

# **POLICY STATEMENT IN FORCE FROM APRIL 4, 2017 TO AUGUST 31, 2022**

**In force since April 4, 2017**

## **POLICY STATEMENT TO REGULATION 94-101 RESPECTING MANDATORY CENTRAL COUNTERPARTY CLEARING OF DERIVATIVES**

### **GENERAL COMMENTS**

#### **Introduction**

*This Policy Statement sets out how the Canadian Securities Administrators (the “CSA” or “we”) interpret or apply the provisions of Regulation 94-101 respecting Mandatory Central Counterparty Clearing of Derivatives (chapter I-14.01, r. 0.01) (“Regulation 94-101” or the “Regulation”) and related securities legislation.*

*The numbering of Parts and sections in this Policy Statement correspond to the numbering in Regulation 94-101. Any specific guidance on sections in Regulation 94-101 appears immediately after the section heading. If there is no guidance for a section, the numbering in this Policy Statement will skip to the next provision that does have guidance.*

#### **SPECIFIC COMMENTS**

*Unless defined in Regulation 94-101 or explained in this Policy Statement, terms used in Regulation 94-101 and in this Policy Statement have the meaning given to them in the securities legislation of the jurisdiction including Regulation 14-101 respecting Definitions (chapter V-1.1, r. 3).*

*In this Policy Statement, “Product Determination Rule” means,*

- in Alberta, British Columbia, New Brunswick, Newfoundland and Labrador, the Northwest Territories, Nova Scotia, Nunavut, Prince Edward Island, Saskatchewan and Yukon, Multilateral Instrument 91-101 Derivatives: Product Determination,*
- in Manitoba, Manitoba Securities Commission Rule 91-506 Derivatives: Product Determination,*
- in Ontario, Ontario Securities Commission Rule 91-506 Derivatives: Product Determination, and*
- in Québec, Regulation 91-506 respecting Derivatives Determination (chapter I-14.01, r. 0.1).*

*In this Policy Statement, “TR Instrument” means,*

- in Alberta, British Columbia, New Brunswick, Newfoundland and Labrador, the Northwest Territories, Nova Scotia, Nunavut, Prince Edward Island, Saskatchewan and Yukon, Multilateral Instrument 96-101 Trade Repositories and Derivatives Data Reporting,*

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- *in Manitoba, Manitoba Securities Commission Rule 91-507 Trade Repositories and Derivatives Data Reporting,*
- *in Ontario, Ontario Securities Commission Rule 91-507 Trade Repositories and Derivatives Data Reporting, and*
- *in Québec, Regulation 91-507 respecting Trade Repositories and Derivatives Data Reporting (chapter I-14.01, r. 1.1).*

### **PART 1 DEFINITIONS AND INTERPRETATION**

#### **Subsection 1(1) – Definition of “participant”**

A “participant” of a regulated clearing agency is bound by the rules and procedures of the regulated clearing agency due to the contractual agreement with the regulated clearing agency.

#### **Subsection 1(1) – Definition of “regulated clearing agency”**

It is intended that only a “regulated clearing agency” that acts as a central counterparty for over-the-counter derivatives be subject to the Regulation. The purpose of paragraph (a) of this definition is to allow, for certain enumerated jurisdictions, a mandatory clearable derivative involving a local counterparty in one of the listed jurisdictions to be submitted to a clearing agency that is not yet recognized or exempted in the local jurisdiction, but that is recognized or exempted in another jurisdiction of Canada. Paragraph (a) does not supersede any provision of the securities legislation of a local jurisdiction with respect to any recognition requirements for a person that is carrying on the business of a clearing agency in the local jurisdiction.

#### **Subsection 1(1) – Definition of “transaction”**

The Regulation uses the term “transaction” rather than the term “trade” in part to reflect that “trade” is defined in the securities legislation of some jurisdictions as including the termination of a derivative. We do not think the termination of a derivative should trigger mandatory central counterparty clearing. Similarly, the definition of transaction in Regulation 94-101 excludes a novation resulting from the submission of a derivative to a clearing agency or clearing house as this is already a cleared transaction. Finally, the definition of “transaction” is not the same as the definition found in the TR Instrument as the latter does not include a material amendment since the TR Instrument expressly provides that an amendment must be reported.

In the definition of “transaction”, the expression “material amendment” is used to determine whether there is a new transaction, considering that only new transactions will be subject to mandatory central counterparty clearing under Regulation 94-101. If a derivative that existed prior to the coming into force of Regulation 94-101 is materially amended after Regulation 94-101 is effective, that amendment will trigger the mandatory

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*central counterparty clearing requirement, if applicable, as it would be considered a new transaction. A material amendment is one that changes information that would reasonably be expected to have a significant effect on the derivative's attributes, including its notional amount, the terms and conditions of the contract evidencing the derivative, the trading methods or the risks related to its use, but excluding information that is likely to have an effect on the market price or value of its underlying interest. We will consider several factors when determining whether a modification to an existing derivative is a material amendment. Examples of a modification to an existing derivative that would be a material amendment include any modification which would result in a significant change in the value of the derivative, differing cash flows, a change to the method of settlement or the creation of upfront payments.*

**NOT IN FORCE – Will be in force on September 1, 2022**  
**Decision 2022-PDG-0022, s. 1 – Addition**

### **Subsection 1(2) – Interpretation of “affiliated entity”**

*To determine whether two entities are affiliates, the Regulation uses an approach based on the concept of consolidated financial statements under IFRS or U.S. Generally Accepted Accounting Principles (U.S. GAAP). Consequently, two entities whose financial statements are consolidated, or would be consolidated if any financial statements were required, would be considered affiliated entities under the Regulation. We expect corporate groups that do not prepare financial statements in accordance with IFRS or U.S. GAAP to apply the consolidation test under either IFRS or U.S. GAAP to determine whether entities within the corporate group meet the “affiliated entity” interpretation”.*

