



Pension Investment  
Association of Canada

Association canadienne des  
gestionnaires de caisses de retraite

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

**To the attention of:**

Mtre Anne-Marie Beaudoin, Corporate Secretary  
Autorité des marchés financiers  
800, Square Victoria, 22e étage  
C.P. 246, Tour de la Bourse  
Montréal, Québec H4Z 1G3  
e-mail: [consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)

Mr. John Stevenson, Secretary  
Ontario Securities Commission  
20 Queen Street West  
Suite 1900, Box 55  
Toronto, Ontario M5H 3S8  
e-mail: [jstevenson@osc.gov.on.ca](mailto:jstevenson@osc.gov.on.ca)

Dear Mr. Stevenson and Mtre Beaudoin,

**Re: CSA Staff Notice 91-304 - Model Provincial Rule - Derivatives: Customer Clearing and Protection of Customer Collateral and Positions**

This submission is made by the Pension Investment Association of Canada ("PIAC") in reply to the request for comments by the Canadian Securities Administrators Derivatives Committee (the "Committee") regarding 91-304 - Model Provincial Rule - Derivatives: Customer Clearing and Protection of Customer Collateral and Positions (the "Model Rule").

**Background**

PIAC has been the national voice for Canadian pension funds since 1977. Senior investment professionals employed by PIAC's member funds are responsible for the

oversight and management of over \$1 trillion in assets on behalf of millions of Canadians. PIAC's mission is to promote sound investment practices and good governance for the benefit of pension plan sponsors and beneficiaries.

### **Comments on Model Rule**

PIAC welcomes the opportunity to comment on the Model Rule. It is not PIAC's intention to provide comments on every point raised within the Model Rule, rather, PIAC's comments will be more general and centered on specific matters concerning pension plans with respect to the protection of customer collateral.

PIAC is extremely concerned with the type of collateral currently being accepted at clearinghouses. PIAC acknowledges that specific Canadian securities are accepted by several of the large clearing houses, however we would request Canadian Securities Administrators continue to push all clearing houses into accepting various types of Canadian collateral. Additionally, we note the amount of Canadian denominated collateral being accepted by a clearing house is also an issue, which could create a barrier to providing a specific type of collateral, if the maximum aggregate amount of a specific type of collateral is established at a low level.

With respect to the types of collateral that clearing houses are currently willing to accept, it is our current understanding that several of the larger clearing houses will accept Canadian denominated securities. We would specifically request the Canadian Securities Administrators, or members thereof, to push all clearing houses to accept the following types of Canadian collateral: (i) Canadian cash; (ii) Canadian nominal bonds; (iii) Canadian provincial bonds; and (iv) Canadian real return bonds.

With respect to the amount of Canadian collateral currently being accepted by clearing houses, we note that for risk management purposes clearing houses can limit the amount of specific collateral being provided by a particular counterparty or generally restrict the specific type of collateral being provided by all counterparties. Although we appreciate the need for a clearing house to have the ability to properly manage its risk, as Canadian pension plans are natural holders of Canadian securities, including the four securities set out above, it would place an incredible hardship upon the Canadian pension plans if such assets were not available to post as collateral for its derivatives transactions.

Additionally, as currently drafted, the Canadian rules will protect collateral through the legally separate but operationally commingled ("LSOC") model, similar to what has been implemented within the United States through Dodd Frank rulemaking. We would also note that European collateral rules allow for the LSOC model, as well as the full segregation model. PIAC notes that Canadian pension plans generally wish to ensure their collateral is held in the most secure fashion possible, and may specifically wish to avail themselves of the full segregation model being offered or developed in several jurisdictions. For this reason, PIAC would prefer that the Canadian Securities Administrators adopt the protection of collateral as a minimum standard, allowing

individual entities to determine whether they would like their collateral subject to a LSOC model or subject to a full segregation model.

We appreciate the opportunity to comment on the Model Rule. Please do not hesitate to contact Robert Cultraro, Chair of the Investment Practices Committee (416-345-5476; Robert.cultraro@hydroone.com) if you wish to discuss any aspect of this letter in further detail.

Yours sincerely,

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

Michael Keenan  
Chair