the capital adequacy requirements of OSFI. Concentra has specific arrangements with a number of counterparties for the acquisition of derivatives, with collateral requirements as necessary.

Concentra participated in the roundtable hosted by the British Columbia Securities Commission (the "BCSC") on February 25, 2014 and are 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. Concentra is concerned that, should a *de minimus* exemption not be granted, mandatory clearing requirements would result in unnecessary burden on smaller financial institutions.

Should the Committee feel that the *de minimus* exemption is not appropriate notwithstanding the argument above, Concentra proposes that the language in the model rules be broadened to take into account the special relationship that exists between it and



its credit union owners, as it is not currently captured under either Section 7 or 8 of Model Provincial Rule 91-303.

Carving out an exemption in either Section 8, or in Section 7 by amending the "financial entity" requirement in subsection (1)(a), would remove the burden of clearing from the independent member credit unions when executing a trade with Concentra, yet Concentra 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.

Finally, we propose that Model Rule 91-304 be amended so that Concentra would be permitted to post collateral and meet the reporting requirements on behalf of credit unions that trade through our organization. Since Concentra holds 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.

Concentra 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 dallas.marce@concentrafinancial.ca.

Yours truly,

A handwritten signature in black ink, appearing to read "D. Marce". The signature is fluid and cursive, with a long horizontal stroke at the end.

Dallas Marce
Senior Vice President, Financial Intermediation
Concentra Financial Services Association