## **PART 2** **MANDATORY CENTRAL COUNTERPARTY CLEARING**

### **Subsection 3(1) – Duty to submit for clearing**

*The duty to submit a mandatory clearable derivative for clearing to a regulated clearing agency only applies at the time the transaction is executed. If a derivative or class of derivatives is determined to be a mandatory clearable derivative after the date of execution of a transaction in that derivative or class of derivatives, we would not expect a local counterparty to submit the mandatory clearable derivative for clearing. Therefore, we would not expect a local counterparty to clear a mandatory clearable derivative entered into as a result of a counterparty exercising a swaption that was entered into before the effective date of the Regulation or the date on which the derivative became a mandatory clearable derivative. Similarly, we would not expect a local counterparty to clear an extendible swap that was entered into before the effective date of the Regulation or the date on which the derivative became a mandatory clearable derivative and extended in accordance with the terms of the contract after such date.*

*However, if after a derivative or class of derivatives is determined to be a mandatory clearable derivative, there is another transaction in that same derivative,*

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*including a material amendment to a previous transaction (as discussed in subsection 1(1) above), that derivative will be subject to the mandatory central counterparty clearing requirement.*

*Where a derivative is not subject to the mandatory central counterparty clearing requirement but the derivative is clearable through a regulated clearing agency, the counterparties have the option to submit the derivative for clearing at any time. For a complex swap with non-standard terms that regulated clearing agencies cannot accept for clearing, adherence to the Regulation would not require market participants to structure such derivative in a particular manner or disentangle the derivative in order to clear the component which is a mandatory clearable derivative if it serves legitimate business purposes. However, considering that it would not require disentangling, we would expect the component of a packaged transaction that is a mandatory clearable derivative to be cleared.*

*For a local counterparty that is not a participant of a regulated clearing agency, we have used the phrase “cause to be submitted” to refer to the local counterparty’s obligation. In order to comply with subsection (1), a local counterparty would need to have arrangements in place with a participant for clearing services in advance of entering into a mandatory clearable derivative.*

*A transaction in a mandatory clearable derivative is required to be cleared when at least one of the counterparties is a local counterparty and one or more of paragraphs (a), (b) or (c) apply to both counterparties. For example, a local counterparty under any of paragraphs (a), (b) or (c) must clear a mandatory clearable derivative entered into with another local counterparty under any of paragraphs (a), (b) or (c). As a further example, a local counterparty under any of paragraphs (a), (b) or (c) must also clear a mandatory clearable derivative with a foreign counterparty under paragraphs (a) or (b). For instance, a local counterparty that is an affiliated entity of a foreign participant would be subject to mandatory central counterparty clearing for a mandatory clearable derivative with a foreign counterparty that is an affiliated entity of another foreign participant considering that there is one local counterparty to the transaction and both counterparties respect the criteria under paragraph (b).*

*A local counterparty that has had a month-end gross notional amount of outstanding derivatives exceeding the threshold in paragraphs (b) or (c), for any month following the entry into force of the Regulation, must clear all its subsequent transactions in a mandatory clearable derivative with another counterparty under one or more of paragraphs (a), (b), or (c).*

*The calculation of the gross notional amount outstanding under paragraphs (b) and (c) excludes derivatives with affiliated entities whose financial statements are prepared on a consolidated basis, which would be exempted under section 7 if they were mandatory clearable derivatives.*

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*In addition, a local counterparty determines whether it exceeds the threshold in paragraph (c) by adding the gross notional amount of all outstanding derivatives of its affiliated entities that are also local counterparties, to its own.*

*A local counterparty that is a participant at a regulated clearing agency, but does not subscribe to clearing services for the class of derivatives to which the mandatory clearable derivative belongs would still be required to clear if it is subject to paragraph (c).*

*A local counterparty subject to mandatory central counterparty clearing that engages in a mandatory clearable derivative is responsible for determining whether the other counterparty is also subject to mandatory central counterparty clearing. To do so, the local counterparty may rely on the factual statements made by the other counterparty, provided that it does not have reasonable grounds to believe that such statements are false.*

*We would not expect that all the counterparties of a local counterparty provide their status as most counterparties would not be subject to the Regulation. However, a local counterparty cannot rely on the absence of a declaration from a counterparty to avoid the requirement to clear. Instead, when no information is provided by a counterparty, the local counterparty may use factual statements or available information to assess whether the mandatory clearable derivative is required to be cleared in accordance with the Regulation.*

*We would expect counterparties subject to the Regulation to exercise reasonable judgement in determining whether a person may be near or above the thresholds set out in paragraphs (b) and (c). We would expect a counterparty subject to the Regulation to solicit confirmation from its counterparty where there is reasonable basis to believe that the counterparty may be near or above any of the thresholds.*

*The status of a counterparty under this subsection should be determined before entering into a mandatory clearable derivative. We would not expect a local counterparty to clear a mandatory clearable derivative entered into after the Regulation came into effect, but before one of the counterparties was captured under one of paragraphs (a), (b) or (c) unless there is a material amendment to the derivative.*

### **Subsection 3(2) – 90-day transition**

*This subsection provides that only transactions in mandatory clearable derivatives executed on or after the 90<sup>th</sup> day after the end of the month in which the local counterparty first exceeded the threshold are subject to subsection 3(1). We do not intend that transactions executed between the 1<sup>st</sup> day on which the local counterparty became subject to subsection 3(1) and the 90<sup>th</sup> day be back-loaded after the 90<sup>th</sup> day.*

### **Subsection 3(3) – Submission to a regulated clearing agency**

*We would expect that a transaction subject to mandatory central counterparty clearing be submitted to a regulated clearing agency as soon as practicable, but no later*

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*than the end of the day on which the transaction was executed or if the transaction occurs after business hours of the regulated clearing agency, the next business day.*

