



Canadian Market
Infrastructure Committee

Via e-mail to: Robert Day, Senior Specialist Business Planning
rday@osc.gov.on.ca

Mr. Robert Day
Senior Specialist Business Planning
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario M5H 3S8

May 25, 2018

Dear Sirs/Mesdames:

Re: Ontario Securities Commission Notice 11-780 – Request for Comments Regarding Statement of Priorities For Financial Year End March 31, 2019 (the “Statement of Priorities”)

CMIC is pleased to provide this comment letter on the Statement of Priorities.

CMIC was established in response to a request from Canadian public authorities,¹ to represent the consolidated views of certain Canadian market participants on proposed regulatory and legislative changes in relation to over-the-counter (“OTC”) derivatives. CMIC brings a unique voice to the dialogue regarding the appropriate framework for regulating the Canadian OTC derivatives market. The membership of CMIC has been intentionally designed to present the views of both the ‘buy’ side and the ‘sell’ side of the Canadian OTC derivatives market, including, but not limited to, both domestic and foreign owned banks operating in Canada as well as major Canadian institutional market participants (including a number of major pension funds) in the Canadian derivatives market.

Since 2010, CMIC has been providing commentary on proposed draft rules and consultation papers with respect to the regulation of the OTC derivatives market in Canada. CMIC’s comment letters have consistently supported the harmonization of rules across Canada. Since the OTC derivatives market is a global market² with Canada representing only approximately 4% of that global market³, it is very important that our OTC derivatives rules are harmonized across Canada. It will

¹ “Canadian public authorities” means representatives from Bank of Canada, Canadian Securities Administrators, Department of Finance and The Office of the Superintendent of Financial Institutions.

² In other words, a large majority of transactions entered into by Canadian market participants will be with a non-Canadian counterparty.

³ Total notional amount of global OTC derivatives contracts at the end of June 2016 was USD 544 trillion. See “Statistical release OTC derivatives statistics at end-June 2016”, Bank for International Settlements, November 2016 at pg. 11, available [here](#), converted to CAD 701.76 trillion using the June 30, 2016 exchange rate of 1.29 found [here](#). The Canadian OTC derivatives market is estimated at CAD 30 trillion for Q2 2016. See “Toward More Resilient Markets: Over-the-Counter Derivatives Reform in Canada”, Bank of Canada Financial System Review, December 2016 at page 54, available [here](#).

otherwise become too costly for a foreign counterparty to enter into OTC derivatives transactions with a Canadian counterparty if it requires analysis and compliance with rules that are different across provinces and territories. CMIC therefore fully supports the OSC's involvement as part of the Canadian Securities Administrators to harmonize rules and their application across the country to facilitate business needs, as set out on page 4 of the Statement of Priorities.

CMIC further supports the OSC's commentary on page 5 that it should "balance pressures to respond to market issues while avoiding over-regulation", and that "regulatory costs should be proportionate to the regulatory objectives sought". Due to the relatively small size in global terms of the Canadian OTC derivatives market, CMIC submits that over-regulation would have a negative effect on liquidity for Canadian market participants. We have most recently made this comment in our August 30, 2017 letter on the proposed business conduct rules.⁴ CMIC agrees with the OSC's commitment of re-examining its rules and processes to ensure they are appropriate and necessary with a view to streamlining regulation and reducing regulatory burden on market participants. This is particularly relevant to OTC derivatives rules where global counterparties are facing regulation in their own jurisdictions and accordingly, substituted compliance is an important regulatory approach to avoid duplicative, unnecessary and burdensome regulations. With respect to streamlining regulation, we note that the CFTC is currently pursuing a similar exercise in connection with its OTC derivatives rules.⁵

CMIC also supports the OSC working "with domestic and international regulators to monitor and better understand the key components of systemic risk and how they interact".⁶ In particular, CMIC notes that it is important that the OSC continues to engage with OSFI and other members of the Heads of Agencies in areas where regulatory responsibilities intersect in order to avoid duplicative rules, particularly in relation to the regulation of OTC derivatives. Since most large participants in the OTC derivatives market operate across Canada, it follows that systemic risk associated with those market participants affects not only Ontario but the Canadian market viewed as a whole, and consequently must be monitored and understood in conjunction with the Heads of Agencies, which includes the Bank of Canada, the federal Department of Finance and The Office of the Superintendent of Financial Institutions.

CMIC welcomes the opportunity to discuss this response with you. This letter reflects the consensus of views of the following members of CMIC:

Bank of America Merrill Lynch
Bank of Montreal
Caisse de dépôt et placement du Québec
Canada Pension Plan Investment Board
Canadian Imperial Bank of Commerce
Citigroup Global Markets Inc.
Deutsche Bank A.G., Canada Branch
Fédération des Caisses Desjardins du Québec

⁴ See page 7 of the CMIC response letter dated August 30, 2017. Available [here](#).

⁵ See CFTC KISS Initiatives, including press release, available [here](#).

⁶ See page 13 of the Statement of Priorities.

Healthcare of Ontario Pension Plan Trust Fund
HSBC Bank Canada
Invesco Canada Ltd.
JPMorgan Chase Bank, N.A., Toronto Branch
Manulife Financial Corporation
Morgan Stanley
National Bank of Canada
OMERS Administration Corporation
Ontario Teachers' Pension Plan Board
Royal Bank of Canada
Sun Life Financial
The Bank of Nova Scotia
The Toronto-Dominion Bank