### **Subsection 3(5) – Substituted compliance**

*Substituted compliance is only available to a local counterparty that is a foreign affiliated entity of a counterparty organized under the laws of the local jurisdiction or with a head office or principal place of business in the local jurisdiction and that is responsible for all or substantially all the liabilities of the affiliated entity. The local counterparty would still be subject to the Regulation, but its mandatory clearable derivatives, as per the definition under the Regulation, may be cleared at a clearing agency pursuant to a foreign law listed in Appendix B if the counterparty is subject to and compliant with that foreign law.*

*Despite the ability to clear pursuant to a foreign law listed in Appendix B, the local counterparty is still required to fulfill the other requirements in the Regulation, as applicable. These include the retention period for the record keeping requirement and the submission of a completed Form 94-101F1 Intragroup Exemption to the regulator, except in Québec, or securities regulatory authority in a jurisdiction of Canada when relying on an exemption regarding mandatory clearable derivatives entered into with an affiliated entity.*

**NOT IN FORCE – Will be in force on September 1, 2022  
Decision 2022-PDG-0022, s. 2 – Replacement Part 2**

## **PART 2 MANDATORY CENTRAL COUNTERPARTY CLEARING**

### **Subsections 3(0.1) and (0.2) – Exclusion of investment funds and certain entities**

*An investment fund whose financial statements are consolidated with those of another entity should not be considered an affiliated entity of the other entity for the application of paragraphs 3(1)(b) and (c). Accordingly, the month-end exposure of an investment fund should not be considered when calculating the month-end gross notional amount in accordance with those paragraphs.*

*However, an investment fund will be subject to the clearing requirements if it, on its own, exceeds the \$500 000 000 000 month-end gross notional amount for all outstanding derivatives.*

*Similarly, certain structured entities (commonly known as special purpose entities) should not be considered as affiliates for the purpose of paragraphs 3(1)(b) and (c) if they meet the conditions stated in subsection 3(0.2). An entity, including an entity such as a credit card securitization vehicle or an entity created to guarantee interest and principal payments under a covered bond program, that meets the conditions in subsection 3(0.2) would not be an affiliated entity. All obligations of such entities are required to be exclusively secured by their own assets to meet the condition in paragraph 3(0.2)(b). Also,*

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*a vehicle created to invest in real estate or an infrastructure that meets the conditions in subparagraph 3(0.2)(a)(iii) would not be an affiliated entity of another entity even if its financial statements are consolidated with the other entity.*

### **Subsection 3(1) – Duty to submit for clearing**

*The duty to submit a mandatory clearable derivative for clearing to a regulated clearing agency only applies at the time the transaction is executed. If a derivative or class of derivatives is determined to be a mandatory clearable derivative after the date of execution of a transaction in that derivative or class of derivatives, we would not expect a local counterparty to submit the mandatory clearable derivative for clearing. Therefore, we would not expect a local counterparty to clear a mandatory clearable derivative entered into as a result of a counterparty exercising a swaption that was entered into before the date on which the requirement to submit a mandatory clearable derivative for clearing is applicable to that counterparty or the date on which the derivative became a mandatory clearable derivative. Similarly, we would not expect a local counterparty to clear an extendible swap that was entered into before the date on which the requirement to submit a mandatory clearable derivative for clearing is applicable to that counterparty or the date on which the derivative became a mandatory clearable derivative and extended in accordance with the terms of the contract after such date.*

*However, if after a derivative or class of derivatives is determined to be a mandatory clearable derivative, there is another transaction in that same derivative, including a material amendment to a previous transaction (as discussed in subsection 1(1) above), that derivative will be subject to the mandatory central counterparty clearing requirement.*

*Where a derivative is not subject to the mandatory central counterparty clearing requirement but the derivative is clearable through a regulated clearing agency, the counterparties have the option to submit the derivative for clearing at any time. For a complex swap with non-standard terms that regulated clearing agencies cannot accept for clearing, adherence to the Regulation would not require market participants to structure such derivative in a particular manner or disentangle the derivative in order to clear the component which is a mandatory clearable derivative if it serves legitimate business purposes. However, considering that it would not require disentangling, we would expect the component of a packaged transaction that is a mandatory clearable derivative to be cleared.*

*For a local counterparty that is not a participant of a regulated clearing agency, we have used the phrase “cause to be submitted” to refer to the local counterparty’s obligation. In order to comply with subsection (1), a local counterparty would need to have arrangements in place with a participant for clearing services in advance of entering into a mandatory clearable derivative.*

*A transaction in a mandatory clearable derivative is required to be cleared when at least one of the counterparties is a local counterparty and one or more of paragraphs (a), (b) or (c) apply to both counterparties. For example, a local counterparty under any of*

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paragraphs (a), (b) or (c) must clear a mandatory clearable derivative entered into with another local counterparty under any of paragraphs (a), (b) or (c). As a further example, a local counterparty under any of paragraphs (a), (b) or (c) must also clear a mandatory clearable derivative with a foreign counterparty under paragraphs (a) or (b). For instance, a local counterparty that is an affiliated entity of a foreign participant would be subject to mandatory central counterparty clearing for a mandatory clearable derivative with a foreign counterparty that is an affiliated entity of another foreign participant considering that there is one local counterparty to the transaction and both counterparties meet the criteria under paragraph (b).

Pursuant to paragraph (c) a local counterparty that had a month-end gross notional amount of outstanding derivatives exceeding the \$500 000 000 000 threshold in subparagraph (c)(ii) must clear a mandatory clearable derivative entered into with another counterparty that meets the criteria under paragraph (a), (b) or (c). In order to determine whether the \$500 000 000 000 threshold in subparagraph (c)(ii) is exceeded, a local counterparty must add the gross notional amount of all outstanding derivatives of its affiliated entities that are also local counterparties, to its own. However, investments funds and consolidated structured entities that meet the criteria under subsections 3(0.1) and (0.2) are not included in the calculation.

Where a local counterparty is a member of a group of affiliated entities that exceeds the \$500 000 000 000 threshold but is not itself a counterparty to derivatives that have an average month-end gross notional amount exceeding the \$1 000 000 000 000 threshold, calculated in accordance with subparagraph (c)(iii), it is not required to clear a mandatory clearable derivative.

A person that exceeds the \$1 000 000 000 000 notional exposure, calculated according to paragraphs (b) and (c), is required to fulfill the mandatory clearing requirement from September 1 of a given year until August 31 of the next year. This is referred to as the “reference period” in the Regulation.

For example, local counterparty XYZ had an average month-end gross notional amount under all outstanding derivatives of \$75 000 000 000 for the months of March, April and May of 2022. Counterparty XYZ also had, combined with each of its affiliated entities that are local counterparties, a month-end gross notional amount for all derivatives of \$525 000 000 000 at the end of November 2021. Considering that (i) the aggregated month-end gross notional amount outstanding of \$525 000 000 000 exceeds the \$500 000 000 000 threshold, (ii) it occurred during the previous 12 months, and (iii) the average month-end gross notional amount of \$75 000 000 000 for March, April and May of 2022 exceeds the \$1 000 000 000 000 threshold, counterparty XYZ will need to comply with the Regulation in respect of mandatory clearable derivatives entered into during the reference period starting September 1, 2022. Conversely, if local counterparty XYZ does not exceed, on its own, the \$1 000 000 000 000 threshold, it is not subject to clearance even if the aggregated month-end gross notional amount outstanding with all of its affiliated entities exceeds the \$500 000 000 000 threshold.



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*Furthermore, in the example, even if local counterparty XYZ is subject to mandatory clearing from September 1, 2022 until August 31, 2023, but no longer exceeds the \$1 000 000 000 threshold for the months of March, April and May of 2023, it will no longer be required to comply with section 3 for the next reference period starting September 1, 2023. However, the local counterparty will have to evaluate its application every year. Consequently, if local counterparty XYZ exceeds the \$1 000 000 000 threshold again in a future year, it will become subject to the requirements of the Regulation until the following year.*

*The calculation of the gross notional amount outstanding under paragraphs (b) and (c) excludes derivatives with affiliated entities, which would be exempted under section 7 if they were mandatory clearable derivatives.*

*In addition, a local counterparty determines whether it exceeds the threshold in subparagraph (c)(ii) by adding the gross notional amount of all outstanding derivatives of its affiliated entities that are also local counterparties, to its own.*

*A local counterparty that is a participant at a regulated clearing agency, but does not subscribe to clearing services for the class of derivatives to which the mandatory clearable derivative belongs, would still be required to clear if it is subject to paragraph (c).*

*A local counterparty subject to mandatory central counterparty clearing that engages in a mandatory clearable derivative is responsible for determining whether the other counterparty is also subject to mandatory central counterparty clearing. To do so, the local counterparty may rely on the factual statements made by the other counterparty, provided that it does not have reasonable grounds to believe that such statements are false.*

*We would not expect that all the counterparties of a local counterparty provide their status as most counterparties would not be subject to the Regulation. However, a local counterparty cannot rely on the absence of a declaration from a counterparty to avoid the requirement to clear. Instead, when no information is provided by a counterparty, the local counterparty may use factual statements or available information to assess whether the mandatory clearable derivative is required to be cleared in accordance with the Regulation.*

*We would expect counterparties subject to the Regulation to exercise reasonable judgement in determining whether a person may be near or above the thresholds set out in paragraphs (b) and (c). We would expect a counterparty subject to the Regulation to solicit confirmation from its counterparty where there is reasonable basis to believe that the counterparty may be near or above any of the thresholds.*

*The status of a counterparty under this subsection should be determined before entering into a mandatory clearable derivative. We would not expect a local counterparty to clear a mandatory clearable derivative entered into after the date on which the requirement to submit a mandatory clearable derivative for clearing is applicable to that*

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counterparty, but before one of the counterparties was captured under one of paragraphs (a), (b) or (c), unless there is a material amendment to the derivative after the date that both counterparties are so captured.

### **Subsection 3(2) – 90-day transition**

This subsection provides that only transactions in mandatory clearable derivatives executed on or after the 90<sup>th</sup> day after the end of the month in which the local counterparty first exceeded the threshold set out in subparagraph 3(1)(c)(ii) are subject to subsection 3(1). We do not intend that transactions executed between the 1<sup>st</sup> day on which the local counterparty became subject to subsection 3(1) and the 90<sup>th</sup> day be back-loaded after the 90<sup>th</sup> day.

### **Subsection 3(3) – Submission to a regulated clearing agency**

We would expect that a transaction subject to mandatory central counterparty clearing be submitted to a regulated clearing agency as soon as practicable, but no later than the end of the day on which the transaction was executed or if the transaction occurs after business hours of the regulated clearing agency, the next business day.

### **Subsection 3(5) – Substituted compliance**

Substituted compliance is only available to a local counterparty that is a foreign affiliated entity of a counterparty organized under the laws of the local jurisdiction or with a head office or principal place of business in the local jurisdiction and that is responsible for all or substantially all the liabilities of the affiliated entity. The local counterparty would still be subject to the Regulation, but its mandatory clearable derivatives, as per the definition under the Regulation, may be cleared at a clearing agency pursuant to a foreign law listed in Appendix B if the counterparty is subject to and compliant with that foreign law.

Despite the ability to clear pursuant to a foreign law listed in Appendix B, the local counterparty is still required to fulfill the other requirements in the Regulation, as applicable. This includes the retention period for the record keeping requirement.

## **PART 3 EXEMPTIONS FROM MANDATORY CENTRAL COUNTERPARTY CLEARING**

### **Section 6 – Non-application**

A mandatory clearable derivative involving a counterparty that is an entity referred to in section 6 is not subject to the requirement under section 3 to submit a mandatory clearable derivative for clearing even if the other counterparty is otherwise subject to it.

The expression “government of a foreign jurisdiction” in paragraph (a) is interpreted as including sovereign and sub-sovereign governments.

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### **Section 7 – Intragroup exemption**

*The Regulation does not require an outward-facing transaction in a mandatory clearable derivative entered into by a foreign counterparty that meets paragraph 3(1)(a) or (b) to be cleared in order for the foreign counterparty and its affiliated entity that is a local counterparty subject to the Regulation to rely on this exemption. However, we would expect a local counterparty to not abuse this exemption in order to evade mandatory central counterparty clearing. It would be considered evasion if the local counterparty uses a foreign affiliated entity or another member of its group to enter into a mandatory clearable derivative with a foreign counterparty that meets paragraph 3(1)(a) or (b) and then do a back-to-back transaction or enter into the same derivative relying on the intragroup exemption where the local counterparty would otherwise have been required to clear the mandatory clearable derivative if it had entered into it directly with the non-affiliated counterparty.*

#### **Subsection 7(1) – Requisite conditions for intragroup exemption**

*The intragroup exemption is based on the premise that the risk created by mandatory clearable derivatives entered into between counterparties in the same group is expected to be managed in a centralized manner to allow for the risk to be identified and managed appropriately.*

*This subsection sets out the conditions that must be met for the counterparties to use the intragroup exemption for a mandatory clearable derivative.*

*The expression “consolidated financial statements” in paragraph (a) is interpreted as financial statements in which the assets, liabilities, equity, income, expenses and cash flows of each of the counterparty and the affiliated entity are consolidated as part of a single economic entity.*

*Affiliated entities may rely on paragraph (a) for a mandatory clearable derivative as soon as they meet the criteria to consolidate their financial statements together. Indeed, we would not expect affiliated entities to wait until their next financial statements are produced to benefit from this exemption if they will be consolidated.*

*If the consolidated financial statements referred to in paragraph 7(1)(a) are not prepared in accordance with IFRS, Canadian GAAP or U.S. GAAP, we would expect that the consolidated financial statements be prepared in accordance with the generally accepted accounting principles of a foreign jurisdiction where one or more of the affiliated entities has a significant connection, such as where the head office or principal place of business of one or both of the affiliated entities, or their parent, is located.*

*Paragraph (c) refers to a system of risk management policies and procedures designed to monitor and manage the risks associated with a mandatory clearable derivative. We expect that such procedures would be regularly reviewed. We are of the view that counterparties relying on this exemption may structure their centralized risk management according to their unique needs, provided that the program reasonably*

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*monitors and manages risks associated with non-centrally cleared derivatives. We would expect that, for a risk management program to be considered centralized, the evaluation, measurement and control procedures would be applied by a counterparty to the mandatory clearable derivative or an affiliated entity of both counterparties to the derivative.*

*Paragraph (d) refers to the terms governing the trading relationship between the affiliated entities for the mandatory clearable derivative that is not cleared as a result of the intragroup exemption. We would expect that the written agreement be dated and signed by the affiliated entities. An ISDA master agreement, for instance, would be acceptable.*

**NOT IN FORCE – Will be in force on September 1, 2022**  
**Decision 2022-PDG-0022, s. 3 – Amendment**

### **Subsection 7(1) – Requisite conditions for intragroup exemption**

*The intragroup exemption is based on the premise that the risk created by mandatory clearable derivatives entered into between counterparties in the same group is expected to be managed in a centralized manner to allow for the risk to be identified and managed appropriately.*

*This subsection sets out the conditions that must be met for the counterparties to use the intragroup exemption for a mandatory clearable derivative.*

~~*The expression “consolidated financial statements” in paragraph (a) is interpreted as financial statements in which the assets, liabilities, equity, income, expenses and cash flows of each of the counterparty and the affiliated entity are consolidated as part of a single economic entity.*~~

*Affiliated entities may rely on paragraph (a) for a mandatory clearable derivative as soon as they meet the criteria to consolidate their financial statements together. Indeed, we would not expect affiliated entities to wait until their next financial statements are produced to benefit from this exemption if they will be consolidated.*

*If the consolidated financial statements referred to in paragraph 7(1)(a) are not prepared in accordance with IFRS, Canadian GAAP or U.S. GAAP, we would expect that the consolidated financial statements be prepared in accordance with the generally accepted accounting principles of a foreign jurisdiction where one or more of the affiliated entities has a significant connection, such as where the head office or principal place of business of one or both of the affiliated entities, or their parent, is located.*

*Paragraph (c) refers to a system of risk management policies and procedures designed to monitor and manage the risks associated with a mandatory clearable derivative. We expect that such procedures would be regularly reviewed. We are of the view that counterparties relying on this exemption may structure their centralized risk management according to their unique needs, provided that the program reasonably*

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monitors and manages risks associated with non-centrally cleared derivatives. We would expect that, for a risk management program to be considered centralized, the evaluation, measurement and control procedures would be applied by a counterparty to the mandatory clearable derivative or an affiliated entity of both counterparties to the derivative.

~~Paragraph (d) refers to the terms of the mandatory clearable derivative that is not cleared. A trade confirmation, for instance, would be acceptable. Paragraph (d) refers to the terms governing the trading relationship between the affiliated entities for the mandatory clearable derivative that is not cleared as a result of the intragroup exemption. We would expect that the written agreement be dated and signed by the affiliated entities. An ISDA master agreement, for instance, would be acceptable.~~

### **Subsection 7(2) – Submission of Form 94-101F1**

Within 30 days after 2 affiliated entities first rely on the intragroup exemption in respect of a mandatory clearable derivative, a local counterparty must deliver, or cause to be delivered, to the regulator or securities regulatory authority a completed Form 94-101F1 Intragroup Exemption (“Form 94-101F1”) to notify the regulator or securities regulatory authority that the exemption is being relied upon. The information provided in the Form 94-101F1 will aid the regulator, except in Québec, or securities regulatory authority in better understanding the legal and operational structure allowing counterparties to benefit from the intragroup exemption. The parent or the entity responsible to perform the centralized risk management for the affiliated entities using the intragroup exemption may deliver the completed Form 94-101F1 on behalf of the affiliated entities. For greater clarity, a completed Form 94-101F1 could be delivered for the group by including each pairing of counterparties that seek to rely on the intragroup exemption. One completed Form 94-101F1 is valid for every mandatory clearable derivative between any pair of counterparties listed on the completed Form 94-101F1 provided that the requirements set out in subsection (1) are complied with.

### **Subsection 7(3) – Amendments to Form 94-101F1**

Examples of changes to the information provided that would require an amended Form 94-101F1 include: (i) a change in the control structure of one or more of the counterparties listed in Form 94-101F1, and (ii) the addition of a new local jurisdiction for a counterparty. This form may also be delivered by an agent.

**NOT IN FORCE – Will be in force on September 1, 2022**

**Decision 2022-PDG-0022, s. 3 – Repealing**

### **~~Subsection 7(2) – Submission of Form 94-101F1~~**

~~Within 30 days after 2 affiliated entities first rely on the intragroup exemption in respect of a mandatory clearable derivative, a local counterparty must deliver, or cause to be delivered, to the regulator or securities regulatory authority a completed Form 94-101F1 Intragroup Exemption (“Form 94-101F1”) to notify the regulator or~~

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~~securities regulatory authority that the exemption is being relied upon. The information provided in the Form 94-101F1 will aid the regulator, except in Québec, or securities regulatory authority in better understanding the legal and operational structure allowing counterparties to benefit from the intragroup exemption. The parent or the entity responsible to perform the centralized risk management for the affiliated entities using the intragroup exemption may deliver the completed Form 94-101F1 on behalf of the affiliated entities. For greater clarity, a completed Form 94-101F1 could be delivered for the group by including each pairing of counterparties that seek to rely on the intragroup exemption. One completed Form 94-101F1 is valid for every mandatory clearable derivative between any pair of counterparties listed on the completed Form 94-101F1 provided that the requirements set out in subsection (1) are complied with.~~

### ~~Subsection 7(3) – Amendments to Form 94-101F1~~

~~Examples of changes to the information provided that would require an amended Form 94-101F1 include: (i) a change in the control structure of one or more of the counterparties listed in Form 94-101F1, and (ii) the addition of a new local jurisdiction for a counterparty. This form may also be delivered by an agent.~~

### **Section 8 – Multilateral portfolio compression exemption**

A multilateral portfolio compression exercise involves more than 2 counterparties who wholly change or terminate some or all of their existing derivatives submitted for inclusion in the exercise and replace those derivatives with, depending on the methodology employed, other derivatives whose combined notional amount, or some other measure of risk, is less than the combined notional amount, or some other measure of risk, of the derivatives replaced by the exercise.

The purpose of a multilateral portfolio compression exercise is to reduce operational or counterparty credit risk by reducing the number or notional amounts of outstanding derivatives between counterparties and the aggregate gross number or notional amounts of outstanding derivatives.

Under paragraph (c), the existing derivatives submitted for inclusion in the exercise were not cleared either because they did not include a mandatory clearable derivative or because they were entered into before the class of derivatives became a mandatory clearable derivative or because the counterparty was not subject to the Regulation.

We would expect a local counterparty involved in a multilateral portfolio compression exercise to comply with its credit risk tolerance levels. To do so, we expect a participant to the exercise to set its own counterparty, market and cash payment risk tolerance levels so that the exercise does not alter the risk profiles of each participant beyond a level acceptable to the participant. Consequently, we would expect existing derivatives that would be reasonably likely to significantly increase the risk exposure of the participant to not be included in the multilateral portfolio compression exercise in order for this exemption to be available.

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*We would generally expect that a mandatory clearable derivative resulting from the multilateral portfolio compression exercise would have the same material terms as the derivatives that were replaced with the exception of reducing the number or notional amount of outstanding derivatives.*

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**NOT IN FORCE – Will be in force on September 1, 2022**  
**Decision 2022-PDG-0022, s. 3 – Amendments**

**Section 8 – Multilateral portfolio compression exemption**

*A multilateral portfolio compression exercise involves more than 2 counterparties who wholly change or terminate some or all of their existing derivatives submitted for inclusion in the exercise and replace those derivatives with, depending on the methodology employed, other derivatives whose combined notional amount, or some other measure of risk, is less than the combined notional amount, or some other measure of risk, of the derivatives replaced by the exercise.*

*The purpose of a multilateral portfolio compression exercise is to reduce operational or counterparty credit risk by reducing the number or notional amounts of outstanding derivatives between counterparties and the aggregate gross number or notional amounts of outstanding derivatives. We expect each amended derivative or replacement derivative generated by the multilateral portfolio compression exercise to be entered into for the sole purpose of reducing operational or counterparty credit risk and that such derivative(s) is (are) entered into between the same two counterparties as the original derivative(s).*

*Under paragraph (c), the existing derivatives submitted for inclusion in the exercise were not cleared either because they did not include a mandatory clearable derivative or because they were entered into before the class of derivatives became a mandatory clearable derivative or because the counterparty was not subject to the Regulation.*

*We would expect a local counterparty involved in a multilateral portfolio compression exercise to comply with its credit risk tolerance levels. To do so, we expect a participant to the exercise to set its own counterparty, market and cash payment risk tolerance levels so that the exercise does not alter the risk profiles of each participant beyond a level acceptable to the participant. Consequently, we would expect existing derivatives that would be reasonably likely to significantly increase the risk exposure of the participant to not be included in the multilateral portfolio compression exercise in order for this exemption to be available.*

*We would expect that a mandatory clearable derivative resulting from the multilateral portfolio compression exercise would have the same material terms (including the floating index, the maximum maturity of the derivative and the weighted average maturity of the derivative) as the derivatives that were replaced with the exception of reducing the number or notional amount of outstanding derivatives.*  
~~*We would generally expect that a mandatory clearable derivative resulting from the multilateral portfolio compression exercise would have the same material terms as the derivatives that were replaced with the exception of reducing the number or notional amount of outstanding derivatives.*~~



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### **Section 9 – Recordkeeping**

*We would generally expect that reasonable supporting documentation kept in accordance with section 9 would include complete records of any analysis undertaken by the local counterparty to demonstrate it satisfies the conditions necessary to rely on the intragroup exemption under section 7 or the multilateral portfolio compression exemption under section 8, as applicable.*

*A local counterparty subject to the mandatory central counterparty clearing requirement is responsible for determining whether, given the facts available, an exemption is available. Generally, we would expect a local counterparty relying on an exemption to retain all documents that show it properly relied on the exemption. It is not appropriate for a local counterparty to assume an exemption is available.*

*Counterparties using the intragroup exemption under section 7 should have appropriate legal documentation between them and detailed operational material outlining the risk management techniques used by the overall parent entity and its affiliated entities with respect to the mandatory clearable derivatives benefiting from the exemption.*

### **PART 4 MANDATORY CLEARABLE DERIVATIVES**

**and**

### **PART 6 TRANSITION AND EFFECTIVE DATE**

### **Section 10 – Submission of Form 94-101F2 & Section 12 – Transition for the submission of Form 94-101F2**

*A regulated clearing agency must deliver a Form 94-101F2 Derivatives Clearing Services (“Form 94-101F2”) to identify all derivatives for which it provides clearing services within 30 days of the coming into force of the Regulation pursuant to section 12. A new derivative or class of derivatives added to the offering of clearing services after the Regulation is in force is declared through a Form 94-101F2 within 10 days of the launch of such service pursuant to section 10.*

*Each regulator or securities regulatory authority has the power to determine by rule or otherwise which derivative or class of derivatives will be subject to mandatory central counterparty clearing. Furthermore, the CSA may consider the information required by Form 94-101F2 to determine whether a derivative or class of derivatives will be subject to mandatory central counterparty clearing.*

*In the course of determining whether a derivative or class of derivatives will be subject to mandatory central counterparty clearing, the factors we will consider include the following:*

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- *the derivative is available to be cleared on a regulated clearing agency;*
- *the level of standardization of the derivative, such as the availability of electronic processing, the existence of master agreements, product definitions and short form confirmations;*
- *the effect of central clearing of the derivative on the mitigation of systemic risk, taking into account the size of the market for the derivative and the available resources of the regulated clearing agency to clear the derivative;*
- *whether mandating the derivative or class of derivatives to be cleared would bring undue risk to regulated clearing agencies;*
- *the outstanding notional amount of the counterparties transacting in the derivative or class of derivatives, the current liquidity in the market for the derivative or class of derivatives, the concentration of participants active in the market for the derivative or class of derivatives, and the availability of reliable and timely pricing data;*
- *the existence of third-party vendors providing pricing services;*
- *with regards to a regulated clearing agency, the existence of an appropriate rule framework, and the existence of capacity, operational expertise and resources, and credit support infrastructure to clear the derivative on terms that are consistent with the material terms and trading conventions on which the derivative is traded;*
- *whether a regulated clearing agency would be able to manage the risk of the additional derivatives that might be submitted due to the mandatory central counterparty clearing requirement determination;*
- *the effect on competition, taking into account appropriate fees and charges applied to clearing, and whether mandating clearing of the derivative could harm competition;*
- *alternative derivatives or clearing services co-existing in the same market;*
- *the public interest.*

**NOT IN FORCE – Will be in force on September 1, 2022  
Decision 2022-PDG-0022, s. 4 – Replacement Part 4 and 6**

### **APPENDIX A – MANDATORY CLEARABLE DERIVATIVES**

*In the course of determining whether a derivative or class of derivatives will be subject to mandatory central counterparty clearing, the factors we will consider include the following:*

- *the derivative is available to be cleared on a regulated clearing agency;*

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- *the level of standardization of the derivative, such as the availability of electronic processing, the existence of master agreements, product definitions and short form confirmations;*
- *the effect of central clearing of the derivative on the mitigation of systemic risk, taking into account the size of the market for the derivative and the available resources of the regulated clearing agency to clear the derivative;*
- *whether mandating the derivative or class of derivatives to be cleared would bring undue risk to regulated clearing agencies;*
- *the outstanding notional amount of the counterparties transacting in the derivative or class of derivatives, the current liquidity in the market for the derivative or class of derivatives, the concentration of participants active in the market for the derivative or class of derivatives, and the availability of reliable and timely pricing data;*
- *the existence of third-party vendors providing pricing services;*
- *with regards to a regulated clearing agency, the existence of an appropriate rule framework, and the existence of capacity, operational expertise and resources, and credit support infrastructure to clear the derivative on terms that are consistent with the material terms and trading conventions on which the derivative is traded;*
- *whether a regulated clearing agency would be able to manage the risk of the additional derivatives that might be submitted due to the mandatory central counterparty clearing requirement determination;*
- *the effect on competition, taking into account appropriate fees and charges applied to clearing, and whether mandating clearing of the derivative could harm competition;*
- *alternative derivatives or clearing services co-existing in the same market;*
- *the public interest.*

### **FORM 94-101F1 INTRAGROUP EXEMPTION**

#### **Submission of information on intragroup transactions by a local counterparty**

*In paragraph (a) of item 1 in section 2, we refer to information required under section 28 of the TR Instrument.*

*We intend to keep the forms delivered by or on behalf of a local counterparty under the Regulation confidential in accordance with the provisions of the applicable legislation. We are of the view that the forms generally contain proprietary information, and that the cost and potential risks of disclosure for the counterparties to an intragroup transaction*

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*outweigh the benefit of the principle requiring that forms be made available for public inspection.*

*While we intend for Form 94-101F1 and any amendments to it to be kept generally confidential, if the regulator or securities regulatory authority considers that it is in the public interest to do so, it may require the public disclosure of a summary of the information contained in such form, or amendments to it.*

**NOT IN FORCE – Will be in force on September 1, 2022**  
**Decision 2022-PDG-0022, s. 5 – Repealing of Form 94-101F1**

### **~~FORM 94-101F1~~** **~~INTRAGROUP EXEMPTION~~**

#### **~~Submission of information on intragroup transactions by a local counterparty~~**

~~— In paragraph (a) of item 1 in section 2, we refer to information required under section 28 of the TR Instrument.~~

~~— We intend to keep the forms delivered by or on behalf of a local counterparty under the Regulation confidential in accordance with the provisions of the applicable legislation. We are of the view that the forms generally contain proprietary information, and that the cost and potential risks of disclosure for the counterparties to an intragroup transaction outweigh the benefit of the principle requiring that forms be made available for public inspection.~~

~~— While we intend for Form 94-101F1 and any amendments to it to be kept generally confidential, if the regulator or securities regulatory authority considers that it is in the public interest to do so, it may require the public disclosure of a summary of the information contained in such form, or amendments to it.~~

### **FORM 94-101F2** **DERIVATIVES CLEARING SERVICES**

#### **Submission of information on clearing services of derivatives by the regulated clearing agency**

Paragraphs (a), (b) and (c) of item 2 in section 2 address the potential for a derivative or class of derivatives to be a mandatory clearable derivative given its level of standardization in terms of market conventions, including legal documentation, processes and procedures, and whether pre- to post- transaction operations are carried out predominantly by electronic means. The standardization of economic terms is a key input in the determination process.

In paragraph (a) of item 2 in section 2, “life-cycle events” has the same meaning as in section 1 of the TR Instrument.

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*Paragraphs (d) and (e) of item 2 in section 2 provide details to assist in assessing the market characteristics such as the activity (volume and notional amount) of a particular derivative or class of derivatives, the nature and landscape of the market for that derivative or class of derivatives and the potential impact its determination as a mandatory clearable derivative could have on market participants, including the regulated clearing agency. Assessing whether a derivative or class of derivatives should be a mandatory clearable derivative may involve, in terms of liquidity and price availability, considerations that are different from, or in addition to, the considerations used by the regulator, except in Québec, or securities regulatory authority in permitting a regulated clearing agency to offer clearing services for a derivative or class of derivatives. Stability in the availability of pricing information will also be an important factor considered in the determination process. Metrics, such as the total number of transactions and aggregate notional amounts and outstanding positions, can be used to justify the confidence and frequency with which the pricing of a derivative or class of derivatives is calculated. We expect that the data presented cover a reasonable period of time of no less than 6 months. Suggested information to be provided on the market includes:*

- statistics regarding the percentage of activity of participants on their own behalf and for customers,*
- average net and gross positions including the direction of positions (long or short), by type of market participant submitting mandatory clearable derivatives directly or indirectly, and*
- average trading activity and concentration of trading activity among participants by type of market participant submitting mandatory clearable derivatives directly or indirectly to the regulated clearing agency.*

**NOT IN FORCE – Will be in force on September 1, 2022**  
**Decision 2022-PDG-0022, s. 5 – Repealing of Form 94-101F2**

### **FORM 94-101F2** **DERIVATIVES CLEARING SERVICES**

#### **~~Submission of information on clearing services of derivatives by the regulated clearing agency~~**

~~Paragraphs (a), (b) and (c) of item 2 in section 2 address the potential for a derivative or class of derivatives to be a mandatory clearable derivative given its level of standardization in terms of market conventions, including legal documentation, processes and procedures, and whether pre- to post-transaction operations are carried out predominantly by electronic means. The standardization of economic terms is a key input in the determination process.~~

~~In paragraph (a) of item 2 in section 2, “life-cycle events” has the same meaning as in section 1 of the TR Instrument.~~

## POLICY STATEMENT IN FORCE FROM APRIL 4, 2017 TO AUGUST 31, 2022

~~Paragraphs (d) and (e) of item 2 in section 2 provide details to assist in assessing the market characteristics such as the activity (volume and notional amount) of a particular derivative or class of derivatives, the nature and landscape of the market for that derivative or class of derivatives and the potential impact its determination as a mandatory clearable derivative could have on market participants, including the regulated clearing agency. Assessing whether a derivative or class of derivatives should be a mandatory clearable derivative may involve, in terms of liquidity and price availability, considerations that are different from, or in addition to, the considerations used by the regulator, except in Québec, or securities regulatory authority in permitting a regulated clearing agency to offer clearing services for a derivative or class of derivatives. Stability in the availability of pricing information will also be an important factor considered in the determination process. Metrics, such as the total number of transactions and aggregate notional amounts and outstanding positions, can be used to justify the confidence and frequency with which the pricing of a derivative or class of derivatives is calculated. We expect that the data presented cover a reasonable period of time of no less than 6 months. Suggested information to be provided on the market includes:~~

~~- statistics regarding the percentage of activity of participants on their own behalf and for customers,~~

~~- average net and gross positions including the direction of positions (long or short), by type of market participant submitting mandatory clearable derivatives directly or indirectly, and~~

~~- average trading activity and concentration of trading activity among participants by type of market participant submitting mandatory clearable derivatives directly or indirectly to the regulated clearing agency.~~

Decision 2017-PDG-0033, 2017-03-15  
Bulletin de l'Autorité: 2017-03-30, Vol. 14 n°12

### Amendments

Decision 2022-PDG-0020, 2022-03-21  
Bulletin de l'Autorité: 2022-04-21, Vol. 19, n° 15